
The Parliament of the Commonwealth of Australia

Report 445

Regional Cities Program, KPIs and Medicare

Review of Auditor-General's Reports Nos 10-31 (2013-14)

Joint Committee of Public Accounts and Audit

September 2014
Canberra

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Contents

Foreword	vi
Membership of the Committee	viii
Terms of reference	x
List of abbreviations	xi
List of recommendations	xiii
1 Introduction	1
Background to the review	1
The Committee's report.....	2
2 Performance Audit Report No. 21 2013-14	3
Pilot Project to Audit Key Performance Indicators	3
Introduction	3
Report overview	3
Audit objective and scope	3
Audit conclusions	5
Committee review	5
Development of effective KPIs	5
ANAO methodology for auditing of KPIs	8
Finance guidance and agency implementation	8
Committee comment.....	10
Development of new performance measurement and reporting framework.....	10
Auditing of KPIs under new performance measurement and reporting framework	11

3	Performance Audit Report No. 25 (2013-14)	13
	Management of the Building Better Regional Cities Program	13
	Introduction	13
	Report overview	13
	Audit objective and scope	15
	Summary of audit outcomes.....	15
	ANAO Recommendations	15
	Committee review	16
	Overview of the funding round	16
	Departures from the program guidelines.....	20
	Committee comment.....	21
	Conclusion	25
4	Performance Audit Report No. 26 (2013-14)	27
	Medicare Compliance Audits	27
	Introduction	27
	Report overview	27
	Audit objective, criteria and scope.....	28
	Audit conclusion	28
	Audit recommendations	29
	Committee review	29
	Performance against agreed targets, and performance monitoring and reporting framework...	30
	Targeting risks and resources	36
	Governance and accountability framework	38
	Data quality	39
	Committee comment.....	39
5	Performance Audit Report No. 27 (2013-14)	43
	Integrity of Medicare Customer Data	43
	Introduction	43
	Report overview	43
	Audit objective, criteria and scope.....	44
	Audit conclusion	44
	Audit recommendations	45
	Committee review	45

Data integrity.....	47
Implementation of ANAO report recommendations.....	49
Committee comment.....	51
Appendix A - Submissions	55
Appendix B – Public Hearings.....	57

LIST OF TABLES

Table 3.2	ANAO Recommendations Audit Report No. 26 (2013-14).....	16
Table 3.1	Summary of characteristics required to be demonstrated.....	19
Table 4.1	ANAO recommendations, Report No. 26 (2013-14)	29
Table 5.1	ANAO recommendations, report No. 27 (2013-14).....	45
Table 5.2	ANAO recommendations, Report No. 24 (2004-05)	51



Foreword

On 5 June 2014, the Joint Committee of Public Accounts and Audit (JCPAA) resolved to review four Australian National Audit Office (ANAO) reports. A key theme across these reports was the importance of a robust performance framework and auditable key performance indicators (KPIs). Report No. 21, *Pilot Project to Audit Key Performance Indicators*, found that Commonwealth agencies' implementation of performance measurement and reporting required further development, as agencies have had difficulty developing KPIs that measure the effectiveness of a program's contribution to achieving set outcomes. Report No. 25, *Management of the Building Better Regional Cities Program*, found that the Department of Social Services needed to better reflect key program design parameters and targets in published KPIs and then report against those KPIs. Report No. 26, *Medicare Compliance Audits*, found that the Department of Human Services needed to develop a methodology to better monitor performance outcomes and report on the effectiveness of Medicare compliance audits.

The Committee is a determined advocate of accurate and effective performance measurement and reporting. As previous JCPAA and ANAO reports have emphasised, accurate and effective performance measurement and reporting enables the public, the Parliament and other stakeholders to assess whether resources are being used efficiently, and whether programs and services are achieving their intended results. Developing suitable monitoring and reporting arrangements to demonstrate outcomes achieved is sound practice, and agencies need to incorporate specific performance monitoring, reporting and evaluation activities into the design and costing of their programs. Given this long-term focus of the JCPAA, the Committee will be very interested in the development of the new Commonwealth performance framework as part of the Public Management Reform Agenda and *Public Governance, Performance and Accountability Act 2013*.

In terms of the Committee's specific findings regarding each of the four reports, Audit Report No. 21 reviewed the current Commonwealth performance measurement and reporting framework. The Committee commends the ANAO on its development of a preliminary methodology to support ongoing audits of KPIs. The Committee believes that the auditing of KPIs will play a significant role in enhancing performance measurement and reporting. The Committee also found

that Finance could have done more to improve the guidance for the existing performance measurement and reporting framework prior to the introduction of the new framework under the PMRA and PGPA Act.

Audit Report No. 25 assessed the effectiveness of the funding round for the Building Better Regional Cities (BBRC) Program. The Committee was disappointed in the overall administration of this program. The Committee found that the BBRC Program was implemented in a way that gave insufficient attention to the program's objective and KPIs. The program costed more than had been budgeted, it delivered significantly less in the way of additional affordable housing than the program target and many of the contract projects were delayed in delivery. The Committee believes there is much to be learnt from this matter and has recommended that the Department of Social Services and the Department of the Environment conduct a review of the BBRC Program, to increase the effectiveness of future program administration.

The purpose of Audit Report No. 26 was to assess the effectiveness of the management of Medicare compliance audits by the Department of Human Services – in particular, the Increased Medicare Compliance Audits (ICMA) initiative. The Committee found that the department did not meet its overall targets against two key performance indicators for the IMCA initiative; nor did it develop and implement a methodology to accurately measure, monitor and report on savings achieved against the IMCA target. The Committee concluded that the department should improve reporting of outcomes by developing suitable performance monitoring and reporting arrangements.

Audit Report No. 27 examined the management of Medicare customer data by the Department of Human Services. The Committee is encouraged that the department has commenced work on data integrity testing, and also assembled a team to resolve intertwined and duplicate records in the Medicare database. However, the Committee noted that the department could not demonstrate implementation of previous recommendations made in this area by the ANAO, in Report No. 24, *Integrity of Medicare Enrolment Data* (2004-05). It is disappointing that the department missed an opportunity to enhance its performance by implementing a number of the earlier ANAO recommendations targeted at improving Medicare data integrity.

I thank Committee members for their deliberation on these significant matters. I also thank departmental representatives who appeared at public hearings for assisting the JCPAA in its important role of holding Commonwealth agencies to account for the efficiency and effectiveness with which they use public monies.

Dr Andrew Southcott MP
Chair



Membership of the Committee

Chair Dr Andrew Southcott MP

Deputy Chair Mr Pat Conroy MP

Members Ms Gai Brodtmann MP

Mr Andrew Giles MP

Dr Peter Hendy MP

Mr Craig Laundry MP

Mrs Jane Prentice MP

Mr Michael Sukkar MP

Mr Angus Taylor MP

Mr Tim Watts MP

Senator Cory Bernardi

Senator Chris Ketter (from 1/7/14)

Senator the Hon Kate Lundy

Senator Bridget McKenzie (from 1/7/14)

Senator Dean Smith

Senator Alex Gallacher (until 26/6/14)

Senator Anne Ruston (until 26/6/14)

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Terms of reference

On Thursday 5 June 2014, the Joint Committee of Public Accounts and Audit resolved to review the following audit reports in detail:

- Audit Report No. 21 (2013-14) *Pilot Project to Audit Key Performance Indicators*
- Audit Report No. 25 (2013-14) *Management of the Building Better Regional Cities Program*
- Audit Report No. 26 (2013-14) *Medicare Compliance Audits*
- Audit Report No. 27 (2013-14) *Integrity of Medicare Customer Data*



List of abbreviations

AFP	Australian Federal Police
ANAO	Australian National Audit Office
ATO	Australian Taxation Office
BBRC	Building Better Regional Cities
CGGs	Commonwealth Grant Guidelines
DoH	Department of Health
DSEWPaC	Department of Sustainability, Environment, Water, Population and Communities
DSS	Department of Social Services
Environment	Department of Environment
ERC	Expenditure Review Committee
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
Finance	Department of Finance
HIC	Health Insurance Commission
Human Services	Department of Human Services
IMCA	Increased Medicare Compliance Audits
ISM	Information Security Manual

JCPAA	Joint Committee of Public Accounts and Audit
KPI	Key Performance Indicator
MBS	Medicare Benefits Schedule
OP framework	Outcomes and Programs framework
PBS	Parliamentary Budget Statement
PGPA Act	<i>Public Governance, Performance and Accountability Act 2013</i>
PMRA	Public Management Reform Agenda
RTR	Risk Topic Register



List of recommendations

2 Pilot Project to Audit Key Performance Indicators

Recommendation 1

The Committee recommends that the Department of Finance ensure that, under the new performance measurement and reporting framework:

- performance measurement and reporting is recognised as an integral component of agencies' governance arrangements, providing accurate and effective information for both internal management processes and external accountability
- guidance is clear and consistent and supports agencies in the development of meaningful and effective KPIs
- differing outcomes of policy and administrative agencies are recognised
- KPIs can be tailored to measure outcomes that extend beyond a single agency to measure whole-of-government outcomes

Recommendation 2

The Committee recommends that the ANAO continue to work towards the implementation of systematic audits of the appropriateness of agencies' KPIs and the completeness and accuracy of their reporting under the *Public Governance, Performance and Accountability Act 2013* performance measurement and reporting framework.

3 Management of the Building Better Regional Cities Program

Recommendation 3

The Committee recommends that both the Department of Social Services and the Department of the Environment conduct a full and frank review into the Building Better Regional Cities program, identify the areas of

failure and produce a 'lessons learnt' brief for all staff members, and their successors, so as to mitigate the possibility of similar mistakes being made with future programs.

Recommendation 4

The Committee recommends that the Department of Social Services continue to inform the Joint Committee on Public Accounts and Audit through correspondence about the status of housing built with the assistance of the Building Better Regional Cities program every 6 months for the life of the 44th Parliament.

4 Medicare Compliance Audits

Recommendation 5

The Committee recommends that the Department of Human Services report to the Committee, no later than six months after the tabling of this report, on its progress towards implementing the Auditor-General's recommendation that it develop a methodology to monitor outcomes and report on the effectiveness of Medicare compliance audits. The report should include any decisions or other progress made in regard to measuring savings from behavioural change.

Recommendation 6

The Committee recommends that the Department of Human Services undertake a cost-benefit analysis of its Medicare compliance activities to ensure more effective targeting of significant compliance risks to the Medicare program and increase the cost effectiveness of its compliance approach.

5 Integrity of Medicare Customer Data

Recommendation 7

The Committee recommends that the Department of Human Services report to the Committee, no later than six months after the tabling of this report, on its progress towards implementing the Auditor-General's recommendations in terms of undertaking targeted, risk-based data integrity testing of Medicare customer records; better managing duplicate and intertwined records; and reviewing existing entitlement types and implementing controls to ensure that only those customers eligible to receive Medicare benefits can access them.

Introduction

Background to the review

- 1.1 The Joint Committee of Public Accounts and Audit (JCPAA) has a statutory duty to examine all reports of the Auditor-General that are presented to the Australian Parliament, and report the results of its deliberations to both Houses of Parliament. In selecting audit reports for review, the Committee considers:
 - the significance of the program or issues raised in audit reports
 - the significance of audit findings
 - the arguments advanced by the audited agencies
 - the public interest arising from the report
- 1.2 On 5 June 2014, the Committee considered Australian National Audit Office (ANAO) performance reports 10-31 of 2013-2014. The Committee selected four reports for further review and scrutiny at public hearings:
 - Audit Report No. 21 2013-14, *Pilot Project to Audit Key Performance Indicators*, Department of Finance
 - Audit Report No. 25 2013-14, *Management of the Building Better Regional Cities Program*, Department of Social Services and Department of the Environment
 - Audit Report No. 26 2013-14, *Medicare Compliance Audits*, and Audit Report No. 27 2013-14, *Integrity of Medicare Customer Data*, Department of Human Services
- 1.3 The public hearings for the reports were held on:
 - 26 June 2014 (Audit Reports 21 and 25)
 - 17 July 2014 (Audit Reports 26 and 27)

The Committee's report

- 1.4 This report of the Committee's examination draws attention to the key issues raised in the original audit reports and at the respective public hearings. Where appropriate, the Committee has commented on unresolved or contentious issues, and made recommendations.
- 1.5 The report is structured as follows:
- Chapter 2: Audit Report No. 21 2013-14, *Pilot Project to Audit Key Performance Indicators*, Department of Finance
 - Chapter 3: Audit Report No. 25 2013-14, *Management of the Building Better Regional Cities Program*, Department of Social Services and Department of the Environment
 - Chapter 4: Audit Report No. 26 2013-14, *Medicare Compliance Audits*, Department of Human Services
 - Chapter 5: Audit Report No. 27 2013-14, *Integrity of Medicare Customer Data*, Department of Human Services
- 1.6 The following appendices provide further information:
- Appendix A – List of submissions
 - Appendix B – List of public hearings and witnesses
- 1.7 Each chapter of this report should be read in conjunction with the relevant ANAO report.¹

1 Note on references: references to the Committee *Hansard* are to the proof *Hansard*. Page numbers may vary between the proof and the official *Hansard* transcript.

Performance Audit Report No. 21 2013-14

Pilot Project to Audit Key Performance Indicators

Introduction

2.1 Chapter 2 discusses the Joint Committee of Public Accounts and Audit (JCPAA) review of the Australian National Audit Office (ANAO) Report No. 21 (2013-14) *Pilot Project to Audit Key Performance Indicators*. The chapter comprises:

- an overview of the report, including the audit objective, scope and audit conclusion
- Committee review
- Committee comment

Report overview

Audit objective and scope

2.2 The purpose of the report was to review the current Australian public sector performance measurement and reporting framework, known as the Outcomes and Programs framework (OP framework) in terms of:

- the clarity of the policy and guidance issued by the Department of Finance (Finance)
- the performance of agencies in applying this policy and guidance

- further developing and testing an ANAO audit methodology to assess the appropriateness of Key Performance Indicators (KPIs) and their complete and accurate reporting, as a basis for implementing a future program of audits¹
- 2.3 The pilot project included an examination of three agencies' Portfolio Budget Statements (PBS) for 2012-13 and 2013-14, focusing on the completeness and accuracy of the KPI data and disclosures in the agencies' annual reports. The pilot project also included a cross-agency survey of 16 agencies, which assessed agencies' approaches and attitudes towards performance measurement and reporting.²
- 2.4 The participating agencies were: the Australian Taxation Office (ATO), the Department of the Environment and the Australian Federal Police (AFP). The ANAO also consulted with Finance on a range of matters in regards to Finance's role in administering the OP framework.³
- 2.5 The report follows on from an earlier report regarding the 2011-12 Pilot Project, which was initiated following amendments to the *Auditor-General Act 1997*.⁴ These amendments provided the Auditor-General with explicit authority to conduct audits of the appropriateness of agencies' KPIs and the completeness and accuracy of their performance reporting.⁵
- 2.6 The OP framework was introduced in 2009-10, replacing the previous Outcomes and Outputs framework. The OP framework placed a greater emphasis on agencies identifying and reporting on the impact of programs that contribute to government outcomes over the Budget and forward years. The OP framework centred around the development of clearly specified outcomes, programs objectives, deliverables and KPIs, which would allow for agency's progress towards stated program objectives to be assessed.⁶
- 2.7 As part of the broader Public Management Reform Agenda (PMRA), Finance is developing a new performance measurement and reporting framework to operate under the *Public Governance, Performance and Accountability Act 2013* (PGPA Act). However, the ANAO report focused on the current OP framework.

1 Australian National Audit Office (ANAO), Report No. 21 (2013-14) *Pilot Project to Audit Key Performance Indicators*, p. 20.

2 ANAO, Report No. 21 (2013-14), p. 20.

3 ANAO, Report No. 21 (2013-14), p. 20-21.

4 ANAO, Report No. 28 (2012-13) *The Australian Government Performance; Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*.

5 *Auditor-General Amendment Act 2011*, s 18A.

6 ANAO, Report No. 21 (2013-14), p. 15.

Audit conclusions

- 2.8 The ANAO report made no recommendations. However, it concluded that:
- agencies' implementation of performance measurement and reporting requires further development, as agencies have difficulty developing KPIs that measure the impact or effectiveness of a program's contribution to achieving government outcomes⁷
 - the ANAO had developed a preliminary methodology for the audit of KPIs⁸ and
 - the administrative framework guidance supporting the development and auditing of KPIs continues to be problematic and there remains a need for clearer guidance and greater support for agencies in implementing the performance measurement and reporting framework⁹

Committee review

Development of effective KPIs

- 2.9 The ANAO stated that the development of clearly specified outcomes, program objectives, deliverables and appropriate KPIs is crucial to effective performance measurement. In order to be effective, KPIs must be designed to enable users to assess an agency's progress towards the stated program objectives and, collectively, the program's contribution to stated outcomes.¹⁰
- 2.10 The ANAO found that agencies had difficulty designing KPIs that measured program effectiveness, discovering that 75 per cent of agencies surveyed used KPIs in their PBSs that did not measure effectiveness.¹¹ Moreover, more than a third of the agencies indicated that they report output and efficiency indicators as KPIs in the annual performance reporting, which does not address whether or not relevant programs are meeting their objectives.¹²

7 ANAO, Report No. 21 (2013-14), p. 21.

8 ANAO, Report No. 21 (2013-14), p. 23.

9 ANAO, Report No. 21 (2013-14), p. 21.

10 ANAO, Report No. 21 (2013-14), p. 15.

11 ANAO, Report No. 21 (2013-14), p. 72.

12 ANAO, Report No. 21 (2013-14), p. 75.

- 2.11 Furthermore, the ANAO noted that there was considerable variation regarding the number of outcomes, programs, deliverables and KPIS within each agency's OP framework:
- five of the 16 agencies had outcomes that were measured through a single program
 - eight of the 16 agencies had programs that were measured through a single KPI
 - 39 out of 253 programs (17 per cent) were measured through a single KPI
 - 9 out of 253 (4 per cent) had no KPIS¹³
- 2.12 The ANAO identified that agencies experienced difficulties in developing effective KPIS in circumstances where:
- the nature and role of the agency made it difficult to develop appropriate effectiveness indicators (for example, aspects of the agencies activities are purely administrative);
 - the agency was involved with cross-governmental delivery; and
 - multiple agencies contributed to a single outcome.¹⁴
- 2.13 The ANAO survey found that the most common challenge for agencies, when developing effective KPIS, is the nature of the role or main activities of the agency; for example, if the agency's main activities are purely administrative in nature.¹⁵ For this reason, the ANAO warned against the continued use of a uniform performance measurement and reporting framework:
- A homogenous framework for application by all Australian Government Agencies, without recognition of the variety of agency activities, has compounded the challenges that agencies have in implementing the Australian Government performance measurement and reporting framework. Further, the development of a framework that accommodates the diversity of public administration, and provides agencies with the ability to report appropriate performance information regardless of role is critical.¹⁶
- 2.14 Finance assured the Committee that the new performance measurement and reporting framework will provide agencies with greater flexibility to determine how performance is measured as well as allowing agencies to

13 ANAO, Report No. 21 (2013-14), p. 66-67.

14 ANAO, Report No. 21 (2013-14), p. 72.

15 ANAO, Report No. 21 (2013-14), p. 72.

16 ANAO, Report No. 21 (2013-14), p. 73.

better align external and internal performance measurement and reporting.¹⁷

Reporting of KPIs

- 2.15 The ANAO stated that accurate and appropriate performance information should be used for both external accountability and reporting as well as for internal assessment and planning. Performance data should be measured, collected and reported within a single system; agencies should not have one system for internal-decision making and another for external compliance.¹⁸
- 2.16 The ANAO survey found that:
- 75 per cent of agencies indicated that they focus on both the KPIs in their OP frameworks as well as other internal performance indicators
 - 88 per cent of agencies indicated that they conduct internal reporting on the outcomes, programs, deliverable and KPIs as part of their OP frameworks
 - 81 per cent of agencies indicated that the KPIs were also used internally in corporate, business or divisional plans¹⁹
- 2.17 However, despite the agencies' reports of high levels of integration of internal and external performance measurement and reporting, only 38 per cent of agencies indicated that they used the KPIs externally reported in their PBSs when developing their agency's strategic plans.²⁰ The ANAO commented that it is not always clear how agencies' OP frameworks align with their internal measurement and reporting processes.²¹
- 2.18 The ANAO acknowledged that changes to performance measurement and reporting are expected to take place under the PGPA Act. However, the ANAO advised that, in order to be effective, the new performance measurement and reporting framework must have a meaningful architecture. The architecture must allow for the analysis of the performance of any specific area of government (such as an individual program or sub-program) as well as allowing for the analysis of performance across a portfolio and more broadly, across government.²²

17 Finance, *Submission 4*, p. 3.

18 ANAO, Report No. 21 (2013-14), p. 67-68.

19 ANAO, Report No. 21 (2013-14), p. 68.

20 ANAO, Report No. 21 (2013-14), p. 68.

21 ANAO, Report No. 21 (2013-14), p. 68-69.

22 ANAO, Report No. 21 (2013-14), p. 69.

- 2.19 Finance acknowledged that it is aware of the need for the new performance measurement and reporting framework to have the capacity to effectively measure and report on program and agency-specific outcomes as well as whole of government outcomes. Finance assured the Committee that this will be ‘discussed in the Commonwealth Entity Non-Financial Performance Framework discussion paper as part of the development of the new framework.’²³

ANAO methodology for auditing of KPIS

- 2.20 The ANAO reported that they had successfully developed a preliminary methodology to support ongoing audits of KPIS. The implementation of systematic audits of the appropriateness of agencies’ KPIS, and the completeness and accuracy of their reporting can be expected to lead to greater improvements in the quality of performance information provided to the Parliament and the public.²⁴
- 2.21 However, the ANAO stated, that in light of the PGPA Act and the new performance measurement and reporting framework, agencies would need time to continue to invest resources to develop and refine their KPIS and systems before the implementation of systematic audits of the appropriateness of agencies’ KPIS.²⁵
- 2.22 The ANAO also commented that the extent of future work it undertakes in this area would need to be agreed and resourced appropriately if a broader regime of KPI audits were to be implemented.²⁶

Finance guidance and agency implementation

- 2.23 Finance oversees and directs the implementation and application of the OP framework across Commonwealth agencies. Finance is broadly responsible for the administration of the framework and provides guidance and advice to agencies regarding the framework. Finance advises agencies regarding the requirements for PBSs; reviews agencies’ outcome statements prior to ministerial approval; and approves agency programs.²⁷
- 2.24 Clear guidance materials, which outline the minimum requirements for agencies to comply, are necessary for the ANAO to accurately audit agencies’ KPIS. The ANAO stated that:

23 Finance, *Submission 4*, p. 3.

24 ANAO, Report No. 21 (2013-14), p. 95.

25 ANAO, Report No. 21 (2013-14), p. 95.

26 ANAO, Report No. 21 (2013-14), p. 23.

27 ANAO, Report No. 21 (2013-14), p. 43.

It is clear from the pilot project that the current framework and accompanying guidance does not provide an effective framework against which agencies' KPIs can be reliably evaluated through an assurance audit process, as it does not include clear minimum requirements.²⁸

- 2.25 ANAO Report No. 28 (2012-13) found that Finance had not significantly updated its policies and guidance since the introduction of the OP framework in 2009-10 and that the current policies and guidance regarding requirements for the OP framework cannot be found in one single reference document.²⁹
- 2.26 Furthermore, the ANAO's survey found that there was considerable variation regarding the number of outcomes, programs, deliverables and KPIs within each agency's OP framework. The ANAO pointed to the 'limited guidance' given to agencies in the overall design of the framework as a contributing factor to the variations in implementation.³⁰
- 2.27 This is not a new finding, the ANAO have highlighted the considerable benefit of providing enhanced guidance for the OP framework in four reports.³¹ The JCPAA has also made recommendations to Finance to update and refine the guidance for the OP framework in two reports.³²
- 2.28 However, despite the findings and recommendations of these six reports, the ANAO found that 'the key findings previously made by the ANAO and JCPAA remain largely unaddressed.'³³ In response to questions regarding why key findings have remained unaddressed, Finance assured the Committee that 'the new framework will address many of the ANAO's findings and recommendations.'³⁴

28 ANAO, Report No. 21 (2013-14), p. 59.

29 ANAO, Report No. 28 (2012-13), p. 54.

30 ANAO, Report No. 21 (2013-14), p. 66-67.

31 ANAO, Audit Report No. 28 (2012-13) *The Australian Government Performance, Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*; ANAO, Audit Report No. 5 (2011-12) *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*; ANAO, Audit Report No. 23 (2006-07) *Application of the Outcomes and Outputs Framework*; Audit Report No. 11 (2003-04) *Annual Performance Reporting*.

32 JCPAA Report 439: *Review of Auditor-General's Reports Nos. 11 to 31 (2012-13)*; JCPAA Report 430: *Review of Auditor-General's Reports Nos 47 (2011-12) to 9 (2011-12)*.

33 ANAO, Report No. 21 (2013-14), p. 51.

34 Finance, *Submission 4*, p. 2.

Committee comment

- 2.29 The Committee and the ANAO have urged Finance on a number of occasions to take action to improve the OP framework and its guidance, irrespective of the work being undertaken for the PGPA Act and the new performance measurement and reporting framework. The Committee feels that more could have been done by Finance to refine and enhance the guidance for the OP framework prior to the introduction of the new performance measurement and reporting framework under the PGPA Act.
- 2.30 The Committee is disappointed that Finance, despite a number of comments and recommendations from both the ANAO and JCPAA, chose to focus solely on the development of a new framework, a system that is not scheduled to be implemented until 2015-16³⁵, more than three years from the tabling of the Committee's original recommendations³⁶ regarding improving the guidance available to departments on the OP framework.
- 2.31 The Committee views Finance's delay in addressing the findings and recommendations of the ANAO and JCPAA as a wasted opportunity. This delay has resulted in agencies continuing to operate under guidance that has been identified numerous times by both the JCPAA³⁷ and ANAO³⁸ as in need of improvement and has directly contributed to continuation of less efficient and less effective performance measurement and reporting.

Development of new performance measurement and reporting framework

- 2.32 The Committee has a keen and ongoing interest in the PMRA, overseeing the development of the PGPA Act rules and the new performance measurement and reporting framework. The Committee is a determined advocate of accurate and effective performance measurement and reporting.
- 2.33 Accurate and effective performance measurement informs not only the government but also the Parliament and the public of the outcomes of
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35 Finance, *Commonwealth Performance Framework Concept Paper*, p. 9-10.

36 JCPAA Report 430: *Review of Auditor-General's Reports Nos 47 (2012-11) to 9 (2011-12)*, recommendations 1, 2 and 3.

37 JCPAA Report 439: *Review of Auditor-General's Reports Nos. 11 to 31 (2012-13)*; JCPAA Report 430: *Review of Auditor-General's Reports Nos 47 (2012-11) to 9 (2011-12)*.

38 ANAO, Audit Report No. 28 (2012-13) *The Australian Government Performance, Measurement and Reporting Framework, Pilot Project to Audit Key Performance Indicators*, p. 20; ANAO, Audit Report No. 5 (2011-12) *Development and Implementation of Key Performance Indicators to Support the Outcomes and Programs Framework*, p. 19; ANAO, Audit Report No. 23 (2006-07) *Application of the Outcomes and Outputs Framework*, p. 23.

policies, programs and services. Furthermore, this data allows for informed decisions to be made regarding the delivery of policies, programs and services to ensure that outcomes are achieved with maximum efficiency and effect.

- 2.34 The Committee looks forward to overseeing the development of the new performance measurement and reporting framework and urges Finance to carefully consider the findings and advice of the JCPAA and ANAO when developing the new framework.

Recommendation 1

- 2.35 **The Committee recommends that the Department of Finance ensure that, under the new performance measurement and reporting framework:**
- **performance measurement and reporting is recognised as an integral component of agencies' governance arrangements, providing accurate and effective information for both internal management processes and external accountability**
 - **guidance is clear and consistent and supports agencies in the development of meaningful and effective KPIs**
 - **differing outcomes of policy and administrative agencies are recognised**
 - **KPIs can be tailored to measure outcomes that extend beyond a single agency to measure whole-of-government outcomes**

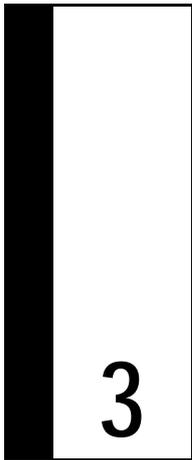
Auditing of KPIs under new performance measurement and reporting framework

- 2.36 The Committee congratulates the ANAO on its development of a preliminary methodology to support ongoing audits of KPIs. The Committee believes that the auditing of KPIs will play a significant role in enhancing performance measurement and reporting.
- 2.37 The auditing of performance information will encourage agencies to develop appropriate and effective KPIs to which policies, programs and service delivery will be held accountable. This will greatly benefit the government, the Parliament and the people of Australia by encouraging greater efficiency and transparency in the public sector.
- 2.38 The Committee acknowledges that the extent of future work undertaken by the ANAO in this area will need to be agreed and resourced appropriately. The Committee encourages the ANAO's continued focus

on the appropriateness of agencies' KPIs and the improvement of the quality of performance information provided to the Parliament and the public.

Recommendation 2

- 2.39 **The Committee recommends that the ANAO continue to work towards the implementation of systematic audits of the appropriateness of agencies' KPIs and the completeness and accuracy of their reporting under the *Public Governance, Performance and Accountability Act 2013* performance measurement and reporting framework.**



Performance Audit Report No. 25 (2013-14)

Management of the Building Better Regional Cities Program

Introduction

- 3.1 Chapter 3 discusses the Joint Committee of Public Accounts and Audit (JCPAA) review of the Australian National Audit Office (ANAO) Report No. 25 (2013-14) *Management of the Building Better Regional Cities Program*. The chapter comprises:
- a report overview
 - audit objective and scope, summary of audit outcomes and ANAO recommendations
 - Committee review
 - Committee comment

Report overview

- 3.2 The previous Rudd-Gillard Labor Government introduced three significant affordable housing programs for low and moderate income households. One of these, the \$200 million Building Better Regional Cities (BBRC) program was the subject of this audit. BBRC was announced in July 2010 to help build up to 15,000 more affordable homes in regional cities over three years.¹

¹ ANAO Audit Report 25 (2013-14), p. 11.

- 3.3 The objective for the BBRC program was:
- to invest in local infrastructure projects that support an increase in the number of homes for sale and rent that are affordable for working families on ordinary incomes, in communities that are experiencing positive jobs and population growth that need more homes to be built.²
- 3.4 The program involved awarding funding through a competitive application process for local infrastructure projects (such as connecting roads, bridges, upgrades to drains and community centres) that would support new housing developments. Grant applications were required to demonstrate how low to moderate income earners would benefit as a result of upfront development costs being borne by the Australian Government. This included providing assurance to demonstrate how benefits would be passed on to purchasers.³
- 3.5 The then Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), now the Department of Social Services (DSS), was initially responsible for the design and implementation of the BBRC. In September 2010 the responsibility for the program was transferred to the then newly created Department of Sustainability, Environment, Water, Population and Communities (DSEWPaC), now the Department of the Environment (Environment). The effective transfer of responsibility for the program between the two departments, including the associated resources, occurred on 28 October 2010. Environment was responsible for the establishment and design of the program and also commenced the assessment of grant applications.⁴
- 3.6 In mid-December 2011, the administration of the BBRC Program transferred back to the DSS. The department's first task was to complete the assessment of applications, and prepare funding recommendations for Ministerial consideration. The department was also responsible for monitoring and reporting of the performance of the various housing affordability programs.⁵
- 3.7 Funding was halved in the May 2011 Budget to \$100 million as one of a number of spending cuts made to assist in meeting the expected cost of rebuilding of flood-affected regions. As a consequence, rather than

2 ANAO Audit Report 25 (2013-14), p. 11.

3 ANAO Audit Report 25 (2013-14), p. 11.

4 ANAO Audit Report 25 (2013-14), p. 12.

5 ANAO Audit Report 25 (2013-14), p. 12.

building up to 15,000 more affordable homes, the program target was to be proportionally reduced to 'help build up to 8,000 additional homes'.⁶

Audit objective and scope

- 3.8 The objective of the audit was to assess the effectiveness of the design and conduct of the funding round for the BBRC Program. The audit criteria reflected relevant policy and legislative requirements for the expenditure of public money and the grant administration framework, including the Commonwealth Grant Guidelines (CGGs) and ANAO's grants administration Better Practice Guide.⁷

Summary of audit outcomes

- 3.9 The ANAO reported that BBRC's implementation gave insufficient attention to the program's objective, the related key performance target (8,000 additional more affordable homes), program guidelines and value from the expenditure of public funds. Rather, emphasis was given to spending the program's \$100 million budget, despite the recommended applications being expected to deliver less than 3,200 additional homes (60 per cent below the program target), and that most of the applications had been assessed by the department to lack sufficient merit and/or not providing value for money.⁸
- 3.10 The ANAO found that this situation was compounded when unpublished eligibility criteria were applied, and projects were limited to one per local government. This denied funding to some of the better credentialed applications, and increased the amount of BBRC program funding to be awarded. The result was that \$113.8 million was awarded to 17 projects that were expected to provide up to 3,875 subsidised lots/dwellings, a figure less than half the targeted amount from a \$100 million program. Furthermore, only four of the approved applications were assessed to have adequately met at all of the published merit criteria.⁹

ANAO Recommendations

- 3.11 Table 3.2 sets out the recommendations for Audit Report No. 25.

6 ANAO Audit Report 25 (2013-14), p. 11.

7 ANAO Audit Report 25 (2013-14), p. 14.

8 ANAO Audit Report 25 (2013-14), p. 15.

9 ANAO Audit Report 25 (2013-14), p. 25.

Table 3.2 ANAO Recommendations Audit Report No. 26 (2013-14)

1	<p>ANAO recommends that the Department of Social Services emphasise the importance of obtaining value for money outcomes in the administration of grant programs by clearly identifying in advice provided to decision-makers:</p> <p>(a) the extent to which the population of recommended projects are expected to deliver results that are consistent with the overall program objectives and related performance targets; and</p> <p>(b) the merits of not awarding some or all of the available funding where a shortfall in program performance is expected.</p> <p>DSS' response: <i>Agreed.</i></p>
2	<p>To adopt a greater outcomes orientation in the administration of future grant programs the ANAO recommends that the Department of Social Services:</p> <p>(a) at an early stage of program design, develop and endorse an evaluation strategy that is proportional to the significance of the program; and</p> <p>(b) reflect key program design parameters and targets in published key performance indicators and report against these.</p> <p>DSS response: <i>Agreed.</i></p>

Committee review

3.12 Representatives of the following agencies gave evidence at the Committee's public hearing on Thursday 26 June 2014:

- Australian National Audit Office
- Department of the Environment
- Department of Social Services

Overview of the funding round

3.13 As a competitive grants program, the published program guidelines included five assessment criteria. The guidelines had emphasised the role that the assessment criteria were to play in securing the desired outcomes and value for money.¹⁰

3.14 There were 47 councils across six states and the Northern Territory identified as eligible to apply for BBRC funding; DSS engaged with and encouraged eligible councils to apply for BBRC program funding. Applications opened on 7 October 2011 and closed on 18 November 2011. A total of 43 applications were submitted by 36 councils (seven councils submitted two applications).¹¹

3.15 The ANAO reported that, consistent with sound grants administration practice, DSS developed a merit list that ranged the eligible applications in

¹⁰ ANAO Audit Report 25 (2013-14), pp. 12-13.

¹¹ ANAO Audit Report 25 (2013-14), pp. 12 & 36.

terms of their overall merit assessment score, as well as scores awarded against each of the five merit criteria. The ANAO stated that the assessment methodology developed for the BBRC funding round was sound.¹²

- 3.16 Funding recommendations were provided by DSS on 27 March 2012 to the then Minister for Housing and Homelessness. The Department recommended that a total of \$100 million be awarded to 15 applications from 13 councils. The then Minister for Housing and Homelessness did not accept this recommendation and sought further information before making his funding decisions.¹³ Ms Hand, Deputy Secretary of DSS, explained that:

When the department first submitted its recommendations for 15 projects to the minister, the minister decided that he would like the department to look at socioeconomic disadvantage factors and take that into account in the selection process and also, as you said, to focus on one council in each region as opposed to more than one council. So the department did some further analysis of the socioeconomic disadvantage factors based on what we call the SEIFA scores and resubmitted a minute to the minister to help him in making decisions about which projects to be funded.¹⁴

- 3.17 A further briefing package on the BBRC was provided to the then Minister for Housing and Homelessness on 2 May 2012 and for each of the 22 highest ranked projects, the department identified those projects that were the second priority of the applicant as well as those where the SEIFA score exceeded 1000.¹⁵

- 3.18 At the Committee hearing, DSS representatives referred to the department's advice to the then Minister regarding SEIFA scores:

Our recommendation was that it was not consistent with the guidelines. It was not our recommendation, it was our observation. We did not make a recommendation about it. ... we made it clear that using SEIFA scores was not consistent with the program guidelines.¹⁶

- 3.19 The briefing further recognised that geographic spread of funding was not a published criterion for the award of funding, however DSS indicated to

12 ANAO Audit Report 25 (2013-14), pp. 57-60.

13 ANAO Audit Report 25 (2013-14), p. 13.

14 Ms Felicity Hand, DSS, *Committee Hansard*, Canberra, 26 June 2014, pp. 2-3.

15 ANAO Audit Report 25 (2013-14), p. 73.

16 Ms Hand and Mr Palmer, DSS, *Committee Hansard*, Canberra, 26 June 2014, p. 3.

the Minister that he may wish to consider only funding one project from each council.¹⁷

- 3.20 After receiving the further briefing, and following agreement from the then Prime Minister of additional funding for the program, the Minister awarded 17 grants totalling \$113.79 million to 17 councils on 4 May 2012.
- 3.21 Funding was approved for 12 of the 15 applications that had been recommended earlier by the department as well as a further five applications that the department had assessed as being less meritorious than those it recommended. The five applications not recommended by the department but approved by the Minister had been assessed as offering 'marginal' value for money for the BBRC funding sought, and had also been assessed as not adequately meeting at least two (and in one instance, each) of the five merit criteria.¹⁸ (See Table 3.1 below)¹⁹
- 3.22 It should be acknowledged that of the 15 applications recommended by the Department:
- 11 had been assessed as not adequately meeting one of the five merit criteria
 - 7 had been assessed as not adequately meeting two of the five merit criteria
 - 3 had been assessed as not adequately meeting three of the five merit criteria²⁰
- 3.23 The Department provided to the Minister recommendations in covering minute. Regarding grouping three within which the five additional applications approved by the Minister, the covering minute stated:
- You only consider applications from the third group with a requirement to improve the value for money to be delivered during the negotiation of the funding agreement.²¹
- 3.24 The Minister approved these five applications on the basis that the Department was to improve the value for money to be delivered during negotiation of the funding agreement.²² Mr Innis from DSS stated:
- It is fair to say that the Minister had the discretion to approve whatever project he felt was worthy, provided he explained his

17 ANAO Audit Report 25 (2013-14), p. 74.

18 ANAO Audit Report 25 (2013-14), p. 13.

19 ANAO Audit Report 25 (2013-14), p. 48. The table appears in the report as 'Table 2.2'

20 ANAO Audit Report 25 (2013-14), p. 58-59.

21 ANAO Audit Report 25 (2013-14), p. 68. This quote is drawn from Table 3.1 *Departmental funding recommendations: 27 March 2012*.

22 *Committee Hansard*, Canberra, 26 June 2014, p. 6 & p. 9.

rationale. This bit is certainly true, and he asked for the Department in negotiation to seek to increase the value for money proposition.²³

- 3.25 The ANAO stated that the value for money for four of the five projects in this category was improved. The ANAO also stated that reporting did not update the Minister as to the state of negotiations around value for money outcomes.²⁴

Table 3.1 Summary of characteristics required to be demonstrated

Criterion	Summary of characteristics required to be demonstrated
Criterion 1 Economic Growth, housing need and supply	<ul style="list-style-type: none"> ■ strong predicted economic and jobs growth and demand for housing; ■ land is available for housing; and ■ infrastructure will support the supply of lots and dwellings to assist meet the identified demand for housing.
Criterion 2 Infrastructure delivery and approvals	<ul style="list-style-type: none"> ■ demonstrate that projects will be delivered efficiently and cost effectively, including through good project planning; ■ proposals demonstrated to be 'investment ready' will be 'favourably considered' in the assessment process.
Criterion 3 Value for money and affordability	<ul style="list-style-type: none"> ■ project can be delivered at a reasonable whole-of-life cost; ■ demonstrate how low to middle income earners will benefit from the Australian Government meeting upfront development costs; and ■ contributions from other sources, or proposals that demonstrate further savings on top of BBRC funding are preferred over those that only pass on savings from BBRC funding.
Criterion 4 Good urban design and sustainability	<ul style="list-style-type: none"> ■ incorporates the principles of good urban design; and ■ environmental and sustainability measures will be incorporated into the design and construction of the development.
Criterion 5 Capacity and Compliance	<ul style="list-style-type: none"> ■ timely project delivery and within the nominated budget; and ■ qualified and skilled personnel, contractors, sub-contractors, management structure/governance arrangements in place.

- 3.26 The approval for \$2.05 million in funding for one application from Latrobe City Council was withdrawn in late June 2012, as the council was unwilling to provide any direct assistance for affordable housing. Accordingly, on 3 July 2012, the then Minister announced funding of \$112.1 million be provided to 16 of the 17 applications that were approved on 4 May 2012. In March 2013, two of the projects that had been approved for funding were terminated and withdrawn respectively (Wagga Wagga

23 Mr Sean Innis, Department of Social Services, *Committee Hansard*, Canberra, 26 June 2014, p. 6.

24 *Committee Hansard*, Canberra, 26 June 2014, p. 10.

and Wyong). The resulting savings allowed funding of \$12 million to then be approved for a further two projects, located in Ballina and Bunbury.²⁵

Departures from the program guidelines

Councils submitting more than one application

- 3.27 The program guidelines advised eligible applicants that they could submit up to three separate project proposals each and the amount of funding that could be awarded to each successful regional city was capped at \$15 million. Councils were to prioritise their project bids.
- 3.28 The two councils affected by the removal of lower priority projects were:
- Tweed Shire Council whose two applications were each assessed as 'high scoring' and were overall ranked second and third on the merit list. The application submitted had sought aggregate funding of \$8.94 million.
 - Ballina Shire Council whose two applications had been included in the second grouping of recommended projects and assessed as 'adequate value for money and affordability outcomes'. The application had sought aggregate funding of \$10.5 million.²⁶
- 3.29 At the Committee hearing, the ANAO stated:
- The approach taken was that councils were entitled to submit up to three applications. So to limit them to only one, after the event, meant that, in some cases, councils wasted their time and effort in putting together an application.²⁷

Councils with a SEIFA score above 1000

- 3.30 The BBRC program was announced in July 2010 to 'help build up to 15 000 more affordable homes in regional cities over three years and relieve pressure on our major capital cities, so that Australia can grow sustainably'. The ANAO reported that 'a key aspect of the BBRC program design, consistent with the original 2010 election policy announcement, was that funding would be available to specified regional cities. The program guidelines identified 47 councils eligible to apply for program funding, and they were encouraged to apply for funding.'²⁸
- 3.31 Following the Ministerial decision to exclude from funding consideration councils that had a SEIFA index score above 1000:
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25 ANAO Audit Report 25 (2013-14), pp. 13-14.

26 ANAO Audit Report 25 (2013-14), pp. 75-77.

27 Mr Brian Boyd, ANAO, *Committee Hansard*, Canberra, 26 June 2014, p. 8.

28 ANAO Audit Report 25 (2013-14), pp. 11 & 80.

- seven of the 47 organisations listed as eligible to apply could not have been successful in being awarded funding
 - of those seven, six applied for funding (Gold Coast, Gladstone with two applications, Cairns, Kalgoorlie/Boulder, Townsville and Queanbeyan)
 - three applications were excluded solely on the basis of the council's SEIFA score being above 1000. This included Gold Coast City Council, Sunshine Coast Regional Council and Queanbeyan City Council.²⁹
- 3.32 Five applications which were not recommended by DSS but granted funding went to the following councils: Tamworth Regional Council, Lake Macquarie Regional Council, Maitland City Council, Wyong Shire Council and Latrobe City Council.
- 3.33 In referring to the five councils which received funding when they were not recommended by the department, Mr Innis from DSS stated:
- The projects were all ranked against the SEIFA index, and these projects, given the nature of the locations, would have been higher up the table, based on a SEIFA score analysis. So the minister's rationale, as I understand it, was that he was preferencing projects from low socioeconomic areas.³⁰

Committee comment

- 3.34 The administration of the BBRC program is disappointing by any standards. Perhaps the Auditor-General summed it up best:
- The awarded program funding in this manner has resulted in the BBRC program performing poorly in delivering the benefits envisaged when the program was announced. Specifically, the program is costing more than had earlier been budgeted, is delivering significantly less in the way of additional affordable housing than the program target, and many of the contract projects have been delayed in delivery.³¹
- 3.35 The reasons for the programs disappointing results are, according to the ANAO:
- insufficient attention to the program's objective to increase the number of affordable homes in regional cities

29 ANAO Audit Report 25 (2013-14), p. 81.

30 Mr Sean Innis, Group Manager, Policy Office, Department of Social Services, *Committee Hansard*, Canberra, 26 June 2014, p. 4.

31 Mr Ian McPhee, Auditor-General, *Committee Hansard*, Canberra, 26 June 2014, pp. 1-2.

- related key performance targets of delivering up to 8,000 additional more affordable homes
 - insufficient attention given to the program guidelines, which had outlined the five assessment criteria that were to be used to select these projects that best met the program objective and would deliver strong outcomes and represent value for money
 - insufficient attention to the importance of achieving value for the expenditure of public funds³²
- 3.36 The interaction between the department and the then Minister for Housing and Homelessness appears also to have contributed to the program's malaise.
- 3.37 Firstly, the Minister did not accept the department's recommendation to award funding to the original 15 approved projects. Eventually, the Minister awarded funding to 17 applications, 12 of which had been recommended earlier for funding by the department, and five that had not.
- 3.38 Secondly, unpublished eligibility criteria, that were not key design parameters of the program (approved and confirmed by the then Government), were applied by the Minister and this resulted in funding not being approved for three recommended applications.- A further two (lower ranked) applications were excluded from the possibility of being awarded funding; and the five not recommended but approved applications had been assessed as offering 'marginal' value for money. The latter five were approved on the basis that the Department would improve the value for money outcome for the Commonwealth. The ANAO report stated:
- Approving funding for these applications was seen as necessary, otherwise a significant proportion of the available funding of \$114.5 million would not have been allocated.³³
- This should hardly be the basis of approval – approval should be given on a value-for-money basis.
- 3.39 Thirdly, there was some question as to the calculation of the 8,000 target number. According to testimony from the Department of the Environment, the 8,000 target came from an exchange of letters between the then Prime Minister and the then Minister. This figure was also not definitive, not proposed by the Department, and was proceeded by the caveat of 'up to'. The Department itself published a figure in the Portfolio

32 Mr Ian McPhee, Auditor-General, *Committee Hansard*, Canberra, 26 June 2014, p. 1.

33 ANAO Audit Report 25 (2013-14), p. 19.

Budget Statement of 2,000 dwellings by 30 June 2014 as a Key Performance Indicator– a significant deviation from the 8,000 figure in the correspondence between the then Minister and then Prime Minister.³⁴ So the target figure had a degree of flexibility built into it. However, this does not justify the BBRC's significant underperformance.

- 3.40 Finally, the fact that five grants that had not been recommended but had been approved should have been reported to the Minister for Finance. The Department has acknowledged this was an error to not advise the Minister for Finance.³⁵
- 3.41 The department was instructed by the then Minister to ensure value for money and adequate affordability outcomes in negotiating grant agreements. This was a challenging task for the department in the circumstances and the efforts achieved mixed results.³⁶ Indeed, the department described it as 'modest success'.³⁷

Recommendation 3

- 3.42 **The Committee recommends that both the Department of Social Services and the Department of the Environment conduct a full and frank review into the Building Better Regional Cities program, identify the areas of failure and produce a 'lessons learnt' brief for all staff members, and their successors, so as to mitigate the possibility of similar mistakes being made with future programs.**
- 3.43 Both departments' responses to the Committee's inquiry were disappointing and both appeared unprepared to adequately respond to the Committee's questions. Firstly, the public hearing offered both departments the opportunity to present an opening statement through which they could have presented their perspective on the decision making process, as well as a description of what procedures had been put in place to ensure better outcomes from future programs and, indeed, what steps could still be, or already had been, taken to ensure better outcomes for the BBRC expenditures already allocated. Both departments did not take this opportunity. Secondly, answers to even basic questions seemed beyond the departments' ability to answer. When pressed for the number of houses built under the program, the Department of Social Services could

34 *Committee Hansard*, Canberra, 26 June 2014, pp. 11-12.

35 *Committee Hansard*, Canberra, 26 June 2014, p. 14.

36 ANAO Audit Report 25 (2013-14), p. 19.

37 Mr Sean Innis, Group Manager, Policy Office, Department of Social Services, *Committee Hansard*, Canberra, 26 June 2014, p. 16.

not give a direct and unambiguous answer.³⁸ However, the Minister for Social Services reported to the House of Representatives later that day that only 247 dwellings had actually been built.³⁹

- 3.44 The Australian Public Service is well served by the Parliament, and there are at least two seminars available to senior public servants that can help prepare APS employees for appearances before Parliamentary Committees.⁴⁰ The Committee Secretariats also stand ready to assist in this regard and are easily contacted. All Departments – including that of Environment and Social Services – should avail themselves of the material and courses provided by the Parliament on how to prepare as a witness for public hearings.
- 3.45 Notwithstanding the above observations, the Committee notes that this program is ongoing in the sense that BBRC provides funding for the supporting infrastructure for the construction of affordable housing – not to build the houses themselves.⁴¹ It may be the case that the program's outcomes will show improvement as more houses are built using the infrastructure provided. The Committee would like to be kept informed of the program's progress and the ultimate number of new houses built over the term of the Parliament.

Recommendation 4

- 3.46 **The Committee recommends that the Department of Social Services continue to inform the Joint Committee on Public Accounts and Audit through correspondence about the status of housing built with the assistance of the Building Better Regional Cities program every 6 months for the life of the 44th Parliament.**

38 *Committee Hansard*, Canberra, 26 June 2014, pp. 10-11.

39 *Hansard*, House of Representatives, Canberra, 26 June 2014, p. 66.

40 Links to these seminars can be found at:
<http://www.aph.gov.au/About_Parliament/Senate/Public_Information_and_Events/Seminars_for_public_servants#estimate_process>

41 *Committee Hansard*, Canberra, 26 June 2014, p. 11.

Conclusion

- 3.47 The BBRC stands as the anti-example of how to run a grants program. Its administration was poor, its objectives poorly designed and changes to the grants criteria during the determination process only compounded what appear to be already existing problems.
- 3.48 The Committee noted the disappointing performance of both Departments at the public hearing. Opportunities to explain government programs should be welcomed by all departments so as to give confidence to the Australian public that their tax dollars are being prudently spent. On this occasion, however, the distance between actual and desired outcomes was cavernous.
- 3.49 Given the disappointing outcome, responsible departments and individuals should themselves learn from the experience and transmit that knowledge to their colleagues and their successors through suitable handover briefs.

Performance Audit Report No. 26 (2013-14)

Medicare Compliance Audits

Introduction

- 4.1 Chapter 4 discusses the Joint Committee of Public Accounts and Audit (JCPAA) review of Australian National Audit Office (ANAO) Report No. 26, *Medicare Compliance Audits*, Department of Human Services (2013-14). The chapter comprises:
- an overview of the report, including the audit objective, criteria and scope; audit conclusion; and audit recommendations
 - Committee review
 - Committee comment

Report overview

- 4.2 Medicare is the fourth largest expenditure item in the Federal Budget, with payments totalling \$18.6 billion in 2012-13, accounting for approximately five per cent of total government expenses.¹ The Department of Human Services (Human Services) is responsible for administering Medicare, in accordance with policies developed by the Department of Health.
- 4.3 Human Services uses compliance audits to verify services provided by health professionals, where a risk has identified that Medicare payments

¹ ANAO, Performance Audit Report No. 26, *Medicare Compliance Audits*, Department of Human Services (2013-14), Commonwealth of Australia, 2014, p. 13.

and benefits may have been claimed incorrectly. In 2012-13, 344 million Medicare services were provided for the \$18.6 billion in payments processed by Human Services.² Medicare compliance audits therefore support the integrity and effective administration of the Medicare program.

- 4.4 The 2008-09 Federal Budget's Increased Medicare Compliance Audits (IMCA) initiative provided Human Services with enhanced legislative powers under the *Health Insurance Act 1973* and additional funding to support an expanded program of Medicare compliance audits, increasing the number of completed audits targeting health professionals each year from 500 to 2,500 (an increase of 8,000 over four years).³ The IMCA initiative was expected to provide savings of \$147.2 million over four years and cost \$76.9 million to administer, leading to net savings of \$70.3 million over four years.⁴

Audit objective, criteria and scope

- 4.5 The audit objective was to assess the effectiveness of Human Services' management of Medicare compliance audits. To assist in evaluating the department's performance in terms of the audit objective, the ANAO developed the following high level criteria:
- Human Services effectively identifies, selects and prioritises potential cases of non-compliance for compliance audits.
 - Compliance audits are conducted in accordance with legislative and operational requirements.
 - Non-compliance actions are managed and the information is used to inform future compliance activities.⁵
- 4.6 The audit scope involved the ANAO interviewing Human Services staff involved in the conduct of Medicare compliance audits and key stakeholders, and reviewing key guidance materials and documents, including departmental reports that capture Medicare compliance performance information. The ANAO also reviewed a sample of Medicare compliance audits.

Audit conclusion

- 4.7 The ANAO made the following audit conclusion:
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2 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 13.

3 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 15.

4 Australian Government, *Budget Measures, Budget Paper No. 2 2008-09, 'Responsible Economic Management – Medicare Benefits Schedule – increase compliance audits'*, p. 404.

5 ANAO, Report No. 26, *Medicare Compliance Audits*, pp. 16-17.

Overall, the effectiveness of Human Services' management of Medicare compliance audits has been mixed. Human Services has delivered a program of compliance audits and related compliance activities, which has helped reinforce health professionals' awareness of their compliance obligations. However, the department's administration of Medicare compliance audits and its implementation of the Budget measure, the IMCA initiative, demonstrated a range of shortcomings that detracted from the department's performance in delivering these elements of its broader Compliance Program.⁶

Audit recommendations

4.8 Table 4.1 sets out the recommendations for ANAO Report No. 26 and Human Services' response.

Table 4.1 ANAO recommendations, Report No. 26 (2013-14)

1	<p>To more effectively identify and prioritise risks for Medicare compliance activities, including compliance audits, the ANAO recommends that Human Services further develop its risk management framework so that:</p> <ul style="list-style-type: none"> • incoming risks (and previously-identified risks that are yet to be analysed) are assessed in a timely manner; and • decisions to prioritise compliance activity focus on targeting the significant compliance risks to the Medicare program. <p>Human Services' response: <i>Agreed.</i></p>
2	<p>To more effectively target resources, the ANAO recommends that Human Services develop a methodology to monitor outcomes and report on the effectiveness of Medicare compliance audits, including anticipated benefits, in the context of the broader Compliance Program.</p> <p>Human Services' response: <i>Agreed.</i></p>

Committee review

4.9 Representatives of the following agencies gave evidence at the Committee's public hearing on Thursday 17 July 2014:

- Australian National Audit Office
- Department of Human Services

4.10 As discussed below, the Committee identified four key issues of concern from the ANAO report findings and evidence provided at the public hearing:

⁶ ANAO, Report No. 26, *Medicare Compliance Audits*, p. 17.

- performance against agreed targets, and performance monitoring and reporting framework
 - targeting risks and resources
 - governance and accountability framework
 - data quality
- 4.11 A further issue, management of sensitive information, was also of interest to the Committee. While this matter was not discussed in detail at the public hearing, the Committee supports the ANAO report findings concerning this area, as follows:

... compliance officers interviewed indicated different understandings and adopted differing practices regarding the storage of sensitive information, including documents of a clinical nature. There is scope, in the context of an evolving framework under the *Privacy Act 1988*, for Human Services to review existing policies and, as necessary, tailor its guidance to promote greater consistency in its management of sensitive information for Medicare compliance activities.⁷

Performance against agreed targets, and performance monitoring and reporting framework

- 4.12 The IMCA initiative had two agreed performance targets:
- savings achieved – net savings of \$70.3 million over four years (2008-09 to 2011-12)
 - audits completed – an increased number of Medicare compliance audits conducted in relation to health professionals (an additional 2,000 per annum, or 8,000 over four years).⁸
- 4.13 However, the final outcome against these performance targets was a shortfall in savings and number of audits completed. There were also issues with Human Services' performance monitoring and reporting concerning these matters.

Savings shortfall

- 4.14 The IMCA initiative was introduced in the 2008-09 Budget to deliver the following outcome: '[t]his measure will provide savings of \$147.2 million over four years and will cost \$76.9 million to administer, leading to net

7 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 23.

8 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 74.

savings of \$70.3 million over four years'.⁹ However, as the Auditor-General observed, Human Services' management of the IMCA initiative ultimately 'represented a net cost to government, rather than delivering the anticipated savings'.¹⁰ The department raised a total of \$49.2 million in debts between 2008-09 and 2012-13 and recovered \$18.9 million over the same period, from all Medicare compliance audits conducted, compared to the expected savings of \$147.2 million from the IMCA initiative alone. This represented a 'significant shortfall of \$128.3 million, or 87 per cent less than the \$147.2 million in savings expected through IMCA'. Even if all the debts raised (\$49.2 million) were in fact recovered, 'the result would be a shortfall of \$98 million or 66 per cent less than the expected savings'.¹¹

- 4.15 In terms of reporting on the IMCA savings target, as part of the Budget process the Government tasked responsible Ministers to 'agree on performance information to be used by Human Services to monitor the success of the measure' and 'report back to the Expenditure Review Committee (ERC) of Cabinet in 2011-12 on the success of the measure'. Further, 'the new policy proposal indicated that the effect of the new measure would be monitored on an ongoing basis and reported on every three months'.¹² However, the department did not subsequently establish systems or processes to monitor and report specifically against the IMCA savings target or follow-up ERC's request that Ministers report back to government in 2011-12.¹³ In response to the Committee's query about why this had occurred, Human Services explained that:

... the primary issue was we moved from being an independent organisation, Medicare, and went into Human Services as a larger organisation with quite a different governance regime that has improved ... out of sight in terms of where we were, and there were some issues where we accept we omitted to do the responses to some of the elements that were required of us.¹⁴

- 4.16 In the absence of a mechanism to report specifically against the IMCA savings target, Human Services provided more general reporting in the form of the value of total debts raised. However, the department indicated that it could not separate out the number and value of debts raised and

9 Australian Government, *Budget Measures, Budget Paper No. 2 2008-09*, 'Responsible Economic Management – Medicare Benefits Schedule – increase compliance audits', p. 404.

10 ANAO, *Submission 2.1*, p. 2.

11 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 79.

12 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 76.

13 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 76.

14 Mr Barry Sandison, Deputy Secretary, Human Services, *Committee Hansard*, Canberra, 17 July 2014, pp. 3-4.

recovered that related specifically to the IMCA initiative, in order to establish its performance against the savings target.¹⁵ It was also not possible to use 'monies recovered' as an indicator of the level of savings achieved by the Compliance Program, as not all debts raised are actually recovered.¹⁶ As Human Services explained, while some providers completely repay their debt, 'if you look at the total debt raised versus recovery you will end up with less because for some people their financial circumstances and other reasons mean they are unable to settle their debt'.¹⁷ A further complication is that 'some of the [debt] arrangements are actually made over a number of years as well'.¹⁸

- 4.17 The Committee was interested in establishing whether this level of debt return through the IMCA initiative (\$49.2 million in debt raised and \$18.9 million in current debt recovery) was consistent with the department's previous compliance activities and historical benchmarks. Human Services confirmed that this debt return ratio was 'not inconsistent with historical rates pre 2008-09'.¹⁹ Given that this level of return was consistent with practice, the Committee therefore queried the soundness of the original costing of the \$147.2 million estimated savings. Mr Darren Box, General Manager, Human Services, clarified that part of the estimated savings included behavioural change from compliance activity that was not debt related:

... the result we are getting as far as pure debt results, raising of debts, the costing I think would have been based on what we were getting historically. The costing then, is my understanding, included an element of what we would likely see as far as savings are concerned from behaviour change because of compliance activity which is not debt related. That has not been measured historically and we still need to get to that point ... So the pure debt raising percentage of it ... is only one element of what we had anticipated to get from that costing as it was developed.²⁰

- 4.18 Noting that behavioural change was part of the original costing, the Committee pointed out that this had not then been measured by the department and, further, that it had still not reached the stage, a number

15 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 76.

16 ANAO, Report No. 26, *Medicare Compliance Audits*, pp. 77-78.

17 Mr Darren Box, General Manager, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 2.

18 Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 3.

19 Human Services, *Submission 5*, p. 5.

20 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 7.

of years later, of being able to account for this. As Human Services observed:

... the savings were also based on the expectation that we would be able to measure impact and behaviour change. It is not always about a debt. It is not always about getting money back. It is about education and getting compliance activity in the community through education. Then, because we have done an audit activity, the community understands it is something they need to be aware of, and behaviour change results. Unfortunately, we are still working on that to be able to measure the behaviour change.²¹

- 4.19 Further clarification was therefore sought about exactly how the savings figure of \$147.2 million had originally been calculated – the assumptions concerning how much of that amount was actually expected to be recovered and how much was expected to be in the behavioural change area. Human Services explained that:

The savings were calculated based on best efforts at the time based on the history of what we were getting as far as debts and what we perceived to be behaviour change within the community from the audits and the compliance activity that was already underway, and then transposed to the increased compliance activity which the budget measure funded ... Without getting into the costings, it was probably fairly simple: 'This is what we are finding now. If we have the new powers and we do more compliance activity, do more audits, we could expect to get an increase in results.' So it was effectively a multiplication ... based on more audits, increased powers, more results.²²

- 4.20 The department further clarified, in answer to a question on notice on this matter, that:

Expected savings were calculated on reduced service volumes of approximately 500,000 Medicare Benefit Schedule (MBS) claims per annum by an average unit cost of approximately \$75.00. These were derived from an agreed funding model with the Department of Health based on 2006-07 figures.

The forecast savings were expected to be more than five times greater than the savings achieved prior to the 2008-09 Budget measure: Increased Medicare Compliance Audits ...

21 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 2.

22 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 1.

Direct savings were expected to be \$26 million over four years. The remainder of the forecast saves were expected to be achieved through behavioural change.²³

Audits completed shortfall

4.21 The IMCA initiative provided funding to deliver a fivefold increase in the number of completed Medicare audits targeting health professionals each year, from 500 to 2,500 (an additional 2,000 per annum, or 8,000 over four years).²⁴ However, the final outcome in terms of this key performance indicator (KPI) was that between 2009-10 and 2012-13 Human Services achieved the 2,500 target only once – in 2011-12, when 2,549 Medicare audit and review cases were completed.²⁵

4.22 Further, in terms of reporting on the audits completed target, Human Services changed the mix of compliance activities included in its reporting against the 2,500 target to include 'less onerous' activities, without advising the responsible Minister, and therefore inaccurately reported against the performance indicator:

While the annual target had been agreed by Ministers in the 2008-09 Budget context, during 2012-13 Human Services altered the mix of compliance activities it counted towards the target, by including 500 less onerous 'targeted feedback letters', as well as compliance activities directed towards members of the public rather than health professionals. The department subsequently reported completing a total of 2819 Medicare compliance cases in 2012-13, against the revised activity mix. If the additional compliance activities were excluded, the number of Medicare compliance audits and reviews completed in 2012-13 (against the Ministerially agreed target) was 2073. While acknowledging the department's advice that targeted feedback letters were a valid compliance treatment intended to encourage voluntary compliance, their inclusion resulted in inaccurate performance reporting for the budget measure, as well as inaccurate and inflated internal reporting of its compliance coverage rate ... the department did not inform their Minister of the proposal to expand the types of compliance activities it could conduct under the Budget measure.²⁶

4.23 The Committee was interested in why the department had only once reached the 2,500 target. Human Services responded that 'we had been

23 Human Services, *Submission 5*, p. 1.

24 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 74.

25 ANAO, Report No. 26, *Medicare Compliance Audits*, pp. 81-82.

26 ANAO, Report No. 26, *Medicare Compliance Audits*, pp. 19-20, p. 81.

counting letters in that target. We accept that they should be on top of the conduct of the audits ... The reason we did in only one of those other years is an issue of making sure the resources are focused in the correct areas'.²⁷ The Committee further queried why, during the period, the department had changed the performance reporting measure and also not informed the Minister of the proposal to expand the types of compliance activities it would conduct under that budget measure. Human Services explained that:

We have accepted that was something that we should have done. What we would say is that the inclusion of those letters is a valid compliance activity ... we had had conversations with the policy department, being the Department of Health, through a formal committee process. Notwithstanding that, we do accept that going back to ministers, because of the relationship to the budget measure, was a requirement we should have done and one we have agreed to in the audit.²⁸

Performance monitoring and reporting framework

4.24 A key point emphasised by Human Services is that its Medicare compliance activities may comprise formal audits and an education process – encouraging behavioural change through reinforcing health professionals' awareness of their compliance obligations. However, while such an education process may provide savings through a change in claiming patterns, the department acknowledged the 'problem is that the bit ... we are missing is ... we have not yet measured the behaviour change in a way which was anticipated in this budget measure. That is work which needs to be finalised'.²⁹ As Human Services further explained:

If we were preparing a business case now along similar lines, there would be a different discussion on a range of areas about how indeed we would have to argue the case. It would be expected by the Department of Finance, watched carefully by ANAO, but it would be a debate about how we target risk approaches, what kind of return, is there a set number, but the expectations around behavioural change as well.³⁰

4.25 This raised questions about why Human Services had not measured this area, how it would measure this area in the future and how this area might also be returned to the budget as a saving. In particular, the

27 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 9.

28 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 4.

29 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 6.

30 Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 7.

Committee was interested in how the department might develop a methodology to better monitor outcomes and report on the effectiveness of Medicare compliance audits, including anticipated benefits such as behavioural change. Human Services acknowledged that 'we do need to finalise our work in being able to measure the impact from the compliance activity. Outside of straight debts, that is largely behavioural change, so seeing a change in claiming patterns'.³¹ In terms of how this would be measured, the department commented that it was 'still looking at other jurisdictions, both in Australia and internationally, and how they are measuring their behaviour change ... we have not settled 100 per cent on exactly how we are going to measure going forward, but it is something we are working on and we hope to have resolved'.³² As the department further clarified:

What we are trying to do ... is make sure that we are really clear about what is an audit in the formal sense versus what is education and information that we provide ... One of the issues that was measured here and commented on by the ANAO was the extent to which we made a baseline beforehand and understood what was happening and then were able to measure the impact and effect, be it an audit or an education process. Our measurement is not only something that is of interest to the ANAO but, needless to say, our colleagues in the Department of Finance have a strong interest about whether ... that is real money returned to budget and if it was not spent in the first place how can it be a 'save'. That has always been a fraught area in compliance, in health or welfare, about how that gets recognised in various initiatives that are put forward.³³

- 4.26 As the Auditor-General emphasised, 'it is a fundamental issue for all agencies and an expectation that they will monitor, particularly in the early years, new policy measures to see whether they are achieving the results that government expects and within the parameters that government expects'.³⁴

Targeting risks and resources

- 4.27 Human Services undertakes a number of environmental scanning activities to detect new and emerging risks to Medicare, and captures known risks on its Risk Topic Register (RTR). The department uses the
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31 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 3.

32 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 3.

33 Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 3.

34 Mr Ian McPhee, Auditor-General, ANAO, *Committee Hansard*, Canberra, 17 July 2014, p. 4.

RTR as the basis for selecting risk topics for detailed analysis. However, as the ANAO report noted, while Human Services has processes in place to identify risks to the Medicare program, '[u]ntil recently, the department did not have a routine process to perform a preliminary analysis of risks as they were identified, limiting the department's ability to determine whether these risks required further compliance activity'.³⁵ Further, this approach has 'meant that a large number of identified risks have not been substantively analysed and as a consequence have not actively informed the development of Human Services' planned compliance activities'.³⁶

4.28 The Committee was therefore interested in how Human Services might further develop its risk management framework, to target significant risks and achieve a more cost-effective compliance approach. In this regard, the Committee queried whether there had been any cost-benefit analysis of the compliance audits undertaken as part of the increased IMCA funding. As the ANAO observed, 'in terms of cost benefit, in resource constrained environments ... the real trick in all of this is to target your resources as well as you can; hence, the focus on a targeted risk based approach'.³⁷

4.29 Human Services confirmed that, with improved targeting of significant risks, it had sufficient funding to deliver a 'robust compliance approach'.³⁸ Further, the increase in the number of compliance audits, from 500 to 2,500, provided the department with scope to 'broaden' its audit approach and 'look at different targeting within the overall health system, not just do more of the same'.³⁹

4.30 The Committee noted that, in the course of the ANAO audit, Human Services had introduced a number of enhancements to its risk prioritisation process, including a risk working group, with the potential to assist the department to establish a more effective framework for managing Medicare risks.⁴⁰ The Auditor-General pointed to the compliance approach of the Australian Taxation Office as a useful model in this regard.⁴¹

35 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 21.

36 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 21.

37 Dr Tom Ioannou, Group Executive Director, ANAO, *Committee Hansard*, Canberra, 17 July 2014, p. 5.

38 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 5.

39 Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 2.

40 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 21.

41 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 17 July 2014, p. 5.

Governance and accountability framework

- 4.31 The Committee was interested in Human Services' governance and accountability framework, noting the Auditor-General's comment about issues with the governance arrangements concerning the IMCA initiative:

Ideally, the governance arrangements of an agency would monitor these new measures ... Most agencies would say, 'The actual outcome is not lining up with our expectations. What can we do?' and manage it that way. So you manage it before it becomes a serious problem and if your estimates happen to be way out and are most unlikely to be able to be recovered, you would let the minister know fairly quickly and perhaps reset expectations ... For me at the highest level it is a failure of governance arrangements over the measure at the time and it goes back quite some years.⁴²

- 4.32 Human Services described the lines of responsibility in the department for preparing costings such as the estimated savings target for the IMCA initiative.⁴³ In terms of what processes the department had in place to hold officers accountable for such matters, Mr Sandison, Deputy Secretary, Human Services, also explained that:

... there has been significant change in some of the areas that had responsibility for delivery of the measure. Some people are no longer in the Public Service and some are in different positions – they have been moved around ... As it stands, in terms of how we respond to it, we have our targets of responding to the ANAO and how we conduct the audits, and that is a very clear direction. It sits in the performance agreements of individuals, where some of the things that I think were deficiencies in terms of things that should have been picked up that ANAO made comment on should have been very clear – 'Your role and responsibility is to deliver on this and report on this at a regular stage.' That is now built into how we manage the workflows.⁴⁴

- 4.33 As the Auditor-General emphasised, 'Government expects agencies to monitor these new measures and their implementation ... It is a governance issue and ... I think it is true that agencies' governance processes have improved considerably from the period we are talking about ... So let's hope that it is a point in time issue and that we would not see it again'.⁴⁵

42 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 17 July 2014, p. 8.

43 Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, pp. 7-8.

44 Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 8.

45 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 17 July 2014, p. 4.

Data quality

- 4.34 As the ANAO noted, one of the ‘cornerstones’ of a reliable program information system is the quality of data used to track performance against key outcomes.⁴⁶ In a subset of Medicare compliance audit data reviewed by the ANAO (Medicare audits completed between March 2013 and 30 June 2013), ‘various data anomalies were identified which resulted in the inaccurate reporting of the MBS non-compliance rate’ – of the ‘359 completed Medicare audits, 33 (nine per cent) contained data inaccuracies that resulted in compliant claims being incorrectly recorded and reported as non-compliant’.⁴⁷
- 4.35 Human Services clarified that this data inaccuracy was ‘not to say we got the wrong result ... If you ran the report, the right result was given to a provider ... But when they then ticked the box, in the data, they picked the wrong reason. That is a quality issue around our data’.⁴⁸ The Committee queried how the department was addressing this inaccuracy rate, noting the Auditor-General’s observation in terms of program administration generally, that ‘nine per cent is getting too high ... once you get above five per cent you are starting to get into areas of significance’.⁴⁹ Human Services confirmed that it had subsequently worked to rectify this problem: ‘we have accepted the finding of the audit. We have provided training to people and we think we have resolved that issue. We will keep monitoring it, going forward’.⁵⁰

Committee comment

- 4.36 The Committee is encouraged by the work undertaken by Human Services during the course of the audit to improve its management of compliance audits, particularly relating to risk prioritisation.⁵¹ It also acknowledges that the department has delivered a program of compliance activities that has helped to reinforce health professionals’ awareness of their compliance obligations.
- 4.37 However, Human Services’ management of the IMCA initiative ultimately represented a net cost to government, rather than delivering the

46 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 22.

47 ANAO, Report No. 26, *Medicare Compliance Audits*, pp. 22-23.

48 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 9.

49 Mr McPhee, ANAO, *Committee Hansard*, Canberra, 17 July 2014, p. 10.

50 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 10.

51 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 26, and Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 1.

anticipated savings. The department did not meet its overall targets against two key performance indicators (savings target and audits completed) for the IMCA initiative, and it did not develop and implement a methodology to accurately measure, monitor and report on savings achieved against the IMCA target. The development of these arrangements would have enabled Human Services to track and assess the effectiveness of the Australian Government's \$76.9 million investment in the IMCA initiative. Further, while the Committee notes the explanation from the department that its Medicare compliance activities comprise both formal audits and an education process to encourage behavioural change, and that part of the savings under the IMCA initiative were therefore expected to be achieved through behavioural change, it points out that this area was not then measured by the department. During the course of the inquiry, Human Services noted that it was 'still working' on being able to measure the behaviour change.⁵²

- 4.38 The Committee therefore supports the ANAO's findings and recommendations, and agrees with its conclusion that 'the effectiveness of Human Services' management of Medicare compliance audits has been mixed'.⁵³ The Committee was disappointed with the department's overall management of this area, particularly given the significant scale and cost of the Medicare program. While the department has taken some action in this area, it could do more.
- 4.39 The Committee agrees with the ANAO that developing suitable monitoring and reporting arrangements to demonstrate outcomes achieved is sound practice, and that agencies need to incorporate specific performance monitoring, reporting and evaluation activities into the design and costing of their programs.⁵⁴ This also reinforces the importance of developing auditable KPIs, particularly in the context of the new performance framework under the *Public Governance, Performance and Accountability Act 2013* and broader Public Management Reform Agenda. Effective monitoring of performance enables agencies to report to government and stakeholders on the achievement of anticipated benefits, including any projected savings.
- 4.40 Human Services' management of the IMCA initiative indicates that the department should improve reporting of outcomes by developing suitable monitoring and reporting arrangements to demonstrate the benefits realised from administering Medicare compliance audits and ensure that

52 Mr Box, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 2.

53 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 17.

54 ANAO, Report No. 26, *Medicare Compliance Audits*, p. 76.

departmental resources are properly targeted. The Committee concludes that Human Services should report back to the JCPAA on this matter.

Recommendation 5

- 4.41 **The Committee recommends that the Department of Human Services report to the Committee, no later than six months after the tabling of this report, on its progress towards implementing the Auditor-General's recommendation that it develop a methodology to monitor outcomes and report on the effectiveness of Medicare compliance audits. The report should include any decisions or other progress made in regard to measuring savings from behavioural change.**
- 4.42 The Committee also points to the need for Human Services to further progress its response to the ANAO's recommendation that it more effectively target significant compliance risks to the Medicare program and increase the cost effectiveness of its compliance approach. The Committee therefore points to the usefulness of Human Services undertaking a cost-benefit analysis of this area. This will provide the department with the opportunity to achieve further efficiencies and better target limited resources to priority compliance activities.

Recommendation 6

- 4.43 **The Committee recommends that the Department of Human Services undertake a cost-benefit analysis of its Medicare compliance activities to ensure more effective targeting of significant compliance risks to the Medicare program and increase the cost effectiveness of its compliance approach.**

Performance Audit Report No. 27 (2013-14)

Integrity of Medicare Customer Data

Introduction

5.1 Chapter 5 discusses the Joint Committee of Public Accounts and Audit (JCPAA) review of Australian National Audit Office (ANAO) Report No. 27, *Integrity of Medicare Customer Data*, Department of Human Services (2013-14). The chapter comprises:

- an overview of the report, including the audit objective, criteria and scope; audit conclusion; and audit recommendations
- Committee review
- Committee comment

Report overview

5.2 The Department of Human Services (Human Services) is responsible for administering Medicare, in accordance with policies developed by the Department of Health. As at 30 June 2013, Human Services reported that 23.4 million people were enrolled in Medicare, including 618,533 new enrolments.¹ For an individual to enrol in Medicare, they need to reside in Australia and be either an Australian or New Zealand citizen, a permanent resident visa holder or an applicant for a permanent resident visa. Australia has Reciprocal Health Care Agreements with 10 countries,

¹ ANAO, Performance Audit Report No. 27, *Integrity of Medicare Customer Data*, Department of Human Services (2013-14), Commonwealth of Australia, 2014, p. 11.

and visitors from these countries may also be eligible to enrol. Some eligibility types are only eligible to use Medicare for a limited time.

- 5.3 Ensuring the integrity of Medicare customer data is a key aspect of the control framework applied by Human Services to support the effective administration of the Medicare program. The main repository for this data is the Medicare customer record database, the Consumer Directory.

Audit objective, criteria and scope

- 5.4 The audit objective was to examine the effectiveness of Human Services' management of Medicare customer data and the integrity of this data. To assist in evaluating the department's performance in terms of the audit objective, the ANAO developed the following high level criteria:

- Human Services has adequate controls and procedures for the collection and recording of high quality customer data;
- Medicare customer data as recorded on Human Services systems is complete, accurate and reliable; and
- customer data recorded on Human Services systems is subject to an effective quality assurance program and meets relevant privacy and security requirements.²

- 5.5 The audit scope focused on the integrity of Medicare customer data and included related testing of all Medicare customer records.³ The audit also considered the extent to which Human Services had implemented the six recommendations from a previous audit of this area in 2004-05, in ANAO Report No. 24, *Integrity of Medicare Enrolment Data*.

Audit conclusion

- 5.6 The ANAO made the following audit conclusion:

Human Services' framework for the management of Medicare customer data, including procedures and input controls for the entry of new enrolment information and changes to customer information, has not been fully effective in maintaining the integrity of data in the Consumer Directory.⁴

- 5.7 Further, with regard to the six recommendations made in this area previously, in Report No. 24, *Integrity of Medicare Enrolment Data*, the ANAO noted that 'the department has foregone an opportunity to

2 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, p. 12.

3 The audit did not examine Healthcare Provider Information, the allocation or management of Individual Healthcare Identifiers or the operation of Personally Controlled Electronic Health Records, ANAO, Report No. 27, *Integrity of Medicare Customer Data*, p. 13.

4 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, pp. 13-14.

enhance its performance by implementing a number of the earlier ANAO recommendations targeted at improving data integrity'.⁵

Audit recommendations

5.8 Table 5.1 sets out the recommendations for ANAO Report No. 27 and Human Services' response.

Table 5.1 ANAO recommendations, report No. 27 (2013-14)

1	To better support customer service officers who enrol Medicare customers and update their information, the ANAO recommends that Human Services review its eLearning training and eReference guidance for consistency and completeness. Human Services' response: <i>Agreed.</i>
2	To better manage duplicate and intertwined records and improve the integrity of its customer data, the ANAO recommends that Human Services: <ul style="list-style-type: none"> • consider ways to better identify duplicate customer enrolments; • investigate the underlying causes of duplicate enrolments with a view to informing approaches to their prevention; and • develop and implement guidelines for resolving intertwined records. Human Services' response: <i>Agreed.</i>
3	To further improve the completeness, accuracy and reliability of Medicare customer data, the ANAO recommends that Human Services undertake targeted, risk-based data integrity testing of Medicare customer records. Human Services' response: <i>Agreed.</i>
4	To ensure that only those customers eligible to receive Medicare benefits can access them, the ANAO recommends that Human Services review existing entitlement types and implement controls where relevant, to: <ul style="list-style-type: none"> • prevent instances of customers being enrolled under invalid entitlement types and accessing Medicare benefits without an entitlement; and • ensure mandatory data fields are completed, and that data entries are consistent with business and system rules. Human Services' response: <i>Agreed.</i>
5	To ensure compliance with the mandatory requirements of the Information Security Manual, the ANAO recommends that Human Services: <ul style="list-style-type: none"> • undertake a review of existing documentation and finalise all mandated security documents; and • complete the mandated certification and accreditation processes for the systems that record, process and store Medicare customer data and the ICT infrastructure that supports them. Human Services' response: <i>Agreed.</i>

Committee review

5.9 Representatives of the following agencies gave evidence at the Committee's public hearing on Thursday 17 July 2014:

- Australian National Audit Office

5 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, p. 15.

- Department of Human Services

5.10 As discussed below, the Committee identified two key issues of concern from the ANAO report findings and evidence provided at the public hearing:

- data integrity
- implementation of ANAO report recommendations

5.11 Two other issues were also of interest to the Committee: data security, and training and guidance. While these matters were not discussed in detail at the public hearing, the Committee supports the ANAO report findings and recommendations concerning these areas, as follows:

- data security

Human Services is subject to the requirements of the Australian Government's Information Security Manual (ISM), which outlines standards to assist agencies in applying a risk-based approach to protecting their data and ICT systems ... Human Services is not compliant with two of the mandatory requirements of the ISM ... Fulfilling these requirements would assist Human Services to identify and mitigate risks to the security and confidentiality of Medicare customer data ... To ensure compliance with the mandatory requirements of the [ISM], the ANAO recommends that Human Services:

- undertake a review of existing documentation and finalise all mandated security documents; and
- complete the mandated certification and accreditation processes for the systems that record, process and store Medicare customer data and the ICT infrastructure that supports them.⁶

- training and guidance

The collection of accurate, complete and reliable customer data supports the efficient and effective administration of Medicare ... To better support customer service officers who enrol Medicare customers and update their information, the ANAO recommends that Human Services review its eLearning training and eReference guidance for consistency and completeness.⁷

6 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, p. 22, p. 25.

7 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, p. 16, p. 24.

Data integrity

- 5.12 The ANAO's testing of Medicare customer records used varying matching criteria that identified at least 18,000 possible duplicate records.⁸ Duplicate records mean that customer information is fragmented across more than one record, presenting a potential clinical safety risk. Further, there is a risk that duplicate customer enrolments can be used for fraudulent claiming or identity theft.
- 5.13 Intertwined records, where single records are shared by more than one customer, also pose a risk to the clinical safety and privacy of affected customers as their recorded health information does not accurately reflect their individual circumstances. Intertwined records are created when customer service officers incorrectly enable two customers to use the same PIN – customers' unique Medicare enrolment identifiers. Human Services advised that it had recorded '34 intertwined records since 2011-12', when it commenced recording identified instances.⁹
- 5.14 The ANAO report noted that duplicate customer records had been an 'ongoing data integrity issue in Medicare customer record databases', with the ANAO having made a previous recommendation in this area in 2004-05, in Report No. 24, *Integrity of Medicare Enrolment Data* (Recommendation No. 3). Human Services advised that 'it implemented this recommendation but this could not be verified by the ANAO without supporting documentation'.¹⁰
- 5.15 The Committee noted its concerns with duplicate enrolments and intertwined records, and queried why the department had not been able to demonstrate that it had addressed this issue in response to the ANAO's previous recommendation. Human Services observed that:

The response that was done based on the previous audit was insufficient. We have accepted the findings of the ANAO report and we have a team that looks at both intertwined and duplicate records, because both are issues for Medicare as they are for other parts of the department. We have started the examination of the 18,000. We believe it is a significantly lesser number but they come up as records that may be intertwined or duplicate, and we now have a team ... The point was well made ... the issue for us is

8 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, p. 18. The ANAO noted that, 'in a database containing almost 30 million records, the number of possible duplicates identified by the ANAO is not significant. However, these records do represent a risk to the integrity of Medicare', p. 58.

9 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, p. 19.

10 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, p. 18.

going through and making sure that, wherever we can, our data cleansing works to limit the numbers.¹¹

- 5.16 To assist with recording accurate customer data, there are controls in the Consumer Directory, including mandatory fields. The ANAO tested these fields and identified that not all of them had been completed and that Medicare customer data had been inconsistently and inaccurately recorded, contravening system and business rules.¹² Incomplete, inaccurate and unreliable eligibility data could result in payments to ineligible persons. The ANAO report identified some active customer records with 'invalid entitlement types which had recent associated claims', and some customer records that did not contain 'sufficient information to support customers' eligibility for Medicare' or 'reflect an entitlement period consistent with the customer's entitlement type'.¹³
- 5.17 The ANAO also tested date of death data and found 40,541 records for customers over 85 years old that did not have an associated claim in the 12 months prior to testing, with the absence of claiming activity on these records suggesting these customers may be deceased.¹⁴ Human Services clarified that the reason some customers may not have interacted with Medicare is that 'they may have only received healthcare services using public hospitals, aged care facilities or received services provided by the Department of Veterans' Affairs'.¹⁵ The department further observed that it matched data for death 'every day through daily data feeds, so we do actually remove people from our register who are deceased'.¹⁶
- 5.18 The ANAO report noted that the department 'does not currently undertake data integrity testing' and accordingly recommended that it 'undertake targeted, risk-based data integrity testing of Medicare customer records'.¹⁷ In terms of its response to this recommendation, the department confirmed that it had 'commenced integrity work on those customers who have not claimed Medicare services in 12 months. This work has begun on customers over 90 years of age and will then move to the cohort over 80 years of age'.¹⁸ The department further commented that

11 Mr Barry Sandison, Deputy Secretary, Health Services, *Committee Hansard*, Canberra, 17 July 2014, p. 11.

12 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, p. 19.

13 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, p. 20.

14 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, p. 20.

15 Human Services, *Submission 5*, p. 9.

16 Mrs Alice Jones, General Manager, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 12. The department confirmed that it did 'not attempt to directly contact customers or their families to determine their status', Human Services, *Submission 5*, p. 9.

17 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, p. 20, p. 24.

18 Human Services, *Submission 5*, p. 9.

data integrity testing would be achieved by 'examining whether any of these customers have interacted with other health programmes administered by the department, including the Pharmaceutical Benefits Scheme (PBS), over the last 12 months. Use of the PBS is seen as a particularly accurate indicator for determining the status of a customer for Medicare'.¹⁹

- 5.19 The ANAO again noted that it had made previous recommendations in this area in 2004-05, in Report No. 24, *Integrity of Medicare Enrolment Data* (Recommendations Nos 1, 2 and 4). Human Services 'could not demonstrate implementation of the ANAO's recommendations aimed at improving the integrity of customer information prior to its migration to the Consumer Directory'.²⁰

Implementation of ANAO report recommendations

- 5.20 A previous audit report, ANAO Report No. 24, *Integrity of Medicare Enrolment Data*, HIC (2004-05), similarly examined Medicare customer data and made six recommendations, as set out in Table 5.2. As discussed earlier, the ANAO noted that 'Human Services could demonstrate implementation of two recommendations [Recommendations 5 and 6] but could not demonstrate implementation of the remainder'.²¹
- 5.21 The Committee queried why four of the six recommendations from the previous ANAO report on this area had not been implemented by the department. Human Services observed that 'the governance arrangements about follow-through and focus on what was recommended ... were not as strong as they are now, so the governance arrangements to ensure that there was follow-through to respond to them were not appropriate'.²²
- 5.22 Noting that Human Services had previously agreed to these earlier ANAO recommendations and had subsequently failed to implement some of them, the Committee queried what arrangements the department had therefore established to implement the ANAO recommendations in this current report. Human Services pointed to the more robust governance and accountability framework now in place to respond to audit recommendations:

In our governance arrangements in the department since we were created three years ago, the audit side within the department, firstly, works very closely with the ANAO and, secondly, runs a standard report around how many audits there are, internal and

19 Human Services, *Submission 5*, p. 9.

20 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, p. 21.

21 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, p. 15.

22 Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 11.

external, what recommendations there are and how many of those are outstanding. The secretary gets those regular reports. Each of the relevant deputies of the executive is accountable for making sure that we respond to the findings. We are held to account to respond to them so that they do not get left sitting. At particular times, if there is a time frame that we have identified when we said we would respond to certain things, that is what our internal audit people would also hold us to account on ... There might sometimes be valid reasons for delay such as complexity, but you have to report. Rather than just leave it to the line area and ... hope that the right things are done, there is now full accountability for all audits as a central area.²³

5.23 Further, the ANAO noted that it had recently considered Human Services' implementation of audit recommendations and could confirm that it now had 'well developed' monitoring and reporting processes in this regard:

To provide a little additional comfort to the committee, we tabled Audit report No. 34 as part of the last program and we looked at DHS's implementation of ANAO performance audit recommendations. This was tabled on 14 May. We observed in that report:

- DHS has well developed monitoring and reporting processes which provide oversight of the implementation of audit recommendations ...

the audit that was recently conducted on the department's follow-up showed that perhaps there had been improvements made over time, and certainly one would hope that those improvements manifest themselves in recommendations being implemented in a timely and complete manner.²⁴

23 Mr Sandison, Human Services, *Committee Hansard*, Canberra, 17 July 2014, p. 10.

24 Dr Tom Ioannou, Group Executive Director, ANAO, *Committee Hansard*, Canberra, 17 July 2014, p. 10, p. 11.

Table 5.2 ANAO recommendations, Report No. 24 (2004-05)

1	<p>The ANAO recommends that HIC:</p> <ul style="list-style-type: none"> • fully implement the data cleansing recommendations contained in its <i>Medicare Enrolment Data Field Assessment Report: Recommendations for Data Cleansing</i>; and • conduct a contemporary data field assessment to identify any records generated between 2002 and 2004, that require cleansing. <p>HIC's response: <i>Agrees.</i></p>
2	<p>The ANAO recommends that, prior to the full implementation of the Consumer Directory Management System, HIC:</p> <ul style="list-style-type: none"> • reconsider enforcing all CDMS business rules during the data migration; and • consider the risks of commencing the new system with incorrect data, against the associated costs and benefits of enforcing all business rules before the changeover from the MEF to the Consumer Directory. <p>HIC's response: <i>Agrees.</i></p>
3	<p>ANAO recommends that HIC:</p> <ul style="list-style-type: none"> • produce a report on possible duplicate enrolments, employing the data matching criteria envisaged for use with the Consumer Directory; and • resolve as many duplicate Medicare enrolments as possible, before the Consumer Directory is fully implemented. <p>HIC's response: <i>Agrees.</i></p>
4	<p>ANAO recommends that HIC conduct a review of the effectiveness of the 'representative member segment' approach to consolidating Medicare enrolment information, by selecting a representative sample of such records and manually assessing the accuracy and validity of the consolidated records.</p> <p>HIC's response: <i>Agrees.</i></p>
5	<p>ANAO recommends that, to improve the accuracy of Medicare enrolment records and reduce the business risks associated with maintaining active consumer records relating to people who are deceased, HIC give a high priority to developing and implementing a system to make effective and efficient use of Fact of Death Data in the Consumer Directory.</p> <p>HIC's response: <i>Agrees.</i></p>
6	<p>ANAO recommends that HIC redevelop a Technical Standards Report, which complies with the requirements of the Privacy Commissioner's Guidelines issued under section 135AA of the <i>National Health Act 1953</i>, and lodge it with the Office of the Federal Privacy Commissioner.</p> <p>HIC's response: <i>Agrees.</i></p>

Committee comment

- 5.24 The Committee notes that the ANAO's analysis of the department's Medicare customer data holdings identified at least 18,000 possible duplicate enrolments, as well as intertwined records, giving rise to clinical safety and privacy risks. It also identified active records for customers without an entitlement as well as inactive records and some with unusual activity, and records that had customer information inconsistently, inaccurately and incompletely recorded. Further, at the time of the audit,

the department did not undertake data integrity testing. While the Committee notes that the number of records affected by data integrity issues is not significant given the scale of the department's data holdings, it points out that these are still a risk to the integrity of Medicare, with possible consequences for clinical safety, customer privacy and cost efficiency. The Committee is encouraged that Human Services has now commenced work on data integrity testing, and also assembled a team to resolve intertwined and duplicate records in the Medicare database.

- 5.25 The Committee also notes that Human Services could not demonstrate implementation of previous recommendations made in this area by the ANAO in 2004-05, in Report No. 24, *Integrity of Medicare Enrolment Data*. Consequently, the issues identified 10 years ago have persisted and continue to compromise the integrity of Medicare customer data. The Committee acknowledges that Human Services now has a more robust governance and accountability framework in place to respond to audit recommendations, with well developed monitoring and reporting processes to provide oversight of implementation in this regard. However, it is disappointing that the department missed an opportunity to enhance its performance by implementing a number of the earlier ANAO recommendations targeted at improving data integrity.
- 5.26 The Committee therefore supports the ANAO's findings and recommendations, and agrees with its conclusion that 'Human Services' framework for the management of Medicare customer data, including procedures and input controls for the entry of new enrolment information and changes to customer information, has not been fully effective in maintaining the integrity of data in the Consumer Directory [the Medicare customer record database]'.²⁵ The Committee was disappointed with the department's overall management of this area, particularly given the significant scale and cost of the Medicare program. While the department has taken some action in this area, it could do more.
- 5.27 The Committee agrees with the ANAO that Human Services needs to improve the integrity of its Medicare customer data by resolving duplicate and intertwined records; undertaking targeted, risk based data integrity testing of these records; and implementing controls for data entries. Departmental procedures and key elements of the data input control framework require management attention to better protect clinical safety and customer privacy, improve operational efficiency and reduce the risk of fraudulent activity. Given the extent of the data integrity issues highlighted by the ANAO and the length of time these issues have been

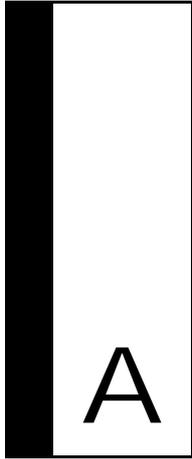
25 ANAO, Report No. 27, *Integrity of Medicare Customer Data*, pp. 13-14.

evident, the Committee concludes that Human Services should report back to the JCPAA on this matter.

Recommendation 7

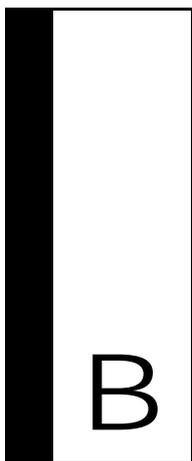
- 5.28 **The Committee recommends that the Department of Human Services report to the Committee, no later than six months after the tabling of this report, on its progress towards implementing the Auditor-General's recommendations in terms of undertaking targeted, risk-based data integrity testing of Medicare customer records; better managing duplicate and intertwined records; and reviewing existing entitlement types and implementing controls to ensure that only those customers eligible to receive Medicare benefits can access them.**

Dr Andrew Southcott MP
Chair



Appendix A - Submissions

- 1 CONFIDENTIAL
- 2 Australian National Audit Office
- 2.1 Australian National Audit Office
- 3 Department of Social Services
- 4 Department of Finance
- 5 Department of Human Services



Appendix B – Public Hearings

Thursday 28 June 2014

Australian National Audit Office

Mr Ian McPhee, Auditor-General

Mr Brian Boyd, Executive Director, Performance Audit Services Group

Ms Michelle Johnson, Director, Performance Audit Services Group

Mr Michael White, Executive Director, Assurance Audit Services Group

Dr Andrew Pope, Group Executive Director, Performance Audit Services Group

Department of Social Services

Ms Felicity Hand, Deputy Secretary

Dr Tim Reddel, Group Manager, Program Office

Mr Bryan Palmer, Group Manager, Housing, Homelessness and Gambling

Mr Sean Innis, Group Manager

Department of the Environment

Mrs Mary Wiley-Smith, Acting First Assistant Secretary, Policy and Communications Division

Mr Matthew Whitfort, Assistant Secretary, Strategic Advice Branch, Policy and Communications Division

Department of Finance

Dr Stein Helgeby, Deputy Secretary

Mr John Grant, First Assistant Secretary

Department of Prime Minister and Cabinet

Mr Robert McMahon, Assistant Secretary, Parliament and Government

Thursday 17 July 2014

Australian National Audit Office

Mr Ian McPhee, Auditor-General

Dr Tom Ioannou, Group Executive Director, Performance Audit Services Group

Ms Donna Burton, Executive Director, Performance Audit Services Group

Ms Emilia Schiavo, Director, Performance Audit Services Group

Mr Kylie Jackson, Senior Director, Performance Audit Services Group

Department of Human Services

Mr Barry Sandison, Deputy Secretary, Health and Information

Mr Gary Sterrenberg, Chief Information Officer

Ms Alice Jones, General Manager, Health Programmes

Mr Darren Box, General Manager, Debt, Appeals and Health compliance