



Ombudsman NT Report

Little Fish Are Sweet

Administration of a high volume, low value, subsidy scheme

September 2017

Contents

| | |
|---|----|
| EXECUTIVE SUMMARY | 1 |
| CHAPTER 1: THE SCHEME..... | 3 |
| Scheme objectives | 3 |
| Scheme eligibility..... | 3 |
| Concessions | 3 |
| Administration of the Scheme..... | 4 |
| CHAPTER 2: REVIEWS OF THE SCHEME..... | 5 |
| Auditor-General’s report | 5 |
| Ernst & Young report and ensuing investigations | 6 |
| Internal Review | 7 |
| CHAPTER 3: OMBUDSMAN ENQUIRIES | 9 |
| Spectacles concessions review | 9 |
| Findings..... | 11 |
| CHAPTER 4: INTERNAL CONTROL AND FRAUD | 13 |
| Relevant legislation, directions and guidelines | 13 |
| Agency-wide actions | 15 |
| CHAPTER 5: OPTIONS FOR THE SCHEME..... | 17 |
| Objectives and costs | 17 |
| Identifying risks..... | 18 |
| Control strategies..... | 19 |
| Prevention - Structural measures..... | 19 |
| Member choice, Benefit model | 19 |
| Member choice, Benefit – some items only | 20 |
| Concession cap..... | 20 |

| | |
|---|----|
| Member direct rebate | 21 |
| Limiting the range of products | 21 |
| Prevention – Operational measures | 22 |
| External provider/agent agreements | 22 |
| Utilising technology to ensure compliance | 23 |
| Other control strategies | 23 |
| Governance - Layers of monitoring, detection and evaluation | 23 |
| Detection - Checking mechanisms | 24 |
| Detection - What to check for | 26 |
| Response..... | 26 |
| Monitoring, Reporting and Evaluation..... | 27 |
| Training and Awareness..... | 28 |
| Conclusion..... | 28 |

EXECUTIVE SUMMARY

1. This report looks at issues relating to the administration of high volume, low value subsidy schemes, and in particular at structures and control measures that can be utilised to ensure that scheme beneficiaries and the Territory community obtain the best value for money out of the scheme.¹
2. While the report is produced in the context of a particular scheme, it will have relevance to other grant and subsidy schemes across government. No specific recommendations are made. The approach relating to each scheme will vary. The report discusses relevant principles, available guidance and options for action.
3. The particular emphasis is on ensuring that scheme structures and internal controls are designed to minimise the potential for errors, misinterpretation and fraud that may compromise the objectives of the scheme. It is also about recognising that an appropriate level of administrative oversight (the much maligned 'red tape') is essential if the community is to have any confidence that the scheme is effective.
4. The *Northern Territory Pensioner and Carer Concession Scheme* (the Scheme) is administered by the Northern Territory Government (NTG or the Government). It provides concessions or benefits to eligible recipients (I will refer to them as members).
5. The Scheme provides concessions on a number of transactions to a large number of Territorians but the concession in most cases is limited to a relatively low value. Overall risk of financial loss to the Territory on an individual transaction is therefore low. Regardless of likelihood, the amount of any loss would be limited. However, the involvement of providers and agents who deal with multiple transactions substantially increases the level of risk to be addressed.
6. Concessions are provided on utilities (energy, water, sewerage, and garbage), vehicle registration, drivers' licences, public transport, travel and spectacles. The concessions are frequently administered with the assistance of the external provider who supplies the relevant good or service. In the case of travel, a travel agent may be involved. In most cases, the provider/agent has direct interaction with the member and provides necessary paperwork directly to the NTG.
7. In many cases, price or unit price is fixed and provided by a Government controlled provider. However, in two cases, the providers/agents come from the private sector and the products available and prices involved can be subject to significant variation. Those cases are travel and spectacles.
8. The risks inherent in particular transactions will vary. Services supplied by Government providers in situations where prices or unit prices are essentially fixed still require monitoring and control. However, in a private sector setting where products and prices have substantial variability, the opportunities for mistakes, misunderstandings and deliberate misconduct increase significantly.

¹ The title of the report is derived from a saying which, in this context, refers to the potential for accumulation of a large number of small windfalls arising from errors, misinterpretation of rules or deliberate fraud. See also Matthew Condon, *Little Fish Are Sweet*, University of Queensland Press, 2016.

9. For example, air fares can change on an almost daily basis, with varying levels of fare and discounted fares regularly on offer. And with spectacles, the range of available frames and lenses is also subject to variation, as is their cost and the availability of discounts and special deals.
10. The financial controls required to administer a concession will vary in line with the inherent risks.
11. In a multi-million dollar contract, it may well be prudent to pay close attention to every transaction, to ensure adequate control. However, in a scheme like this, where there may be thousands of payments of \$100 or \$200 or less, adopting the same approach for every transaction would incur an enormous administrative burden.
12. There is therefore a need to consider alternate approaches to optimise the structure and administration of the Scheme bearing in mind its policy objectives and its particular nature.
13. The Scheme came to the particular attention of the Office of the Ombudsman in the context of complaints against a former Commissioner of Police and another officer in relation to investigation of possible offences committed by a travel agent in the context of the administration of the Scheme. Aspects of the investigation relating to NT Police are discussed in a report entitled, *Matters arising from allegations of inappropriate conduct by a former commissioner of police and another police officer*.
http://www.ombudsman.nt.gov.au/sites/default/files/downloads/police_investigation_report_final_29_may_15.pdf
14. My Office also conducted enquiries relating to the administration of the Scheme by the Department of Health (DoH), with a view to establishing what improvements might be made in that regard. The current report discusses those aspects of Ombudsman investigations.
15. The administration of the Scheme has now been transferred to Territory Families. This report has in part been prepared with a view to providing Territory Families with background on the operation of the Scheme and options for internal controls for its consideration in the course of the current NT Concessions Review.
16. This report does not deal with eligibility requirements of members, other than to note that administration of the Scheme should entail appropriate steps to ensure that recipients are qualified and continue to be qualified.
17. A draft of this report was provided to DoH and Territory Families for comment. DoH acknowledged that the report outlines valid internal control responsibilities and strategies for the Scheme and more broadly for the administration of government funds generally.
18. Territory Families acknowledged that the report is comprehensive and provides a good reflection of the history of the Scheme and related risks that remain. It referred to the current review, noting that options are being developed including improved administration. It also provided a face to face briefing on progress of the review.

Peter Shoyer
NT Ombudsman

CHAPTER 1: THE SCHEME

1. In 1979, the Northern Territory Government introduced the Northern Territory Pensioner Concession Scheme.
2. Over the years, eligibility criteria and the concessions available have been varied on a number of occasions. In 2006, eligibility was extended to certain carers and the scheme became known as the Northern Territory Pensioner and Carer Concession Scheme. I will refer to it as the Scheme.
3. The Scheme is based upon a series of Government policy decisions which are not embodied in legislation. This has led on occasion to uncertainty by some as to the precise parameters and requirements of the Scheme.

Scheme objectives

4. The aims of the Scheme are to:
 - provide an incentive for members to stay in the NT during retirement; and
 - help all pensioners, certain categories of low-income earners and carers with a range of cost of living expenses.

Scheme eligibility

5. Eligibility for most aspects of the Scheme is currently limited to pensioners and carers who qualify for certain concessions.
6. Scheme members must advise of:
 - any change to their status that would affect their eligibility for the Scheme; and
 - any change to their address.
7. This report does not deal with aspects of who should or should not qualify as eligible for a particular concession or benefit apart from noting the need to undertake appropriate monitoring and auditing to ensure that members are in fact qualified and continue to be qualified to benefit from the Scheme.

Concessions

8. There are ten services or items that currently attract concessions, with most having a fixed concession or an upper limit on the maximum amount payable:
 - Electricity/Alternate Energy;
 - Local Council Property Rates;
 - Water Rates;
 - Sewerage Rates;

- Garbage Charges;
- Motor Vehicle Registration;
- Drivers Licence;
- Spectacles;
- Public Transport;
- Interstate/Overseas Travel.

Administration of the Scheme

9. Until 2016, the Scheme was administered by the Department of Health (DoH). Since that time it has been administered by Territory Families. I will call the functional administrative area the Unit.
10. In addition to the Unit and the relevant agency, various entities have roles to play in the Scheme's administration, including:
 - members, who need to register, provide updated details and in some cases submit claim forms and supporting documentation;
 - providers of goods and services, who provide information to members and Government and in some cases act and provide information for the benefit of members under agreements with Government;
 - travel agents, who also act and provide information for the benefit of members under agreements with Government.
11. It is always important to consider the potential impacts on these other parties when looking at the structure and administration of the Scheme. The burden on members, providers and agents should not be so great that it jeopardises the attainment of the Scheme objectives.

CHAPTER 2: REVIEWS OF THE SCHEME

12. Aspects of administration of the Scheme have been reviewed in 2010 by the Auditor-General, in 2013 by Ernst & Young and in 2015 by a DoH internal review.

Auditor-General's report

13. In June 2010, the Northern Territory Auditor General published a report titled *Department of Health and Families Audit of Northern Territory Pensioner and Carers Concession Scheme*.
14. The "Audit Scope and Objectives" were to "assess the internal controls of the Agency over the management of the Northern Territory Pensioner and Carer Concession Scheme".
15. Five issues were identified in the report, along with recommendations provided to the then Department of Health and Families (DHF) against each of those issues. The issues were:
 - Insufficient supporting documentation;
 - Procedures manual has not been updated;
 - Authorised delegate approvals;
 - Travel concession payment issues; and
 - Spectacles concession payments.
16. For each of the issues, a recommendation was made to rectify the issue. The recommendations for each of the issues were:

"The Agency should ensure that appropriate supporting documentation is maintained for all transactions to aid in the subsequent review process."

"The Unit must ensure that all documented procedures are reviewed and maintained to ensure they reflect the current procedural requirements of the scheme. The actual procedures should then be performed in accordance with these requirements."

"The Agency should ensure that the documented financial delegations allow for the practical yet secure operation of the scheme and all delegation levels are strictly adhered to."

"The unit should clearly document the recovery procedures surrounding overpayments, and in particular the decision and approval not to pursue the outstanding balances. There should also be a clear guidance to staff as to the correct procedures to be used when a potential conflict of interest arises between a staff member and a recipient."

"The Unit should ensure that any exceptions to the documented procedures are clearly documented and appropriately authorised."
17. It was noted in the report that DHF acknowledged each of the findings of the report and had implemented or reviewed systems to address the recommendations.

Ernst & Young report and ensuing investigations

18. In October 2012, DoH received an inquiry directly from a member of the Scheme which gave rise to concerns about the manner in which the member's travel concession had been claimed.
19. Following consultation with NT Police, DoH engaged Ernst & Young to undertake preliminary investigations to assist DoH in assessing travel concessions paid to agents on behalf of members. The Ernst & Young report covered operations in the period January 2011 to January 2013.
20. Following on from that report, there have been further investigations by DoH and NT Police, which have focussed on the administration of the travel concession.
21. Potential issues raised in the course of those investigations regarding administration of the Scheme include:
 - travel agents providing DoH with an invoice for a full economy airfare for an eligible member, but then cancelling that booking on receiving funds from DoH and booking a cheap flight;
 - travel agents providing DoH with an invoice for travel but then cancelling the booking and retaining the funds paid by DoH for a time that the member wishes to travel in the future;
 - inconsistencies between multiple versions of operational manuals, brochures, agreements with agents and claim forms;
 - failure to deal adequately with issues arising from differing fare types;
 - inconsistencies between entitlements described in operational documents and procedures actually adopted;
 - adoption of, and ongoing reliance on, a standard schedule of airfares that did not reflect the fluid nature of the market;
 - wide variation in booking fees and credit card charges by agents;
 - claims made and accepted well above the standard schedule;
 - multiple claims when there should only have been one;
 - substantial differences in the average amount paid directly to members compared with amounts paid through agents;
 - testing of discount fares actually paid against the likely 'best fare' raised the potential that the best fare was not being obtained in all cases;
 - practical difficulties in obtaining information from members, agents and airlines to substantiate claims based on bookings rather than travel already undertaken;
 - lack of clarity and certainty about how often and how much could be claimed;
 - claims processed without an agreement in place, due to urgency;
 - lack of regular updating of policies and procedures;

- lack of checks on ongoing eligibility for the Scheme;
- lack of a process to deal with reports of anomalies;
- member declarations attached to the travel application did not appear to be compliant with relevant requirements;
- errors in calculation of amounts owing not subject to checking;
- wide year to year variations in total amounts paid for spectacle and electricity subsidies.

Internal Review

22. In 2015, an internal review was undertaken by the DoH Director, Corporate Services Bureau Special Projects, resulting in a report dated 21 September 2015 entitled *NT Pensioner and Carer Concession Unit – Review Findings and Recommendations*’ (the Internal Review).

23. The Internal Review report looked at all aspects of the internal work functions of the Unit under specific headings:

- The Unit Structure;
- Proposed Structure;
- Concession Statistics;
- Call centre Function;
- Work Backlog;
- Findings;
- Recommendations;
- Next Steps; and
- Future Considerations.

24. The findings of the Internal Review included:

- There did not appear to be a formalised governance structure that outlined who was responsible for making decisions, who then owned and administered Policy documents, and who makes decisions with respect to communications with members;
- The resources available to support the Unit were not adequate for the amount of work required. The volume of work and the level of funds involved were beyond the responsibilities of an AO4 officer;
- Even with the appointment of an AO6 officer in June 2014, there was no backfilling process when staff were sick or not in the office. A leave analysis demonstrated that, at the time of the preparation of the review, the combined leave taken by staff equated to one less FTE available for the Unit;

- Limited operational or strategic reporting available to enable effective decision making;
- Roles and responsibilities were clearly defined for certain processes in the Scheme procedure manual but this document had not been formally issued;
- Staff were operating a call centre function without necessary training or support to deliver effective service. They were essentially the face of DoH and sometimes the only contact that pensioners had with DoH;
- There was an overwhelming backlog of concessions still requiring processing. Staff advised they had never been up to date with processing;
- For optical concessions:
 - an automated process could be implemented to improve the system;
 - there were no checks at the optometrist end to verify members were actually receiving their concession;
 - the Unit should have the ability to conduct audits and checks on a regular basis;
- There was weakness in the issue of electricity tokens. The process was a manual (Excel) process. It had limited documentation and the potential for abuse/fraud of this concession by members was high;
- The remaining concessions were being appropriately managed largely through the Centrelink interface;
- There was a Centrelink Verification Process to verify information between the Scheme and Centrelink: but the check had not been run for some time, due to a staff member leaving the Unit. No one appeared to know how this process runs;
- There remained an issue identified in the Ernst & Young Report relating to the availability of information to substantiate allegations of improper claims under the Scheme. Essentially there were still gaps in the data available to give a level of comfort that due process was being followed.

CHAPTER 3: OMBUDSMAN ENQUIRIES

25. Over the course of enquiries, my Office pursued a number of issues relating to administration of the Scheme. Numerous discussions were held with DoH officers and a considerable amount of information obtained. It is unnecessary to go into detail about all aspects of those enquiries for the purposes of this report. I will however, refer to a specific review conducted by my Office relating to spectacle concessions.

Spectacles concessions review

26. The Internal Review report raised concerns regarding the Spectacles concession process. My Office decided to explore this aspect in more detail due to the identified scope for risk.

27. The Spectacles component of the Scheme is designed to provide a concession towards the cost of certain optical items. Eligible members can claim the concession each two year period.

28. DoH provided for the costs of various items under arrangements with optical providers, which might include:

- One Pair of bifocal/trifocal/multifocal spectacles; or
- One pair of reading spectacles plus one pair of distance spectacles;
- Cost of lenses (inclusive of tinting);
- Cost of frames;
- Cost of contact lenses;
- Repairs to frames as necessary (there was no restriction on frequency of repairs which included replacement of arms and replacement of fronts).

29. Ombudsman staff met with senior DoH managers to facilitate the review. The initial meeting took place on 8 June 2016.

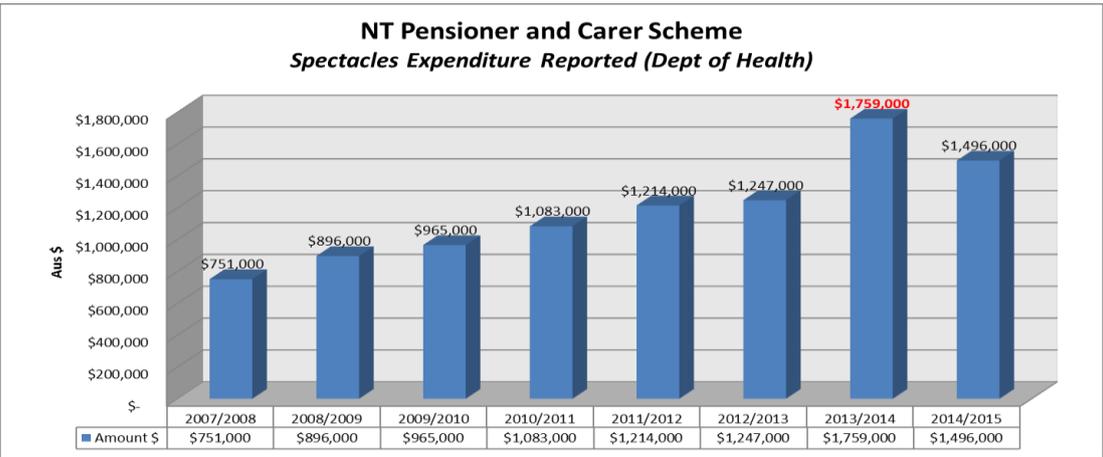
30. In that meeting, Ombudsman staff put forward several questions in respect of already identified concerns of risk, quality assurance, reconciliation, service level agreements and payment structure.

31. As well as supplying initial information, DoH advised that it was endeavouring to review and strengthen the Scheme in several phases:

- Governance Framework;
- Fidelity and propriety of the Scheme;
- Addressing rates of concession.

32. DoH advised it had recruited a consultant to examine these key areas. It also advised its intention to undertake validation processes and major checks in readiness to implement stronger corporate governance controls to strengthen the Scheme.

33. To assist with the review, the following was requested from DoH:
- Current Process Flow for the Spectacles component of the Scheme, start to end;
 - Copy of standard Service Level Agreement with optometrists; and
 - Current list of optometrists.
34. My staff also indicated they wished to look at both historical and contemporary data as the financial year drew to a close. Having looked at previous year’s expenditure, it was decided to look at the financial year 2013-14. My staff sought:
- List of service providers (Optometrist) during 2013-14 financial year;
 - Transaction report showing claims by optometrists and totals, 2013-14;
 - Transaction report showing DoH Payments re spectacles 2013-14.
35. On 19 July 2016, DoH provided:
- Pensioner Concession Scheme data 2013 to 2014 – Spectacles Report;
 - Daily Optometrist Spectacle Authorisation request Form;
 - Policy-Schedule A-Spectacle price list – 2013-14 and 2016-17;
 - Spectacles - GAS Payments to vendors 2013-14 Raw Data;
 - Spectacles Authorisation and order for supply of spectacles form; and
 - Spectacle concession 2013-14, Raw data.
36. For the purposes of comparative analysis, Ombudsman staff sought the same data for the 2014-15 financial year, which was duly provided.
37. During the review, DoH provided Ombudsman staff with copies of financial expenditure reports which outlined increases in total Spectacles concession expenditure for 2013-14. Table 1 below shows that the total annual payout for this aspect of the Scheme rose markedly from \$1,247,000 to \$1,759,000 in 2013-14 and then fell to \$1,496,000 in the following year.



38. This was a significant variation given the pattern from previous years. Although it is possible that this merely reflected varying demands on the Scheme, it was significant enough to merit further investigation.

39. In order to look further into this variation, my staff sought to undertake sample data testing for this period. An effort was made to reconcile DoH's reported figures for 2013-14 against the Government Accounting System (GAS) for accuracy. The following reports were requested:
- 2013-14 - Concession Summary Spectacles Report;
 - 2013-14 - PSC Spectacle Cons transaction listing report;
 - 2013-14 - Government Accounting System (GAS) Payment to Vendors Report.
40. DoH provided reports but on careful assessment by my staff, it was clear each diverged substantially in terms of total figures. It became apparent that they must not have been counting the same thing. It also became evident that the PSC Spectacle Cons report provided had been produced manually. It was not clear to my staff why the figures diverged so much.
41. In this form, the reports were of limited value in providing a clear assessment of why there might be a variation of the magnitude noted above. They could not be used as a starting point in making such an assessment or validating the figures set out in Table 1.
42. It may be possible that DoH could have ultimately produced an individual transaction listing report of expenditure for the financial period which outlined all the distinct amounts and quantities involved and was reconcilable with other systems.
43. However, at that stage, my Office elected to pursue another path given the time already invested in the review, the age of the figures and the time and work that it appeared would be required of DoH and my Office to attempt to reconcile all the figures.
44. Despite deciding not to pursue that approach further, I must stress the importance of agencies having robust, complementary and easily reconcilable financial systems in place to provide assurance that public monies are being spent appropriately in line with Government policy.
45. As an alternative, my staff sought to better understand how invoices were handled, by seeking the provision of documents relating to invoices for 55 transactions selected at random and covering several providers. All requested transactions were provided by DoH.

Findings

46. The review did not raise any suspicion of fraud being committed within the Unit or by optometrists. It should be stressed that this analysis was not conducted on the basis of any suspicion that optometrists might be acting inappropriately. However, effective financial control must proactively identify potential risks and put checks in place to limit the chances of mistake or fraud.
47. The Unit, as affirmed in the Internal Review, largely operated as a processing centre for receipt and payment of claims as well as the central provider of information to members and service providers.
48. Accounts were submitted by optometrists in batches, with a total figure invoiced to the Scheme.
49. The optometrist provided an 'Authorisation and Order for Supply of Spectacles' which was signed by the client recipient of the service. The form also provided a dollar value for each item claimed against the Scheme. This sum was reflective of the allowable claim. For example, '2 x Item SV2-RXL = \$117.70'.

50. However, the batched invoices did not provide information on exactly the type of product that was provided or how much that item actually cost. For review purposes, in terms of confirming to the nature of charging undertaken by providers it was of limited value.

51. Matters that could not be definitively established included:

- how much the optometrist was charging the client;
- whether members were actually receiving their concession;
- the usual price of the product or how much the product cost the optometrist (it remained a possibility that the actual cost of the item may be significantly less than the charge); and
- whether an optometrist could be supplying glasses within the allowance and then charging clients above that cost.

52. It was also noted:

- within agreements with providers there was no provision enabling any audit function that DoH may wish to conduct, nor any obligation on the optometrist to provide records; and
- DoH would benefit from obtaining more information on how prices are being determined by optometrists.

CHAPTER 4: INTERNAL CONTROL AND FRAUD

Relevant legislation, directions and guidelines

54. General requirements for financial control in the NT Public Sector are set out in the *Financial Management Act* (FMA) and relevant *Treasurers Directions* (TDs). A Financial Management Toolkit (the Toolkit) has also been produced by the Department of Treasury and Finance (DTF) to provide additional guidance.
55. Under the FMA, Accountable Officers are responsible for ensuring that procedures in the agency at all times afford proper internal control - s.13(2)(b). Under section 3 of the FMA:

Internal control means the methods and procedures adopted within an Agency to do the following:

- a. promote operational efficiency, effectiveness and economy;*
- b. safeguard its assets and manage its liabilities and contingent liabilities;*
- c. deter and protect against fraud;*
- d. maintain the accuracy and reliability of its accounting information;*
- e. ensure compliance with legislative provisions.*

56. TD G2-2 (part of the *Governance* series of TDs) deals with Internal Control. TD G2.2.3 provides that the overarching principles that enable effective internal control include:

Risk identification and management – systematically reviewing the environment in which the Agency operates, identifying potential threats and mitigating impacts on an Agency's achievement of goals and objectives.

Setting delegations – establishing appropriate authority levels for payment approvals, data entry, computer access and other operational requirements.

Segregation of duties – separating conflicting functions, for example, a person taking cash receipts is not responsible for banking functions.

Source documentation – confirms and provides evidence supporting and validating transactions, claims and statements.

57. TD G2.2.4 specifies that internal control systems and processes are part of an agency's overall control environment, which also includes:

Management philosophy and operating style;

Organisational structure;

Code of conduct;

Human resource policies and practices.

58. There is a specific TD dealing with *Grants and subsidies* (A6-4). This TD also deals with large scale grants that facilitate service provision to meet the objectives of the agency so not all parts will be relevant to a subsidy scheme. Bearing that in mind, the following relevant points can be drawn from the TD, and in particular section A6-4.11 *Management of Grants and Subsidies*:

- Each agency is to ensure that appropriate management, accountability and control arrangements are in place over the payment, ongoing monitoring, and acquittal of grants and subsidies.
- As part of the establishment of these arrangements, agencies should have regard to the relative risk and context within which the grant or subsidy is made, not merely the amount of the grant or subsidy being distributed.
- The identification and selection of recipients should be clear, transparent and capable of withstanding public scrutiny.
- While the form and degree of documentation associated with grants or subsidies will vary, documentation should satisfy accountability requirements.
- Clear acquittal processes should be established that are commensurate with the nature, risk and amount of funding provided.
- Prompt action is taken where evidence exists that distributions may be the subject of fraud.
- Periodic review of the overall efficiency and effectiveness of funding as a means of achieving agency objectives should be undertaken.

59. The Financial Management Toolkit provides further information on internal control. It notes:

*The **control environment** means management's overall attitude, awareness and actions regarding internal control and its importance in the entity. Numerous factors constitute the control environment, including:*

- *integrity and ethical values*
- *commitment to competence*
- *participation by those charged with governance*
- *management's philosophy and operating style*
- *organisational structure*
- *assignment of authority and responsibility, and*
- *human resource policies and practices.*

***Control activities** are detailed policies and procedures that management establishes to help ensure its directives are carried out and the necessary actions are taken to reduce risks that threaten the achievement of the entity's objectives.*

60. The Australian National Audit Office's *Fraud Control in Australian Government Entities – Better Practice Guide* (2011)² is a detailed document which discusses fraud control under the following categories:
- Leadership and culture;
 - Legislation, policy and governance;
 - Fraud control strategies:
 - Prevention;
 - Detection;
 - Response; and
 - Monitoring, evaluation and reporting.
61. Further invaluable guidance in a Northern Territory context can be obtained from the Northern Territory Auditor-General's report on *Selected Agencies - Fraud Assessment Framework* in her *August 2017 Report to the Legislative Assembly*.

Agency-wide actions

62. The FMA and the TDs make it clear that each agency must ensure that there are procedures in place that afford proper internal control. This includes protection against mistakes and deliberate acts of fraud. It will include mistakes and fraud by staff members and by external entities and individuals which have an impact on the agency.
63. Along with the FMA and TDs, the 2017 Auditor-General's Report provides an ideal foundation for the development of necessary procedures.
64. I note that the DTF website foreshadows that a TD will be issued on fraud control as part of the *Management of Risk* series, although no indication is given as to a timeframe. The finalisation of a TD in this regard to provide further guidance would be welcome. Such a TD (or material supporting it) might well include generic or framework documents that agencies can adapt or build on to meet their own specific needs and circumstances.
65. I also consider that promotion of NTPS Values has an instrumental part to play in maintaining internal controls, particularly with regard to fraud prevention. In my view, there should be a significant emphasis on promotion of those values as part of the development and implementation of internal controls. In this regard, there will be scope for reliance on Office of the Commissioner for Public Employment (OCPE) materials and advice.
66. In closing this chapter, I note that the 2017 Auditor-General's Report identified the following assessment criteria for determining the maturity of an agency's Fraud Assessment Framework:
- Agency has a written fraud control policy in place.
 - Agency had taken measures to raise staff awareness of fraud control.

² This is one of a number of Better Practice Guidelines that have recently been removed from the ANAO website due to a change in policy regarding ANAO activities. It nevertheless continues to provide highly relevant and instructive guidance in relation to fraud control.

- Agency supplied staff training with respect to fraud.
- Agency had formal policies and procedures for ensuring that consultants, suppliers and third parties complied with the agency's fraud control policy.
- Agency had developed specific guidelines or procedures that would address all fraud matters.
- Agency has specific individual/s or agency structure/s responsible for the development, implementation and effectiveness of fraud control.
- Agency defined the specific individual/s or agency structure/s responsible for the development, implementation and effectiveness of fraud control.
- Agency had taken steps to integrate fraud controls and security responsibilities.
- Agency had undertaken a fraud risk assessment in the last two years.
- Agency had developed action plans for the areas deemed to be of medium to high risk of fraud.
- Agency had developed a fraud control plan in the last two years to reflect its identified risks.
- Agency has a formal fraud reporting system in place.
- Agency has developed procedures for reporting fraud and distributed them to all employees.
- Agency has a Management Information System for purpose of recording, monitoring and reporting all aspects of fraud control.
- The information from the Management Information System is reported to agency executives/relevant committees/through general reporting.
- Fraud investigation staff have been trained.
- Training plans have been developed to assist determining level of fraud training by relevant employees.
- Agency had defined fraud.
- Agency had defined an allegation of fraud.
- Agency had defined when an allegation of fraud becomes an actual case of fraud, including actions to be taken.
- Agency had defined administrative irregularity as opposed to fraud, and procedures exist for the management and resolution of such matters.
- Agency has procedures in place to recover funds defrauded.
- Agency records the reasons for decisions made by accountable staff to recover funds administratively, rather than pursuing legal action.

CHAPTER 5: OPTIONS FOR THE SCHEME

68. The previous chapter discussed general rules and principles for implementing internal control in an agency. This chapter will focus on special attributes of a high volume, low value scheme and particular measures that might be considered in the implementation of the Scheme itself.

Objectives and costs

69. In a subsidy scheme of this nature, a fundamental aim must be to provide the maximum benefit to qualifying members from available funding. A core element in achieving this objective is to maintain appropriate controls to ensure that public money is being spent in accordance with the approved scheme.

70. An ongoing tension exists between the resources required to administer a scheme and the resources that find their way to beneficiaries.

71. On a simplistic view, the more that is spent on administration, the less that is available for scheme beneficiaries. There can therefore be an ongoing pressure to minimise administration in order to 'cut red tape'.

72. However, the reality is that without a reasonable level of administrative scrutiny, the community can have no level of assurance that the money it is contributing is being well spent. Providing less than a reasonable level of administrative scrutiny may ultimately mean that members receive fewer benefits as mistakes or fraud misdirect funds away from the scheme's purpose.

73. The costs of administration should be kept as low as reasonably practicable to promote the efficiency of the scheme but Government and the community must be confident that the right people are getting the right benefit.

74. Particularly in a scheme where there are many small payments for the benefit of a large number of members, involving a large number of providers and agents, finding the balance between good administration and member benefit gives rise to many challenges.

75. It is important to remember that the burdens of administration (in terms of financial outlays and time spent in compliance) are likely to be shared between:

- the Government agency charged with overall administration;
- the service providers and agents who interact directly with the beneficiaries and are required to carry out various administrative functions in support of the scheme;
- the members/beneficiaries themselves who must provide information and records to register and obtain concessions.

76. The question of how those burdens of administration are shared is relevant when considering options for the structure and administration of the Scheme.

Identifying risks

77. In developing appropriate controls it is important to identify particular risks that the Scheme or a component may give rise to. Examples of risk in this case include:
- A person registers as a member when they are not entitled to. This may be unintentional or deliberate.
 - A person continues on the register as a member when they are no longer entitled to be a member. This may be unintentional or deliberate.
 - NTG makes an error in the processing of a concession.
 - NTG fails to pick up on an error or misstatement by a provider, agent or member in the processing of a concession.
 - A provider or agent makes an error or misstates the concession sought.
 - A provider inflates the price of an item when they know a person is getting a concession. The amount paid out by Government may or may not vary but the benefit to the member is reduced.
 - A provider fails to offer a discount or special deal to a person when they know the person is going to get a concession. Again, the amount paid out by Government may or may not vary but the benefit to the member is reduced.
 - An agent fails to point out a cheaper price or discount to the member.
 - An agent overstates the price of an item in paperwork for the member then arranges a discounted alternative or refund from the supplier.
 - An agent makes a booking, obtains a concession, then cancels the booking, retaining the refund or crediting some or all of it to the member for later travel.
 - A member makes an error or deliberately misstates the concession sought.
78. While an error or deliberate misstep by a single member is not likely to amount to a substantial impost on the public purse, the potential for a provider/agent to embark on a course of such actions over a multiple series of transactions, giving rise to a large total overpayment, is a real risk.
79. Identifying risk does not mean that an event will happen. It does not assume that members, providers, agents or agency staff will make errors or act fraudulently. It is part of the process of minimising the potential for such events and detecting them if they do occur.
80. While checking ongoing eligibility of members will be an important task for Scheme administrators, it is not a focus of this report and so won't be discussed further here.

Control strategies

81. The ANAO *Better Practice Guideline* sets out four broad fraud control strategies:

- **Fraud prevention** – those strategies designed to prevent fraud from occurring in the first instance.
- **Fraud detection** – strategies designed to discover fraud as soon as possible after it has occurred.
- **Fraud response** – systems and processes that assist an agency to respond appropriately to an alleged fraud when it is detected.
- **Fraud monitoring, reporting and evaluation** – strategies to provide assurance that legislative responsibilities are being met, as well as promoting accountability by providing information that demonstrates compliance with specific fraud control strategies.

82. The complexity of the Scheme calls for a mix of approaches which limit the risk inherent in the Scheme (structural measures) and approaches which provide a reasonable level of scrutiny of Scheme implementation (operational measures).

83. Given the substantial administrative costs involved in operational measures, it is fair to say that the more effective the structural measures that can be reasonably employed to simplify the processes in the Scheme (and so reduce the extent of risks that must be scrutinised by operational measures), the greater the proportion of funding that can go to the benefit of the members.

84. However, in saying this, it would be counterproductive for the structure of the Scheme to be so confined that it fails to meet its policy objectives. There will always be a need to ensure balance.

85. A range of possible structural and operational measures are discussed below. They are not mutually exclusive. There is no ‘one size fits all’ approach. One approach may be more suited to a particular concession than others. In some cases, the best solution may be a combination of measures.

Prevention - Structural measures

Member choice, Benefit model

86. In this case, eligible members would be paid the same annual amount, perhaps in monthly or quarterly instalments, which could equate to the average total spend on individual concessions. This would follow on from the broad assumption that everyone has to contribute something towards the various costs of living that are currently covered by the Scheme.

87. There would be no ‘concessions’ but members could use the money they get to pay for goods and services of their choosing. This would be a ‘benefit’ rather than a subsidy.

Advantages

- People get to choose what they spend their money on, in a similar way to an existing pension.
- Everyone gets the same amount. People who choose to spend more don’t get more. People who choose to spend on other things can do so.

- People who currently miss out on certain concessions, for example, on water supply if they have their own bore or garbage collection if they are in a remote area and do not use that service, get an equal benefit.
- Limits administration costs to ensuring eligibility for membership and ensuring the benefit gets to the right people. There is no need to vet individual transactions for goods and services. More money gets spent by members rather than on administration.

Limitations

- Even though they may be financially no worse off, some people may feel they are disadvantaged because they are not getting a 'concession'.
- People who are currently taking greater advantage of the Scheme to seek larger concessions may be in a worse position.
- There may be some concern that people will spend their money on other goods and services, rather than on the basics of living for which the concessions are intended to provide.
- People who spend their money on other things may rely on other means to pay for basics. For example, greater reliance on voucher schemes provided by energy and water providers for people in financial hardship.

Member choice, Benefit – some items only

88. In this case, tied concessions could continue for most items but the concession for more problematic items (for example, travel and spectacles) could be replaced by a quarterly or annual benefit paid directly to members to be used as they see fit.
89. This would avoid some of the limitations identified above, while reducing administration costs in the most resource intensive areas.

Concession cap

90. This involves a periodic upper limit on the concession. This is already in place for air fares. This could also be implemented for unit price concessions such as power and water arrangements.

Advantages

- The arrangement may be seen as more equitable as there is an upper limit. It does not restrict people from buying a particular product or service or from using more but provides members with a more equal contribution.
- Set at an appropriate level, it limits the potential scope of improper use and so the risks inherent in any individual transaction. Accordingly, there could be some reduction in administrative costs.

Limitations

- There is still a potential for providers/agents to accidentally or deliberately make miscalculations which benefit them.

- There is still a potential for providers/agents to overstate prices or not apply discounts to the disadvantage of the member.
 - People who are currently taking full advantage of the Scheme to seek large concessions would be in a worse position.
91. In some cases, there may be scope for a differentiated approach. For example, with regard to power supply, there might be an increased cap or a special arrangement for a person who requires electricity supply for medical equipment.
92. Another option would be to set a global concession cap. This would involve a cap on total concessions for each person each year. This might address issues of overall fairness of the Scheme. However, it is doubtful that current systems, with the many transactions involved and the many providers and agents attributing concessions at different times, would allow for implementation. Unless it could be automated, it would also add to administrative costs of the Scheme and might introduce issues regarding recovery of overpayments.

Member direct rebate

93. In this case, providers/agents would be removed from the concession process. Members apply for a rebate after the relevant expenditure, with supporting documentation supplied directly to NTG by the member.

Advantages

- Greater assurance the amount has been paid.
- Limits potential for providers/agents to accidentally or deliberately make miscalculations which benefit them.
- Limits potential for providers/agents to overstate prices or not apply discounts to the disadvantage of the member.
- Greatly reduces risk of multiple mistakes or fraud (involving larger amounts through combination of claims).
- Accordingly, risks and therefore administration costs to NTG are reduced.

Limitations

- Greater onus and workload on individual members who may not be familiar with processes and may be less able to make a claim. Some members may miss out.
- Potential for individual mistakes by members is increased due to unfamiliarity with processes.

Limiting the range of products

94. Another approach is to provide for a reasonable range of good quality products, from which a member can choose. For example, the Queensland Government provides an optical service which allows qualifying participants to choose spectacles from a set range of frames every two years. This allows for set pricing of those frames (by negotiation with providers) to ensure there is no overcharging in an individual case. It may be possible to extend this to other optical products.

Advantages

- Limits potential for providers/agents to overstate prices or not apply discounts to the disadvantage of the member.
- Provides a *de facto* cap on one element of concession.
- Accordingly, risks and therefore administration costs are reduced.

Limitations

- Limits choice on the part of individual members.
- Doesn't allow members (and unlikely to allow Government) to take advantage of discounts and specials.
- Unlikely to be the best option in the highly variable travel market.

Prevention – Operational measures

External provider/agent agreements

95. It is important that agreements with external providers/agents clearly establish Government's expectations as to conduct and deliverables required. Agreements should also provide a clear basis for monitoring compliance.
96. Agreements should stress that the high level of accountability expected of Government must also extend to external providers dealing with public funds.
97. There may also be potential to require providers/agents to conduct a level of assessment and review of transactions and provide reports to NTG to demonstrate compliance. This would itself have to be subject to review by NTG but would act to raise awareness of the need for compliance by providers/agents and afford a basis for NTG assessment of compliance. It would however add to the workload of providers/agents and be a matter for negotiation with those who wish to take part in the Scheme.
98. Agreements might include:
 - i. obligations in terms of deliverables, processes (including internal controls) and stakeholder engagement;
 - ii. an express statement of any additional fees or charges that the provider/agent is allowed to charge a member in relation to a transaction (and an exclusion from charging other fees);
 - iii. an assurance that members will be offered the full range of goods and services provided by the external service provider at the best available price, including any discounts or special offers;
 - iv. if relevant, a guarantee that the NTG will be charged the best available price for goods and services;
 - v. a clear process for obtaining access to the provider's/agent's relevant records;

- vi. a requirement to issue and provide invoices at transactional level; and
- vii. some provision for provider/agent self-review and reporting of transactions to demonstrate compliance.

Utilising technology to ensure compliance

- 99. There may also be scope for designing relevant 'smart' forms for use by providers/agents and even individual members that involve a degree of self-checking and reconciliation with Scheme requirements.
- 100. For example, an online form that incorporates Scheme limits and requires checking when details are not completed or fall outside usual Scheme parameters would act to limit errors or misstatements and as a reminder that care is required when making a claim.
- 101. Use of the online form/s might be made mandatory for providers/agents but be promoted as an option for individual members who are dealing directly with the NTG.

Other control strategies

- 102. Once the structure of a scheme is settled on, it is essential that there be robust measures in place to ensure that it is operating effectively and efficiently to meet its objectives.
- 103. I discuss the other control strategies identified in the ANAO Better Practice Guide together because methods for detection, response, monitoring, reporting and evaluation share numerous features whether they are being undertaken at first instance, internally within the Unit or external to the Unit.
- 104. In this type of scheme, detailed scrutiny and audit of each individual transaction (numbering in their many thousands) would present an enormous drain on public resources. This section discusses a range of measures that can be taken to address risk without putting an unreasonable burden on providers, agents, members and the public purse.

Governance - Layers of monitoring, detection and evaluation

- 105. Considerable work will be undertaken by the departmental unit that has responsibility for the conduct of the Scheme. Different officers within the Unit will undertake different checking functions. It is important that they are clearly defined and understood and that there are cross-checking mechanisms within the Unit. This should be documented in a single, freely available operations manual which is regularly updated.
- 106. It will also be prudent to have regular checking undertaken by another unit within the agency that undertakes audit or review functions. This will provide an opportunity for someone outside the functional unit, with expertise in financial operations, to cast a fresh eye on operations to establish that it is functioning well and to suggest areas for improvement.
- 107. These units should provide regular reports to the chief executive or a senior executive who is charged with overall responsibility for administration of the Scheme. Ideally, regular reports should also be made to the audit and risk management committee of the agency.
- 108. In addition, given the extent of the funds distributed, it will be appropriate from time to time to engage an external expert to conduct checks and evaluate the functioning of the Scheme.

109. Identifying risks and solutions in a scheme of this type should not be left to one person. Adopting a multi-layered approach along the lines discussed above, provides a number of chances for identification of issues and development of solutions.

110. It is not a matter of simply conducting an external evaluation every few years. There is a need for a regular and ongoing system of checks and balances. There must be a clearly defined governance structure that is well documented and available to all relevant parties.

Detection - Checking mechanisms

111. The 2017 Auditor-General's Report identifies the following examples of measures that can be used to detect fraud in the workplace:

- segregation of duties;
- reconciliations;
- regular reviews of suppliers;
- data mining / analysis;
- internal and external fraud reporting mechanisms;
- responses to identified frauds; and
- internal audit and review of controls and programs.

112. Again, adoption of a variety of mechanisms for identifying and scrutinising conduct and a cross-section of transactions will achieve the best results.

Checking and recording individual transactions

113. There will, of course, be a need to confirm the detail of individual transactions at Unit level, for the purposes of data entry and arranging payments.

114. This provides an opportunity for frontline officers to identify and query any patent errors or misstatements.

115. It is appropriate to have a mechanism for double-checking or cross-checking at least some records within the Unit as they are dealt with.

Targeted spot checking

116. In this case, transactions are identified by a particular feature, for example, high value relative to other transactions, noted irregularity in paperwork or previous issues with a provider or agent.

Random spot checking

117. This involves closer inspection of a fixed number of transactions selected randomly, that is, without any particular reason. No record should be too small or inconsequential to be excluded from selection. This allows for greater scrutiny of a small selection of seemingly routine transactions to identify problems that might not be picked up by other methods.

Exception analysis and reporting

118. This involves data analysis to identify targets for closer checking.
119. It may, for example, identify providers or agents with the highest average claim value against the Scheme. This may or may not identify inflated claims but is worth closer inspection.
120. Or it may identify providers or agents with the highest average total transaction value. Again, there may be a perfectly valid reason for this, but it is worth investigation.
121. Another example would be identifying sudden spikes or reductions in the total or average of claims from a provider or agent which might indicate a change in practice.

Information systems

122. Use of analytical tools has the advantage that once developed they can be programmed to produce regular reports to give officers undertaking monitoring a head start in identifying exceptions that merit closer inspection.
123. They should however be regarded as an adjunct to the individual work of the people involved in monitoring the scheme rather than replacing the need for individual consideration and analysis. There should always be scope for a single officer to notice and investigate a transaction or series of transactions if they think it is warranted.
124. It is important that relevant financial systems are aligned with internal controls and are capable of facilitating transparency and efficiency. Although there are limits to any system, there would be distinct advantages in relevant systems having the capacity to:
 - a. enable data entry in an efficient and timely manner with a minimum of double handling;
 - b. capture sufficient detail at a transactional level (for example optical invoices should be detailed for each claim rather than batched);
 - c. automatically detect and reject claims falling outside Scheme parameters;
 - d. undertake routine data analytics and management reporting to create an early warning system before anomalies escalate, including:
 - i. identification of duplicate transactions, changes in trends over time, comparisons of data from similar external service providers;
 - ii. exception reporting to identify transactions that fall outside entered parameters such as transactions over a set limit and incomplete records; and
 - e. facilitate data matching with agents and providers.
125. It is also vital that the financial systems employed within the agency are interoperable or easily reconcilable. Financial systems adopted within the Unit and the agency must be complementary to promote easy interrogation, review and reporting. Differing systems that do not promote straightforward comparison using the same parameters do not facilitate efficiency or internal control.

Detection - What to check for

126. A transaction having been identified for examination, there is then the question of what must be checked. It will be important to check that the concession claimed is within the relevant parameters of the Scheme, that any relevant amount has been paid, and that the member has received the benefit of the concession.
127. More involved will be issues around whether an agent or provider has passed on the full benefit of the concession to the member.
128. Where an agent is involved, it may be necessary to seek transaction, pricing and discount information from a provider.
129. It may also require research into available products, pricing options and discounts. In some cases, providers and agents could be required to pass on price lists and information about specials and discounts to allow cross-checking. In others, it may be possible to search through publicly available information to establish a base line.
130. These latter checks will clearly be resource intensive for Government, providers and agents alike and so there will be limits on the extent to which they can be carried out. Even so, the fact that they are carried out in some cases will prove a disincentive to actions contrary to the objectives of the Scheme.
131. It is important that the terms of the Scheme and any associated agreements provide clear authority for all necessary checks.

Response

132. The 2017 Auditor-General's Report discusses Fraud Control Response in the following terms:

How an agency responds to incidences of identified fraud is as important as the fraud control prevention and detection measures that are put in place. How an agency responds is a key control as a deterrence measure for other employees/external parties as it sets the tone for whether or not fraud is acceptable or not.

"A timely and effective response to external fraud in government programs is critical in sending a strong message to program participants and/or recipients that fraudulent and dishonest behaviour will not be tolerated. This deterrence effect can benefit other government programs and services, as many individuals and businesses can be participants and recipients in other government programs. (ANAO Guide, page 71)

Fraud response includes:

- fraud investigation
- responding to the fraud, including where applicable:
 - criminal prosecution
 - civil and administrative remedies; and
 - recovery (of either funds or property).

133. In order to create a deterrent effect, and prevent fraud losses from escalating, it is important that an agency be in a position to respond promptly and effectively to allegations or discovery of fraud. This may be achieved through either a Scheme specific policy or a whole of agency approach. In any event, elements might include:

- a. establish procedures for carrying out internal investigations including:
 - i. creating a response plan;
 - ii. identifying the response team depending on the nature of the alleged fraud (e.g. human resources staff, accountants, lawyers, subject matter experts);
 - iii. gathering evidence including the taking of witness statements, handling of physical records, and conducting surveillance;
 - iv. managing informants;
- b. establish a fraud incident register to record allegations including the date and time of report, method of reporting (telephone, email, anonymous), nature of incident, amount of any loss, and response;
- c. provide for regular reporting on progress to the CEO and other appropriate officers which may include the Audit Committee or in-house lawyers;
- d. establish a protocol for dealings with NT Police including compiling a brief of evidence and referring serious or complex cases of fraud to NT Police; and
- e. provide for training of officers who may be called on to participate in fraud investigations and/or a process for outsourcing investigations.

Monitoring, Reporting and Evaluation

134. The 2017 Auditor-General's Report describes monitoring and evaluation as including:

- updating the agency's fraud risk assessment, at least every two years or in the event of a significant change in the agency;
- reviewing the fraud control plan and asking:
 - is it up to date; and
 - is it effective;
- evaluating each individual fraud case, to see what lessons can be learned and any action to be taken.

"After any incidence of fraud, whether or not an offence is proven in a court of law, an entity should investigate the situation which allowed the fraud to occur to determine whether it is a result of:

- *a one-off action by a person in a position of privilege (any new person in this position may be subjected to additional or periodical screening or monitoring);*
- *the inadequacy of internal controls (in this case the controls should be re-evaluated and any deficiencies remedied), or;*

- *collusion (internal control systems can often be overridden by two or more people acting in conjunction with one another)."* (ANAO Guide, page 76); and
- maintaining accurate records of losses.

135. In relation to Reporting, it states:

To be effective, internal and external stakeholders need to be aware of the outcomes of fraud control activities. Internally this may include the Chief Executive Officer, Audit Committee and Senior Leadership Group. Externally this may include the Portfolio Minister, and for known losses (fraudulent or administrative irregularity) the Auditor-General.

136. It will also be important to conduct comprehensive evaluations of the Scheme from time to time to ensure that its policy objectives are still relevant and that it continues to operate effectively, as well as identifying any opportunities for improvement or other environmental issues that point to a need for change.

Training and Awareness

137. Officers involved in all aspects of the Scheme should be appropriately trained and awareness maintained of the potential for mistakes and fraud to impact on the effectiveness of the Scheme. It would be prudent to ensure that core officers have a level of training in fraud awareness. .

138. It will also be important to undertake substantial stakeholder communication with providers, agents and members to ensure there is clear understanding of their respective rights and responsibilities under the Scheme. Providers and agents should be made aware of the premium which the NTG places on transparency and accountability for public money and the protection of the interests of Scheme members.

139. In addition, there should be well-publicised processes in place to encourage and handle enquiries and complaints regarding the Scheme, and in particular to facilitate notification of concerns about possible errors or fraud.

Conclusion

140. In closing, it is important to develop a control plan that clearly sets out the mix of elements that are settled on as being appropriate for the structure and operation of the Scheme. These should be clearly documented, in detail and available to everyone working within the Scheme. The control plan and other relevant documentation should be reviewed and updated on a regular basis.

141. The ultimate policy objectives of the Scheme must never be forgotten. The aim is to establish a scheme design with a structure and administrative system that facilitates the provision of the greatest benefit to members while assuring the community that public funds are being well spent.
