Returned Repayments Project

Identification of customer population for returned repayments

Services Australia

Final Report

31 July 2020

Purpose

This report outlines the observations and findings of KPMG's review of the approach undertaken by the Compliance Assurance Division (CAD) / Compliance Intervention Data Analysis Team (CIDA) , and the Chief Data Officer Group (CDOD) to identify the customer population that may have had income averaging applied to determine those customers who were potentially eligible for returned repayments.

Review Activities

KPMG undertook the following activities:

- Documented and validated an end to end understanding of *the Identification of Customer Population with Income Averaging Applied Process* (Appendices A and B) as represented through interviews and document review. Note: The observations outlined in this report are limited to the activities performed by CAD and CDOD.

- Identified and assessed key CAD / CDOD assurance mechanisms where appropriate evidence was available (Appendix A).

Assumptions and Limitations

- KPMG's review procedures were based on the stakeholder consultations (see Appendix C) and review of evidence related to quality assurance mechanisms, where available (see Appendix D).

- Our assessment of the effective operation of controls was limited to the agency's ability to provide evidence to demonstrate control operation.

- KPMG has not assessed or independently re-performed data validation and analysis.

Assessment

KPMG's view is that the process, as documented in Appendices A and B, was reasonable given the inherent limitations of the underlying technology and customer data, and the manual approach that was adopted in the identification of the customer population with income averaging applied.

Noting the inherent limitations of the manual process adopted, the Returned Repayment Project Command Centre acknowledged and accepted the High residual risk associated with the risk:

> *'There is a risk that the manual process to determine impacted debts and refund amounts (and in turn records for remediation) has not accurately identified the complete number of debts or amounts to be paid resulting in some refunds paid incorrectly or not paid'.*

Mitigating controls have, however been identified should this risk eventuate, including an appeals process that customers can use to request a case review.

This assessment is based on the Summary of key assurance activities performed by Services Australia over page.

Recommendation

The assumptions, risks and assertions have been documented by the Project. KPMG recommends the Project continue to monitor these in order to confirm they remain valid and take action, as and when required.

Summary of Key Assurance Activities performed by Services Australia

During this assessment KPMG documented and validated key activities and assurance mechanisms undertaken by CAD and CDOD to identify the customer population who potentially had income averaging applied. These activities and assurance mechanisms are outlined in Appendices A and B. The overall process, described in further detail in Appendices A and B, was to:

- Identify customers subject to an income review between 1 July 2015 and 24 November 2019, as recorded in ISIS.
- Undertake an intensive manual case by case review of those customers identified to determine if their record indicated the use of income averaging. Services Australia (the agency) recorded (for each customer) a status to reflect the outcome of the review (S – income average solely used, P – income averaging partially used, A – income averaging used as agreed with the customer, C – no averaging applied, Z – not income compliance).
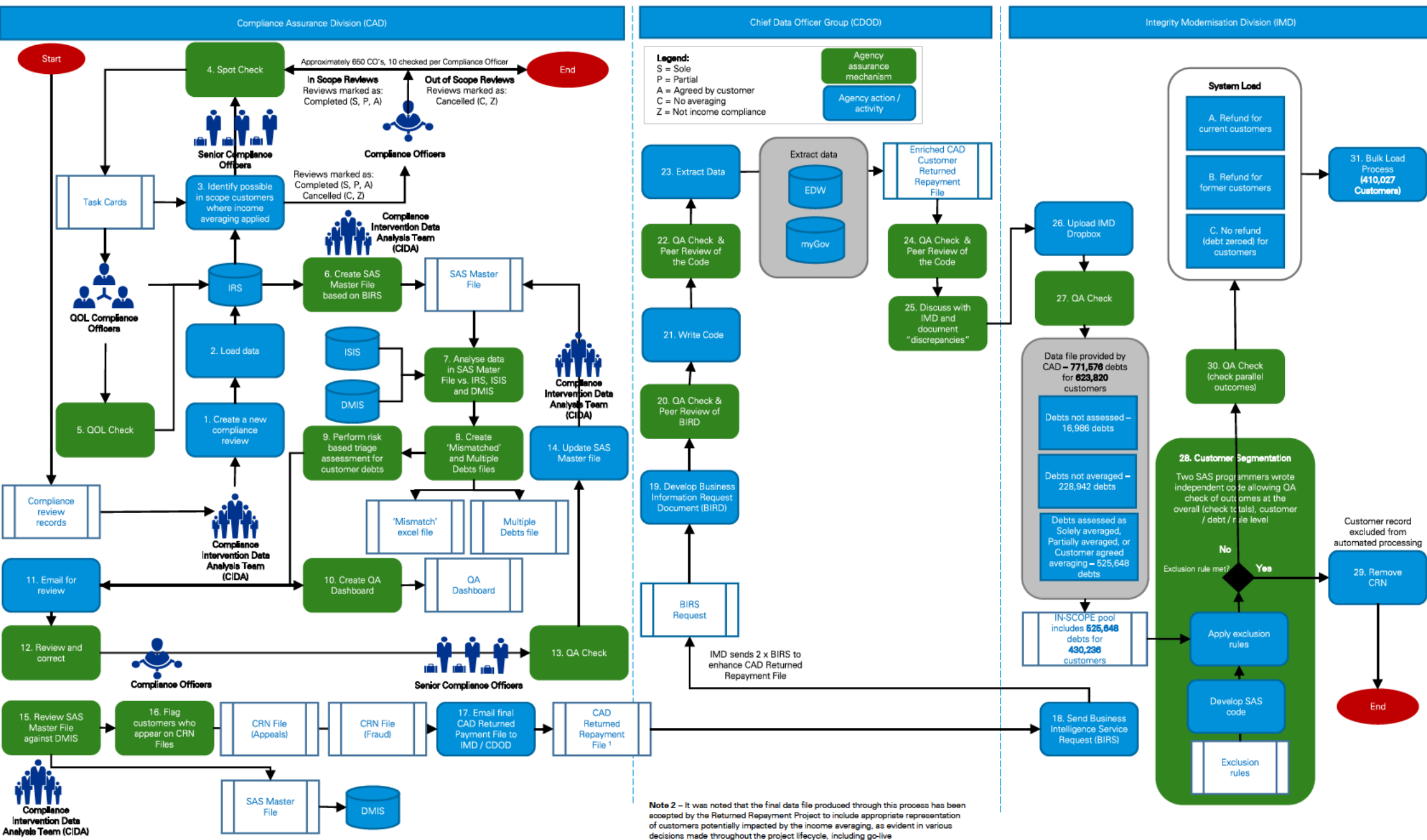
The key assurance mechanisms applied by the agency in the iterative manual data review and refinement process included:

- **Customer record review:** Task Cards were used to standardise the manual case by case review performed by Compliance Officers. Spots checks were then undertaken by Senior Compliance Officers to validate these assessments. This process was based on the online compliance reviews that included a review of identified customer priority groups in the staged approach to manage the volume and distribution of these groups for compliance officer identification (see Appendix A, step 4).
- **Quality Online (QOL) checks:** The Compliance Officers identified as being in training (status "Learner") were directed not to finalise a record in the IRS as it was subject to a QA check by QOL Compliance Officers (see Appendix A, step 5).
- **Single data source:** Following the completion of reviews, CIDA extracted the completed review data from the IRS system into a SAS Master File noting that in line with the requirements for the Returned Repayments Project that was used as a single source of truth for subsequent activities. The SAS Master File was kept in a secure location with restricted access and all changes to the file were recorded (see Appendix A, step 6). It was noted that the final data file produced through this process has been accepted by the Returned Repayment Project to include appropriate representation of customers potentially impacted by the income averaging, as evident in various decisions made throughout the project lifecycle, including go-live.
- **Identification of mismatched and multiple debts records:** CAD and CIDA undertook analysis of the SAS Master File against the data extracted from ISIS, DMIS and IRS systems to identify 'mismatched' and multiple debt customer records (see Appendix A, steps 7 and 8).
- **Risk-based triage assessment:** Based on a set of agreed criteria CAD triaged records in the 'mismatched' and multiple debts files from Low to High risk; the total records selected for triage assessment was 105,087 (see Appendix A, step 9 and Appendix B for triage risk categories).
- **QA checks of High and Medium/High risk records:** CAD reviewed customer records in the 'mismatched' and multiple debts files to address anomalies (105,087 customer records) (see Appendix A, steps 12 and 13, and Appendix B for triage assessment volume and results). Triaged customer records were reviewed based on their risk categorisation:
    - All customer records triaged as High and Medium/High risk were checked by Senior Compliance Officers (**11,315** customer records); and
    - A sample of Medium/Low (**19,856** customer records) and Low risk (**73,916** customer records) triaged customer records was reviewed: resulting in the percentage of checked records being 47.4% and 16.3% respectively.
- **CIDA QA check:** After triaged assessments were completed, CIDA checked the SAS Master File against the current overpayments in DMIS to identify any changes that occurred in the debt values. The identified changes were reviewed and corrected where appropriate by CAD (see Appendix A, step 15).
- **Data cross-reference:** CIDA checked the SAS Master File against the customer data received from the Business Integrity, Fraud and Appeals areas to identify customers to be excluded from the automated processing population (see Appendix A, step 16).
- **QA check of enhanced data file:** Based on IMD signed off Business Intelligence Requests (BISR), CDOD wrote a Business Information Request Document (BIRD) to add additional data attributes to the customer records in the CAD file. The additional data attributes were extracted from EDW and myGov systems noting that multiple peer reviews and QA checks were conducted during the MI extraction phase. The final enhanced data file was peer reviewed and QA checked by CDOD (this is a standard quality mechanism applied by CDOD for any data request) before uploading into the IMD's Dropbox (see Appendix A, steps 20, 22, 24 and 25).

The assurance activities above form part of the end to end process established by the agency. These processes are illustrated in the process map attached at Appendix A. Whilst this process map was originally developed by KPMG, it has since been validated by the agency and now forms part of the project's documentation.

Appendices

Appendix A – Process Map to Identify Customer Population for Returned Repayment

Compliance Assurance Division (CAD)

Start

4. Spot Check

Approximately 650 CO's, 10 checked per Compliance Officer

In Scope Reviews — Reviews marked as: Completed (S, P, A)

Out of Scope Reviews — Reviews marked as: Cancelled (C, Z)

End

Senior Compliance Officers

Compliance Officers

Task Cards

3. Identify possible in scope customers where income averaging applied

Reviews marked as: Completed (S, P, A) Cancelled (C, Z)

Compliance Intervention Data Analysis Team (CIDA)

QOL Compliance Officers

IRS

6. Create SAS Master File based on BIRS

SAS Master File

2. Load data

ISIS

DMIS

7. Analyse data in SAS Mater File vs. IRS, ISIS and DMIS

Compliance Intervention Data Analysis Team (CIDA)

5. QOL Check

1. Create a new compliance review

9. Perform risk based triage assessment for customer debts

8. Create 'Mismatched' and Multiple Debts files

14. Update SAS Master file

Compliance review records

Compliance Intervention Data Analysis Team (CIDA)

'Mismatch' excel file

Multiple Debts file

11. Email for review

10. Create QA Dashboard

QA Dashboard

12. Review and correct

Compliance Officers

13. QA Check

Senior Compliance Officers

15. Review SAS Master File against DMIS

16. Flag customers who appear on CRN Files

CRN File (Appeals)

CRN File (Fraud)

17. Email final CAD Returned Payment File to IMD / CDOD

CAD Returned Repayment File [1]

Compliance Intervention Data Analysis Team (CIDA)

SAS Master File

DMIS

Chief Data Officer Group (CDOD)

Legend:
S = Sole
P = Partial
A = Agreed by customer
C = No averaging
Z = Not income compliance

Agency assurance mechanism

Agency action / activity

23. Extract Data

Extract data

EDW

myGov

Enriched CAD Customer Returned Repayment File

22. QA Check & Peer Review of the Code

24. QA Check & Peer Review of the Code

21. Write Code

25. Discuss with IMD and document "discrepancies"

20. QA Check & Peer Review of BIRD

19. Develop Business Information Request Document (BIRD)

BIRS Request

IMD sends 2 x BIRS to enhance CAD Returned Repayment File

18. Send Business Intelligence Service Request (BIRS)

Note 2 – It was noted that the final data file produced through this process has been accepted by the Returned Repayment Project to include appropriate representation of customers potentially impacted by the income averaging, as evident in various decisions made throughout the project lifecycle, including go-live

Integrity Modernisation Division (IMD)

System Load

A. Refund for current customers

B. Refund for former customers

C. No refund (debt zeroed) for customers

31. Bulk Load Process (410,027 Customers)

26. Upload IMD Dropbox

27. QA Check

Data file provided by CAD – **771,576** debts for **623,820** customers

Debts not assessed – 16,986 debts

Debts not averaged – 228,942 debts

Debts assessed as Solely averaged, Partially averaged, or Customer agreed averaging – 525,648 debts

IN-SCOPE pool includes **525,648** debts for **430,236** customers

30. QA Check (check parallel outcomes)

28. Customer Segmentation
Two SAS programmers wrote independent code allowing QA check of outcomes at the overall (check totals), customer / debt / rule level

No / Yes

Exclusion rule met?

Apply exclusion rules

Develop SAS code

Exclusion rules

Customer record excluded from automated processing

29. Remove CRN

End

Appendix B - Process Description Summary

The Government announcement on 19 November 2019 to further refine the Income Compliance Program in relation to the use of averaging of employment income information provided the Australian Taxation Office (ATO). Following the Group Executive direction, in December 2019, Compliance Assurance Division (CAD) undertook a process to identify customers who were subject to an income compliance review (between 1 July 2015 to 24 November 2019) noting that a preliminary request did not include manual reviews from 1 July 2015 to 30 June 2016. The additional review period was confirmed by executive in late January 2020 as an additional piece of work to inform policy development.

An intensive manual process was then undertaken by CAD (due to the systems limitations) to identify customers who appear to have had income averaging applied based on ATO data. The manual review process included multiple quality reviews and subsequent to the manual review being completed, a further series of quality processes were undertaken. These are summarised below:

- Using available data, the reviews were divided into priorities in terms of staff actions, to support a systematic approach to loading the reviews and testing and refining an adopted approach. The following priorities were identified:

Identification Priority Group	Description
Priority 1	Online Income Compliance Reviews with 90+% consecutive identical earnings for the review period.
Priority 2	Online Income Compliance Reviews with 1%-89% consecutive identical earnings for the review period.
Priority 3	Online Income Compliance Reviews with zero consecutive identical earnings on record.
Priority 4	No assessment of consecutive identical earnings. These were all Non-online income compliance reviews (including PYG (Pay as You Go) reviews and Enterprise Data Management (EDM) reviews. EDMs used Income Tax Return data.
Priority 5	Mix of online and non-online income compliance reviews where: • There were debts that were not income debt types; or • There were debts not attached to reviews that were assessed using data as potentially being a result of an income compliance review.

- The compliance officers methodically reviewed customer records that were loaded into the IRS system against the defined Task Cards to identify where ATO averaging was applied in compliance reviews and where a debt outcome has occurred.

- The completed reviews with debt outcome were grouped into four distinct categories: No income averaging, Solely based on averaged ATO income data, Partially based on averaged ATO income data and Customer consent provided to use averaged ATO income data. These reviews were subject to spot checks by the Senior Compliance Officers by selecting 10 reviews per Compliance Officer. The Compliance Officers identified as being in training (status "Learner") were directed not to finalise a record in the IRS as it was subject to a QA check by QOL Compliance Officers

- Following the completion of reviews, CIDA extracted the completed review data from the IRS system into a SAS Master File noting that in line with the requirements for the Returned Repayments Project fields were set and confirmed by the Project Team through the completion of Business Intelligence Service Request (BIRS). The SAS Master File was used as a single source of truth for subsequent activities. The SAS Master File was kept in a secure location with restricted access and all changes to the file were recorded.

- CAD and CIDA undertook multiple analysis of SAS Master File against the data extracted from ISIS, DMIS and IRS systems to assess all records where multiple instances of debts were recorded. As a result a large number of data anomalies identified the 'mismatched' and multiple debts excel files were created.

Appendix B – Process Description Summary (cont.)

- The reviews of 'mismatched' and multiple debts files were not managed through IRS system but instead manually via spreadsheets provided by CIDA to the Compliance Officers. A risk based triage assessment approach was applied for customer debts. The customer was triaged into 4 (four) risk categories based on criteria outlined in the table to the right. These categories were mutually exclusive, if a customer is selected in the highest category they fit into only:

Risk Category	Description
High risk	Average type determined by Compliance officer of Partial or Agreed by Customer (A or P), and At least one debt with no consecutive identical verified earnings recorded on the system between the debt start and end dates.
Medium / High Risk	Average type determined by Compliance officer of Partial or Agreed by Customer (A or P), and At least one debt with 1-30% consecutive identical verified earnings recorded on the system between the debt start and end dates.
Medium / Low Risk	Average type determined by Compliance officer of Partial or Agreed by Customer (A or P), and At least one debt with 31-99% consecutive identical verified earnings recorded on the system between the debt start and end dates.
Low Risk	Average type determined by Compliance officer of Sole (S)

- CIDA ran an initial Pilot for triage assessment to confirm the High and Medium risk groups and Low-risk group was added at a later date to confirm the categorisation of the 'Sole Averaging' assessment. Through iterative triage assessment process that continued until 19 June 2020, all customer records triaged as High and Medium/High risk undergone review and correction. A sample of Medium to Low risk customers were also reviewed, as summarised in the table below:

Date of Job	Category	Total	Checked	Unchecked	% of Checking	% Change Assessment Result
6/05/2020	Pilot	601	601	0	100%	41%
19/05/2020	High risk	7154	7154	0	100%	47%
25/05/2025	Medium/High Risk	3560	3560	0	100%	39%
28/05/2020	Medium/Low Risk	19856	9409	10447	47.4%	13%
5/06/2020	Low Risk	73916	12024	61892	16.3%	10%

- CIDA regularly produced QA Dashboard report on the volume of records reviewed to track the review volume that was distributed to the National Managers in the Compliance Program and Compliance Risk and to the Directors on the 'need to know' basis.

- After triaged assessments were completed, CIDA checked the SAS Master File against the current overpayments in DMIS to identify any changes that occurred in the debt values. The identified changes were reviewed and corrected where appropriate by CAD.

- CIDA checked the SAS Master File against the customer data received from the Business Integrity, Fraud and Appeals areas to identify customers to be excluded from the automated processing population before submitting the final CAD Returned Repayment data file to CDO/IMD on 7 July 2020. It was noted that the CAD Returned Repayment File produced through this process has been accepted by the Returned Repayment Project to include appropriate representation of customers potentially impacted by the income averaging.

- Upon receipt of the data file from CAD and signed off by EL2 Business Intelligence Service Request (BIRS) from IMD, CDO undertook the following activities:
  - Wrote the technical specifications for the task, Business Information Request Document (BIRD).
  - Peer reviewed and QA'd the BIRD.
  - Wrote the Codes, and peer review and QA the codes
  - Extracted data from EDW and myGov, and peer reviewed and QA'd the extracted output.
  - The results of the QA have to be fully correct before the final output is provided to the Requestor.
  - As per CDOD process if there were any "discrepancies" identified in the output, then those were discussed with the requestor and are documented in the output.
  - The enhanced data file was uploaded into the IMD's Dropbox.

Appendix D – Documents Reviewed

Document & Version	Document & Version	Document & Version	Document & Version	Document & Version
Returned Repayments Project – Project Management Plan v1.2 draft	Task Card: 4. PAYG Manual - QDO check for keywords A, C & Z.V1.1	Mismatched or Missing Keywords 20200305 update	Mismatched or Missing Keywords 20200305 update	Email from Sheree Harrison 23 July 2020: • FW: Identification Process for OCSR – QOL and QDO support
Returned Repayments_risk-management-plan v1.3	Task Card: 5. QOL Check of Freeze on CRNs with Keywords S or P V1.10	Mismatched or Missing Keywords 20200422 update	Mismatched or Missing Keywords 20200422 update	Email from Sheree Harrison 23 July 2020: • FW: P3 Cancel – QA Complete • File within: P3 Cancel – QA MASTER – Collated
Task Card: 1. How to locate the Review Activity within the Integrated Review System V1.10	Task Card: 5. PAYG Manual – QOL Check of Freeze on CRNs with Keywords S or P.V1.1	Mismatched or Missing Keywords 202000110 update	Mismatched or Missing Keywords 20200110 update	Email from Sheree Harrison 23 July 2020: • FW: QOL cases identification process SEC OFFICIAL Sensitive ACCESS Personal-Privacy
Task Card: 1. PAYG Manual – How to locate the Review Activity within the Integrated Review System.V1.1	Task Card: 6. Applying freeze on Online Compliance Debts – Income Averaging Strategy V1.10	Mismatched or Missing Keywords 20200123 update	Mismatched or Missing Keywords 20200123 update	Email from Sheree Harrison 23 July 2020: • FW: QOL cases identification process SEC OFFICAL Sensitive
Task Card: 2. Check assessment method V1.10	Task Card: 6. PAYG Manual – Applying freeze on earned income Compliance Debts.V1.1	Mismatched or Missing Keywords 20200221 update	Mismatched or Missing Keywords 20200221 update	Email from Sheree Harrison 23 July 2020: • FW: QOL QA Support for next week SEC OFFICIAL Sensitive
Task Card: 2. PAYG Manual – Check assessment method.V1.1	Task Card: 7. Proficient CO Process V1.10	Mismatched or Missing Keywords 20200302 update	Mismatched or Missing Keywords 20200302 update	Email from Sheree Harrison 23 July 2020: • RE QOL QA Support for next week SEC OFFICIAL Sensitive
Task Card: 3. Commence the IRS Review and add Keyword V1.10	Task Card: 7. PAYG Manual – Proficient Compliance Officer.V1.1	KHS HD 20200210_Manual PAYG related debt 20200214 v2	Email from s47F 22July 2020: • Notified that they use a Business Intelligence Service Request (BISR) • Provided information on the QA checks CDO performs	
Task Card: 3. PAYG Manual – Commence the IRS Review and add Keyword.V1.1	Email from s47F on 21 July 2020, outlines process undertook for Fraud Investigation	Debts Reassessed Post Triage UPDATE	MI12660 – Refund Repayments – Pre Refund Data customer data BIRD V0.4	
Task Card: 4. Quality Assurance Check for keywords A and C V1.10	Email from s47F 22 July 2020 • Provided evidence of Mismatched or Missing Keywords file and other evidence of the process CAD undertakes • Provided a description of the risk categories in the risk triage and the amount of customers reviewed in each categories	KHS HD 20200210_Manual PAYG related debt	Email from Sheree Harrison 23 July 2020: • P3 Analysis Results SEC OFFICIAL Sensitive ACCESS Personal-Privacy • Files within: "P3 Cancel – QA MASTER – Collated" and "HD P3 QA"	

The examination of documentation is designed to be exception based, focussing on the areas of risk and considering completeness and accuracy of documentation. The consideration of documents does not include a detailed check or validation of data or references. Documents or Deliverables examined are often draft or final drafts (version controlled). Comments provided by KPMG are exception based. Examination of later versions may result in further exceptions/issues being identified and reported.

KPMG

Contacts in relation to this document:

s47F

KPMG.com.au

Disclaimer

Third Party Reliance

This report has been prepared at the request of Services Australia in connection with Official Order D365030922 dated on 29 June 2020. Other than our responsibility to Services Australia, neither KPMG nor any member or employee of KPMG undertakes responsibility arising in any way from reliance placed by a third party on this report. Any reliance placed is that party's sole responsibility.

This report may be provided to the Australian National Audit Office (ANAO), the external auditor of Services Australia, for its own use. If the ANAO intends to rely on this report it can only do so in the context of the professional requirement placed on it by the provisions of the Australian Auditing Standard AUS 610 (Using the Work of Internal Auditors).

We believe that the statements made in this report are accurate, but no warranty of accuracy or reliability is given in relation to information and documentation provided by Services Australia's management and personnel.

Inherent Limitations

This report has been prepared as part of our reporting requirements outlined in Official Order D365030922. As a professional services firm, KPMG is required to comply with various professional standards relating to the performance of particular types of engagements, where applicable. The services provided in connection with this engagement comprise an advisory engagement, which is not subject to assurance and other standards issued by the Australian Auditing and Assurance Standards Board and, consequently, no opinions or conclusions intended to convey assurance will be expressed.

The findings in this report are based on a qualitative study and the reported results reflect a perception of the returned repayments process but only to the extent of the interviews held and documentation reviewed.

No warranty of completeness, accuracy or reliability is given in relation to the statements and representations made by, and the information and documentation provided by personnel who were consulted as part of the process.

KPMG has indicated within this report the sources of the information provided. We have not sought to independently verify those sources unless otherwise noted within the report.

KPMG is under no obligation in any circumstance to update this report, in either oral or written form, for events occurring after the report has been issued in final form.

The findings in this report have been formed on the above basis.

Because of the inherent limitations of any internal control structure it is possible that errors or irregularities may occur and not be detected. This review was not designed to detect all weaknesses in control procedures as it is not performed continuously throughout the period. As such, except to the extent of any sample testing performed, it is not possible to express an opinion on the effectiveness of the internal control structure.

Any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate. Findings expressed from this engagement will be formed on the above basis.