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TARGETED COMPLIANCE FRAMEWORK

Department of Employment
and Workplace Relations

Statement of Assurance
26 September 2025



Limitations

Inherent Limitations

The Services provided under this engagement were advisory in nature and have not been conducted in accordance with the standards issued by the Australian Auditing and Assurance Standards Board and consequently no opinions or conclusions under these standards are expressed. The matters raised in this Statement are only those which came to Deloitte's attention during the course of performing the assessment and are not necessarily a comprehensive statement of all the weaknesses that exist or improvements that might be made.

We believe that the statements made in this Statement are accurate, but no warranty of completeness, accuracy, or reliability is given in relation to the sources used to help inform our perspectives or to statements and representations made by, and the information and documentation provided by the Department of Employment and Workplace Relations. We have also drawn upon a wide range of supplementary sources, including academic and non-academic literature and interviews with subject matter experts, which have been footnoted and referenced in this Statement. We have not attempted to verify these sources independently unless otherwise noted within this Statement.

We have also included footnotes and referencing within this Statement to client-supplied documents and Deloitte-conducted interviews to demonstrate direct links between our analysis and findings, and the evidence available to the Review.

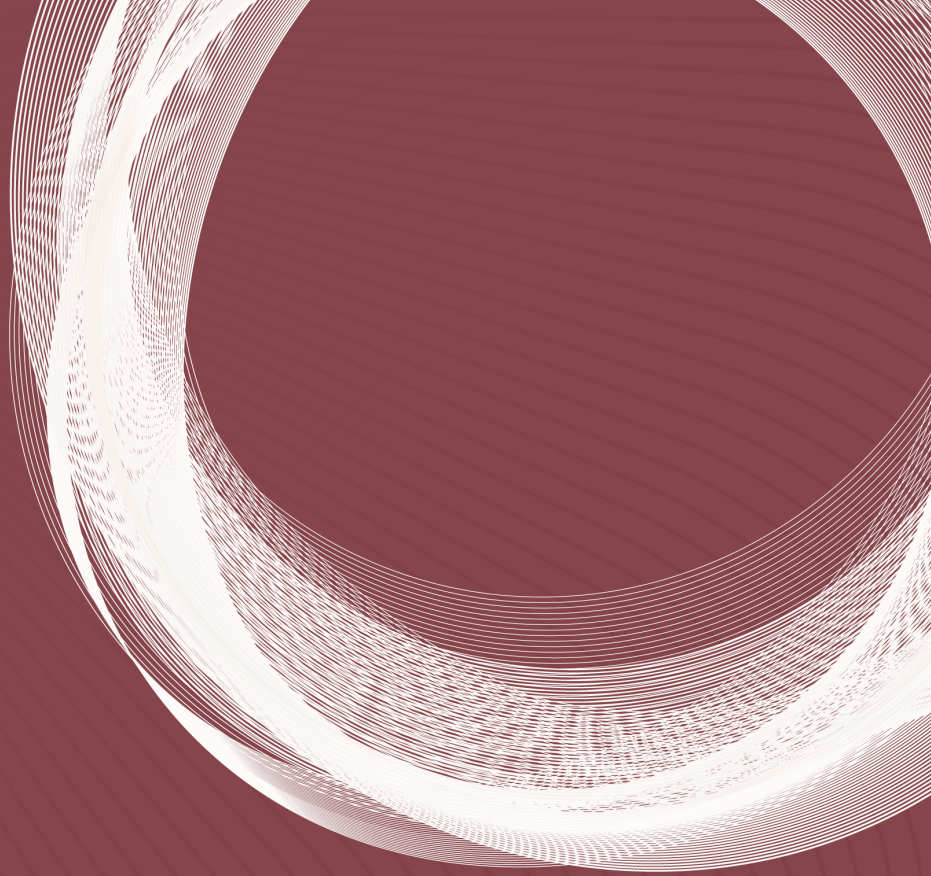
We have not been engaged to provide any legal advice or interpretation of law and legal opinions, and this Statement should not be relied upon as legal advice. This Statement has been prepared based on work completed as at 18 June 2025. Deloitte assumes no responsibility for updating this report for events and circumstances occurring after the date of this Statement.

Limitation of Use

This Statement is prepared solely for the use of the Australian Government. This Statement is not intended to and should not be used or relied upon by anyone else and we accept no duty of care to any other person or entity. This Statement has been prepared for the purpose set out in the Order for Services dated 23 December 2024.

Statement Update

This Statement was updated on 26 September 2025 and replaces the Statement of Assurance dated 18 June 2025. The Statement has been updated to correct those citations and reference list entries which contained errors in the previously issued version as well as revisions to improve clarity and readability. The updates made in no way impact or affect the substantive content, findings and recommendations in the Statement.



Review Artefacts

The analysis, findings and outcomes of the 2025 Independent Review of the Targeted Compliance Framework (‘Review’) conducted by Deloitte are reported on in two main artefacts.

This Statement of Assurance is intended to be read in conjunction with, and supported by, the Final Report.



Statement of Assurance



Final Report

1. Purpose and Scope

1.1 Purpose

This Statement of Assurance ('Statement') outlines the findings and conclusions of the Independent Review ('Review') into the design, implementation, and operation of the Targeted Compliance Framework ('TCF' or 'Framework').

The purpose of this Statement is to set out key findings and identified contributing factors and root causes of observed deficiencies, with reference to applicable legislation, policy, Departmental records, technical briefings, and stakeholder interviews in direct response to the scope and agreed methodology for the Review.

It is supported by the comprehensive Final Report.

1.2 Scope and Methodology

This Statement is framed against the scope of work agreed upon for the Review with the Department and addresses the following elements:

- a) The effectiveness of operational policy, business rules and IT support systems in delivering the TCF consistently with relevant social security law and government policy;
- b) High risks within the program or IT system that require urgent Departmental action or remediation;
- c) The relative performance, availability and functionality of the TCF's IT system, benchmarked against other large and complex public sector systems;
- d) The adequacy of governance and assurance arrangements for the program, assessed against established industry benchmarks and principles of better practice; and

- e) Preliminary recommendations structured into two categories: non-system changes and system changes.

The Statement reflects the evidence reviewed and analysed by the Review team and incorporates qualitative and quantitative insights drawn from documentation, interviews, technical artefacts, literature reviews, and policy analysis.

The following procedures and sources of evidence were used in the development of the analysis and findings of the Review, and this Statement (greater detail is included within the Final Report):

- Review of relevant legislative and policy instruments, including Division 3AA of the *Social Security (Administration) Act 1999* (Cth), associated subordinate legislation, and Departmental guidelines;¹
- Technical evaluation of the TCF's IT system and review of relevant architectural and logic artefacts;
- Analysis of program documentation including operational policies, business rules, and governance artefacts;
- Interviews with technical, policy and assurance staff within the Department of Employment and Workplace Relations ('DEWR' or 'Department');
- Benchmarking against comparable large-scale IT-enabled compliance programs in other Australian and international government agencies; and
- Review of academic literature on administrative law, automation in public decision-making, and regulatory theory.²

¹ Department of Social Services (Cth); *Social Security Guide* (Version 1.329), (Web Page, 12 May 2025) <<https://guides.dss.gov.au/socialsecurity-guide>>.

² See, eg. Terry Carney, 'The New Digital Future for Welfare: Debts Without Legal Proofs or Moral Authority?' (2018) *UNSW Law Journal Forum* 1, 1-16; Terry Carney, 'Artificial Intelligence in Welfare: Striking the Vulnerability Balance?' (2020) 46(2) *Monash University Law Review* 23, 23-51; Antonia Stanojevic, 'Algorithmic Governance and Social Vulnerability: A Value Analysis of Equality and Trust' in Jurgens Goossens and Esther Keymolen (ed) *Public Governance and Emerging Technologies* (Springer, 2025); John Braithwaite and Ian Ayres, *Responsive Regulation: Transcending the Deregulation Debate* (Oxford University Press, 1992); Anna Huggins, 'Addressing Disconnection: Automated Decision-Making, Administrative Law and Regulatory Reform' (2021) 44(3) *UNSW Law Journal* 1048, 1048-1077; Valerie Braithwaite and Jenny Job, 'The Theoretical Base for the ATOC Compliance Model' (Research Note 5, Centre for Tax System Integrity, Australian National University, 2003); Margaret Alars, 'Automated Decision-Making and Review of Administrative Decisions' (2024) 58(3) *Georgia Law Review* 1145, 1145-1182; Marco Almada, 'Human Intervention in Automated Decision-Making: Toward the Construction of Contestable Systems' (Conference Paper, 17th International Conference on Artificial Intelligence and Law, 10 May 2019); Ben Green, 'The Flaws of Policies Requiring Human Oversight of Government Algorithms' (2022) 45 *Computer Law and Security Review*, 1.

2. Overview of the TCF

2.1 Overview of the TCF as an Integrity Measure

The TCF was introduced by the Australian Government in 2018 as a new approach to managing non-compliance with Mutual Obligations under the *Social Security (Administration) Act 1999* (Cth). The TCF replaced the previous Job Seeker Compliance Framework (JSCF) for most participants, with the stated aim of improving fairness, transparency, and engagement outcomes by applying a more tailored and risk-based approach to compliance.³

The concept of Mutual Obligations for those in receipt of social security benefits related to unemployment has formed a part of the social security system since 1945.⁴ This policy reflects a reciprocal model of social security, where income support is provided on the condition that people in receipt of payments are actively looking for work and participating in activities that support them into employment.⁵

The TCF's compliance model is structured to deliver two primary integrity outcomes in alignment with the reciprocal social security model:

Positive Assurance
Ensuring welfare payments are made to participants who meet their Mutual Obligations, positively assuring people that commitment leads to benefit and fostering trust in the welfare system.
Negative Assurance
Ensuring income support payments are withheld from participants who do not comply with their Mutual Obligations, providing public assurance that welfare funds are disbursed only to eligible recipients meeting legislative and policy requirements.

Table 1: TCF Integrity Outcomes

By providing assurance of these two outcomes, the TCF functions as an integrity mechanism within the social security system, ensuring that payments are delivered to individuals who meet their obligations and appropriately withheld from those who do not.

2.2 Operation of the TCF

Under Mutual Obligation Framework requirements, job seekers are expected to complete practical tasks and activities, such as attending appointments and interviews, undertaking job search activities, or participating in training or work programs.

Participants' Mutual Obligation requirements are generally determined by certain factors which include age, assessed work capacity, and the primary responsibility for the care of a child. These are further varied for participants assessed as having part-time Mutual Obligation requirements, including those with a partial capacity to work, principal carer responsibilities, early school leavers, and those in receipt of Special Benefit.

Mutual Obligation provisions also accommodate a range of exemptions including, but not limited to, temporary incapacity, special circumstances, pregnancy-related exemptions, bereavement, and rehabilitation participation.⁶

If these obligations are not met, the TCF applies a graduated series of responses, with demerit points, penalties, and payment suspensions that are used to manage non-compliance. The Framework is intended to distinguish between intentional and unintentional breaches and to provide opportunities for job seekers to reset their compliance history through periods of good behaviour.⁷

In line with contemporary regulatory and compliance practice, where a participant is new to employment services or they miss an obligation for the first time, compliance action is not applied.

³ *Social Security (Administration) Act 1999* (Cth) ss 41AC-42Z.
⁴ *Unemployment and Sickness Benefits Act 1944* (Cth) s15.
⁵ See, eg. Department of Social Services (Cth), '3.11 Mutual Obligation Requirements', *Guides to Social Policy Law: Social Security Guide* (Web Page, 3 June 2024) <<https://guides.dss.gov.au/social-security-guide/3.11>>; Robert Goodin, 'Structures of Mutual Obligation' (2002) 31(4) *Journal of Social Policy* 579, 579-596; Peter Saunders, 'Mutual Obligation, Participation and Popularity: Social Security Reform in Australia' (2002) 31(1) *Journal of Social Policy* 21, 21-38.
⁶ *Ibid.*
⁷ See, eg. Department of Employment and Workplace Relations (Cth), 'Secretary's Opening Statement, Assuring the integrity of the Targeted Compliance Framework' (Web Page, 26 February 2025) <<https://www.dewr.gov.au/assuring-integrity-targeted-compliance-framework/announcements/secretarys-opening-statement>>; Department of Employment and Workplace Relations (Cth), *Targeted Compliance Framework: Mutual Obligation Failure* (Parliamentary Guideline, 30 September 2021) <<https://www.dewr.gov.au/download/7240/new-employment-service-trial-nest-targeted-compliance-framework-work-refusal-and-unemployment/23931/document/pdf>>.

2. Overview of the TCF

2.2 Operation of the TCF (cont.)

Instead, participants are reminded via a ‘nudge’ message regarding their obligations which includes information to help them understand their obligations, how to fulfil those obligations, and what to do if they are unable to meet them for any reason.

Where a participant fails certain core requirements, such as attending their first appointment with their employment service provider, or they fail to agree their Job Plan on time, the TCF will automatically apply.

To implement this policy structure, the TCF is underpinned by a predominately automated, large-scale IT system that relies on programmatic rules, provider-entered compliance reports and system-triggered decisions.

2.3 Targeted Compliance Framework Zones

To assess compliance, the TCF categorises participants based on their engagement and conformity with the Mutual Obligation Framework. As seen in *Table 2: Compliance Zones*, all participants begin in the Green Zone, remaining there if they fulfil their obligations. Non-compliance leads to progression into the Warning Zone, where demerit points are applied, and continued failures may result in entry to the Penalty Zone, where financial penalties, including payment reductions and cancellations, may be enforced.

This structured approach balances accountability while providing opportunities for participants to re-engage before facing severe penalties.

Targeted Compliance Framework Zones

Compliance Zones	Green Zone (Starting Point)	Warning Zone	Penalty Zone
Zone overview	The participant is meeting requirements.	The participant has five or fewer non-compliance events – ‘demerits’ – in six months.	The participant is ‘persistently and wilfully non-compliant’.
Obligation implications	<p>If the participant misses an obligation, their payment may be suspended and if they do not provide a valid reason, the participant accrues a demerit point.</p> <p>This results in a transition of the participant from the Green Zone into the Warning Zone.</p>	<p>Where a participant is in the Warning Zone, their demerit points remain valid for 6 months, after which they expire.</p> <p>For a participant to transition to the Green Zone, the participant is required to meet all their Mutual Obligations until the expiry of their demerits.</p> <p>A capability interview and capability assessment must be conducted; capability interview after 3 demerits, and a capability assessment after 5 demerits.</p> <p>The participant cannot accrue further demerits until the capability review has been finalised.</p>	<p>When a participant is in the Penalty Zone, Services Australia assesses whether a financial penalty should apply based on non-compliance reports submitted by the provider. The investigation is carried out by Services Australia employees.</p> <p>If a participant remains compliant for 3 months, they return to the Green Zone with no demerits.</p> <p>If non-compliance occurs:</p> <ul style="list-style-type: none">• First failure – 1 week’s payment is lost (50% reduction of fortnightly payment);• Second failure – 2 weeks’ payment is lost (100% reduction of fortnightly payment); and• Third failure – payment is cancelled, a 4-week preclusion period applies, and the participant must reapply for income support.

Table 2: Compliance Zones

2. Overview of the TCF

2.4 Core Features of the TCF

The TCF was designed to simplify previous Mutual Obligation compliance approaches and focus compliance effort and activity on participants who are wilfully non-compliant or genuinely not looking for work. It also introduced an early model of *Responsive Regulation*,⁸ embedding measures that are aimed at providing protection for vulnerable participants to assist them to meet their obligations.

The table opposite outlines the core features which demonstrate this initial compliance and regulatory design approach.

TCF Core Features

Core Features	Description
Demerit Point System	Participants accrue demerits for non-compliance. A warning or reminder is issued initially. If demerits accumulate, more serious consequences follow.
Capability Assessments and Interviews	Once participants accrue a certain number of demerits, the system is meant to trigger a review of their personal circumstances and capability to comply. ⁹
Graduated Penalties	After accruing five demerits in six active months and deeming existing requirement capability within two separate capability review points, participants enter the 'Penalty Zone'. Further breaches in the penalty zone result in the application of penalties. The first penalty resulting in one week's loss of payment, the second penalty resulting in two weeks' loss of payment and the third penalty resulting in payment cancellation and a four-week preclusion period. ¹⁰
Reset Periods	Participants demonstrating compliance can 'reset' their record, preventing progression to more serious consequences.

Table 3: Core Features of the TCF

2.5 TCF Components

The TCF is an integrated program, comprised of a suite of legislative and policy instruments, supported by administrative processes, employment service provider activity, and a dedicated IT system that operationalises automated compliance decision-making at scale.

Specifically, these components include:

- Legislation and Ministerial Policy:** Establishing the overarching legal obligations, criteria for determining persistent non-compliance, and conditions for penalties.
- Operational Policy and Guidance:** Interpreting and applying legislative requirements through Departmental guidelines and procedures.
- Employment Service Providers:** Engaging directly with participants, managing individual cases, and reporting participant compliance data back to the Department.
- Departmental Governance and Assurance:** Overseeing compliance operations, ensuring legislative adherence, and addressing participant and systemic issues.
- Dedicated IT System:** Automating compliance decisions based on integrated business rules and data provided by employment service providers.

References to the 'Framework' or 'TCF' in this Statement refer to the integrated program as a whole, including the supporting IT system.

⁸ See generally John Braithwaite, *Regulatory Capitalism: How It Works, Ideas for Making It Work Better* (Edward Elgar, 2008) 88-94.
⁹ Senate Education and Employment References Committee (Cth), *Jabative: Failing Those It Is Intended to Serve* (Report, February 2019).
¹⁰ See, eg, Department of Employment and Workplace Relations (Cth), 'Secretary's Opening Statement', *Assuring the integrity of the Targeted Compliance Framework* (Web Page, 26 February 2025) <<https://www.dewr.gov.au/assuring-integrity-targeted-compliance-framework/announcements/secretarys-opening-statement>>; Department of Employment and Workplace Relations (Cth), *Targeted Compliance Framework: Mutual Obligation Failure* (Parliamentary Guideline, 30 September 2021) <<https://www.dewr.gov.au/download/7240/new-employment-service-trial-nest-targeted-compliance-framework-work-refusal-and-unemployment/23931/document/pdf>>.

2. Overview of the TCF

2.6 Overall statistics of the TCF

Whilst exact monthly participant figures vary, statistical analysis demonstrates the magnitude of the TCF's operations.

For the final quarter of 2024, the outcomes of the TCF for Employment Programs (excluding Disability Employment Services) were specifically evaluated to assess their impact on participants:¹¹

- **641,135** participants were subject to Mutual Obligation requirements each month from October to December 2024;¹²
- **Payment suspensions** were issued to **30.4%** of cases; approximately 194,670 individuals over the quarter, or on average, 48,667 per month;¹³
- **Demerits** were applied to **30.1%** of cases; approximately 192,915 individuals over the quarter, or 48,228 per month;¹⁴ and
- **Payment Cancellations** occurred in 45 cases; representing less than **0.1%** of participants.¹⁵

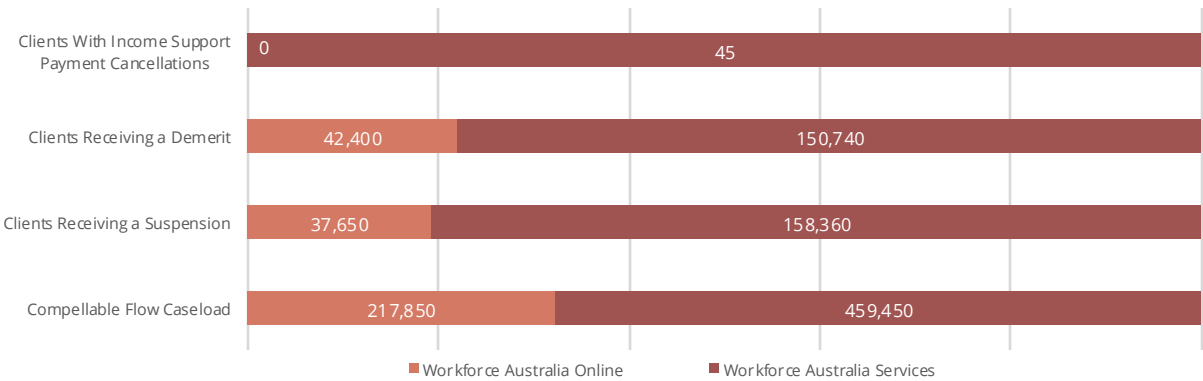
Note; refer to 3.2.3 for details in relation to cancellations in this dataset.¹⁶

It is important to note that these figures are not mutually exclusive, meaning that an individual participant case may belong to more than one outcome at any given time. For example, participant cases that ordinarily accumulate demerit points may also be subject to payment suspension or cancellation.

The Australian Council of Social Service (ACOSS) reported in their analysis that more than 85% of all compliance actions (demerit points, payment suspension or cancellation) were initiated by provider-led services, highlighting the level of discretion available to employment service providers in the application of compliance penalties, but also the degree to which the TCF could be applied inconsistently between participants.

Consequently, the integrity of the TCF outcomes relies heavily on accurate system design, robust and clearly documented governance, effective quality assurance, and alignment with legislative and policy intent. Any flaws or gaps in these foundational components introduce the risk of systemic failures, inappropriate compliance decisions, and adverse participant impacts.

Figure 1: Compellable Flow Caseload by Employment Services Program for the Period 1 October 2024 to 31 December 2024



Note: Compliance actions are part of a progressive process, and participants may be subject to multiple actions over time (e.g. demerits → suspension → cancellation). These categories are therefore not mutually exclusive. There are inconsistencies within the 'Targeted Compliance Framework Public Data – 1 October to 31 December 2024' dataset, including variations in the reported totals for the compellable caseload.

¹¹ Department of Employment and Workplace Relations (Cth), 'Targeted Compliance Framework Public Data: 1 October - 31 December 2024 (Report, 31 January 2025)' <<https://www.dewr.gov.au/employment-services-data/resources/tcf-public-data-october-december-2024>>.

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ Department of Employment and Workplace Relations (Cth), 'Workforce Australia Caseload Time Series: October 2022 to July 2025', 'Employment Services Data (Web Page, 22 August 2025)' <<https://www.dewr.gov.au/employment-services-data/resources/workforce-australia-caseload-time-series-october-22-august-2025>>.

3. Assessment

3.1 Assessment Overview

The Review undertook a comprehensive examination of the TCF, assessing its alignment with legislative and policy intent, the integrity and functionality of the supporting IT system, governance and assurance arrangements, and the overall design and maturity of the compliance model.

The following sections detail the findings and assurance assessment of the Review against each scope item.

3.2 IT System Functionality and Decision Integrity

The Review examined the performance and functionality of the IT system supporting the TCF, and the integrity of decisions generated through its operation. Three primary areas of concern were identified in relation to the system's design and implementation:

3.2.1. *Design Degradation and System Administration*

Since its introduction in 2018, the TCF IT system has undergone repeated and iterative modification to accommodate legislative and policy changes, as well as to address emerging technical and operational issues.¹⁷

While such adaptations, particularly at short notice, are not uncommon in public sector service delivery environments, the changes made to the TCF system have not been guided by a unified system development strategy aligned to its original architectural design and have frequently relied on non-standard programming and 'e-fix' coding approaches.¹⁸

The Review acknowledges that this disjointed approach has been influenced, in part, by externally imposed financial constraints, including the absence of a dedicated sustainment budget to support the ongoing development and maintenance of core system functionality. However, these constraints do not fully account for the extent of technical degradation observed.

The degradation has been exacerbated by the widespread use of unconventional technical practices; most notably the frequent application of hard-coded fixes to implement system changes. These practices have bypassed the system's intended rules-based engine design, resulting in the accumulation of thousands of lines of duplicative, conflicting, and unnecessarily complex code. Consequently, the IT system has progressively diverged from its original design intent and architectural foundation.

The code base is now excessively convoluted, difficult to manage, and lacks architectural integrity. In the absence of a comprehensive design register or traceability map, any modification necessitates extensive manual intervention across multiple databases and workflows. This approach is labour-intensive and high-risk, increasing the likelihood of system instability and unintended impacts on participant case outcomes.

¹⁷ Social Security Legislation Amendment (Streamlined Participation Requirements and Other Measures) Act (No 32) 2022 (Cth); Social Security Legislation Amendment (Technical Changes) Act (No 6) 2025 (Cth).

¹⁸ See as examples, Deloitte conducted interviews, MR18, MR22.

3. Assessment

3.2.2. Erroneous Case Processing

The Department identified and published three distinct incidents relating to the IT system's processing of participant cases that were acknowledged to have adversely affected participants.¹⁹ These events, referred to in Departmental communications as 'IT Defect Issues',²⁰ were identified between July 2023 and May 2024 and collectively impacted at least 1,326 participants.²¹

The Review considered these incidents as part of its assessment of the IT system's performance and functionality, with a particular focus on whether the issues arose from technical faults, system instability, or other causes.

Upon analysis of the evidence, the Review found the terminology 'IT defect' to be imprecise. Two of the three incidents did not stem from technical faults or software bugs within the system's architecture or codebase. Instead, they were determined to be latent design flaws, embedded during the original 2018 system development due to the inadequate translation of program intent and policy rules into system logic.

In these identified instances, the IT system's code was functioning as originally designed and implemented, despite producing adverse participant outcomes.

Paradoxically, this finding increased confidence in the system's technical stability, while concurrently reducing confidence in the appropriateness and integrity of its embedded compliance logic.

The third incident, Issue 2 (February 2024),²² was inadvertently introduced into the production environment by the Department while remediating Issue 1 (July 2023).²³ The Review attributed the root cause of this incident to underlying problems with *Design Degradation and System Administration* and the Department's adherence to its own regression testing policies and procedures. The highly irregular and complex codebase has rendered the system increasingly vulnerable to adverse impacts from ongoing iterative change.

Based on these findings, there is an increased likelihood that further amendments to the existing codebase will result in greater incidences of erroneous case processing and decision-making by the system.

IT Defect Issues (as summarised from the Secretary's Opening Statement of 26 February 2025)		
Date	Issue	Impact
Issue 1 July 2023	Two discreet defects identified within the IT system had operated undetected since the TCF's introduction in July 2018. These defects incorrectly applied demerits, payment suspensions, and cancellations without the required legislative or policy justification.	1,165 participants
Issue 2 February 2024	During remediation efforts to correct <i>Issue 1</i> , Departmental technical teams introduced an additional defect into the production environment. This resulted in further incorrect application of financial penalties.	73 participants
Issue 3 May 2024	A separate logic flaw incorrectly progressed participants into compliance action, even in circumstances where the fifth demerit point had been removed, and a Capability Assessment was pending. This resulted in compliant participants being routed into penalty phases contrary to policy.	88 participants

Table 4: IT System Defects

¹⁹ See, eg. Department of Employment and Workplace Relations (Cth), 'Secretary's Opening Statement Assuring the integrity of the Targeted Compliance Framework (26 February 2025)' <<https://www.dewr.gov.au/assuring-integrity-targeted-compliance-framework/announcements/secretarys-opening-statement>>; Department of Employment and Workplace Relations (Cth), *Targeted Compliance Framework: Mutual Obligation Failure* (Parliamentary Guideline, 30 September 2021) <<https://www.dewr.gov.au/download/7240/new-employment-service-trial-nest-targeted-compliance-framework-work-refusal-and-unemployment/23931/document/pdf>>.

²⁰ Ibid.

²¹ Ibid.

²² Ibid.

²³ Ibid.

3. Assessment

3.2.3. Invalid Case Determinations

The legal analysis or assessment of individual case processing, determinations, or outcomes is outside the scope of this Statement. Accordingly, all observations made are limited to the operationalisation of legislation and policy within the TCF and do not constitute an assessment of the legal validity or correctness of individual decisions under the governing legislation.

The Review considered detailed documentation provided by the Department, including policy and operational guidance materials that reference relevant statutory requirements for case assessment and discretionary decision-making.²⁴ However, the operational implementation of the Framework, particularly as automated through the IT system, was found to be in material conflict with these requirements. The Review observed specific structural concerns, related to 3.2.2, which include design flaws such as the inadequate translation of statute and policy intent into the IT system, including defects in system workflows and logic that ignore statutory requirements for discretionary decision-making.

Under the *Social Security (Administration) Act 1999* (Cth), several provisions require that the Secretary or their delegate make an active determination before compliance action is applied to a participant. Despite this, the Review found no evidence that the capacity for discretionary decision-making functionality was embedded in the system or that it was subsequently disabled. Rather, the system appears to have been configured to fully automate decision-making across the participant caseload.

On 21 March 2025, the Secretary published a statement outlining a series of decisions to pause determinations under certain legislative provisions, citing concerns that the IT system was not ‘operating in alignment with the law and policies’,²⁵ and that ‘decision making in this area needs to be well-considered and robust as possible, taking into account the other aspects of the Mutual Obligations Framework’:²⁶

Departmental Determinations

Date	Decision	Statutory Provision
4 July 2024	The Secretary paused cancellations due to persistent Mutual Obligation failures	Section 42AF(2)(d) Social Security (Administration) Act 1999
24 September 2024	The Department paused cancellations for failure to meet a reconnection requirement within 4 weeks	Section 42AM Social Security (Administration) Act 1999
5 March 2025	The Secretary paused cancellations resulting from unemployment failures	Section 42AH Social Security (Administration) Act 1999
6 March 2025	The Secretary paused reductions resulting from persistent Mutual Obligation failures	Section 42AF(2)(c) Social Security (Administration) Act 1999

Table 5: Decisions by the Department to pause social security cancellations and reductions delivered by the TCF (2024-2025)

The Review determined that the specific absence of discretionary functionality and system-level misalignment with statutory requirements as outlined above further prevents the provision of assurance regarding the operation of the IT system or the integrity of the decisions it produces.

²⁴ See, for example, Departmental documents in evidence ED1, ED6, ED36.

²⁵ Department of Employment and Workplace Relations (Cth), ‘Secretary’s Statement - 21 March 2025’, *Assuring the integrity of the Targeted Compliance Framework*, (21 March 2025) <<https://www.dewr.gov.au/assuring-integrity-targeted-compliance-framework/announcements/secretarys-statement-21-march-2025>>.

²⁶ Department of Employment and Workplace Relations (Cth), ‘Decision to pause reductions of people’s social security participation payments due to persistent mutual obligation failures’, *Assuring the integrity of the Targeted Compliance Framework*, (16 May 2025) <<https://www.dewr.gov.au/assuring-integrity-targeted-compliance-framework/decision-pause-reductions-peoples-social-security-participation-payments-due-persistent-mutual>>.

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3. Assessment

3.2.4 Continued Invalid Case Processing

On 24 September 2024, an administrative decision was made by a Departmental delegate to pause decisions to cancel people’s social security payments as a result of not meeting a ‘reconnection requirement’ within four weeks under s 42AM of the *Social Security (Administration) Act 1999* (Cth).²⁷

This decision was made after it was identified that the IT system was not operating in alignment with the law and policies. In turn, the Department publicly stated:

The Department immediately implemented processes to stop these cancellations from occurring. These decisions remain paused while we take steps to review, improve and better assure that our processes are operating as they should.²⁸

This action by the Department, however it was to be implemented, should have ensured that there were no further cancellations under s 42AM of the *Social Security (Administration) Act 1999* (Cth). Necessary controls, assurance and testing should have also operated to provide additional confidence that this decision was fully enforced, given the inherent risks present in the IT system.

However, despite the decision and its subsequent enactment, the Department confirmed to the Review that a further 45 participants had their payments cancelled when they should not have. These cancellations are reported within the *Targeted Compliance Framework Public Data: October – December 2024*.²⁹

In response to a request from the Review, the Department advised that the issue had arisen due to errors in its internal processes. The Department further stated that it had implemented remedial actions, including enhanced daily manual assurance and monitoring measures.

While the Review acknowledges that the Department’s internal governance arrangements ultimately identified the issue, they were insufficient to prevent the realisation of adverse impacts on participants.

This matter underscores the identified deficiencies in the Department’s governance and assurance arrangements for the TCF, including the lack of multi-method approaches to risk mitigation. Critically, at the time of this incident, insufficient controls existed to prevent automated compliance processing in conflict with a revised policy position.

²⁷ Department of Employment and Workplace Relations (Cth), ‘Decision to Pause Cancellations of People’s Social Security Participation Payments for Not Meeting a ‘Reconnection Requirement’ within 4 Weeks’, *Assuring the integrity of the Targeted Compliance Framework* (Web Page, 16 May 2025) <<https://www.dewr.gov.au/assuring-integrity-targeted-compliance-framework/decision-pause-cancellations-peoples-social-security-participation-payments-not-meeting-reconnection>>.

²⁸ Ibid.
²⁹ Department of Employment and Workplace Relations (Cth), ‘Workforce Australia Caseload Time Series: October 2022 to July 2025’, *Employment Services Data* (Web Page, 22 August 2025) <<https://www.dewr.gov.au/employment-services-data/resources/workforce-australia-caseload-time-series-october-22-august-2025>>.

3. Assessment

3.2.5 Summary of IT System Assessment

The Review identified material concerns across four key areas of the IT system:

- Design Degradation and System Administration, including the absence of a unified system development strategy, extensive use of hard-coded fixes, and increasing technical instability;
- Erroneous Case Processing, with confirmed adverse participant impacts arising from latent design flaws and unanticipated consequences of iterative system changes;
- Invalid Case Determinations, where system logic has been configured in a manner inconsistent with statutory requirements to support discretionary decision-making by authorised delegates; and
- Continued Invalid Case Processing, where the Department is unable to fully effect the policy decisions in relation to the Framework.

Although the system remains functionally stable in executing programmed logic, the Review finds that this logic is misaligned with legislative and policy intent. The cumulative effect of these deficiencies materially impairs the Department's ability to demonstrate that participant compliance decisions are made in accordance with the *Social Security (Administration) Act 1999* (Cth) and relevant policy settings.

➤ The Review determined that, as at the time of assessment, assurance cannot be provided in relation to the integrity, effectiveness, or appropriateness of decisions produced by the TCF IT system in its current form.

3.3 Legislative and Policy Alignment

The Review established that there is an absence of alignment and documented traceability between the fundamental components of the TCF, including statutory provisions, operational policies and guidance, and the logic embedded within the supporting IT system. The business rules that govern automated compliance actions under the TCF do not demonstrably reflect, nor are they traceably linked to, the preconditions and tests set out in legislation or policy.

In particular, the Review found that in certain circumstances, automated compliance action is progressed without documented human assessment or validation, or evidence of the satisfaction of mandatory legislative requirements. These include discretionary determinations as to whether participant non-compliance was intentional, persistent, or whether a reasonable excuse existed; tests which are expressly required under the *Social Security (Administration) Act 1999* (Cth) prior to the imposition of compliance sanctions.

Further, the Review concluded that the current business rules documented by the Department, and implemented within the IT system, are not an accurate representation of program rules established by statute and government policy and are worsened by the absence of distinction between programmatic rules and those that purely enable IT system functionality.³⁰ The current rules risk subjecting participants to unjust or excessive processes or obligations and degrade direct comparison to legislation and policy.

➤ Based on the evidence available, assurance cannot be provided in relation to the integrity, effectiveness, or appropriateness of operational policy and business rules in delivering the TCF in line with relevant policy and social security law. Current practices risk generating ultra vires outcomes and increase risks associated with external scrutiny.

³⁰ See as examples, Departmental documents in evidence, ED75, ED76.

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3.4 Governance and Assurance Effectiveness

Governance and assurance are integral to effective risk management in large-scale public programs.³¹ When embedded appropriately, these functions operate in concert with program controls to reduce the likelihood of defective outcomes, misapplication of, or misalignment with legislation, and the corruption of supporting IT systems.

In contrast to other large-scale public sector compliance and regulatory programs, and contrary to the principles outlined in the Commonwealth Risk Management Policy, the governance and assurance measures supporting the TCF do not adequately implement a ‘three lines of defence’ risk management model.³² As a result, the Framework lacks the structural safeguards necessary to prevent actual or perceived adverse outcomes for participants, protect public confidence, or to maintain the veracity and integrity of Australia’s welfare system.

Current governance and assurance arrangements accompanying the TCF are disjointed and reactive. There is no enforced process for the systematic review or validation of individual case decisions, nor are there defined timeframes to ensure transparency, accountability, or procedural fairness. These deficiencies increase the risk of inconsistent or inequitable application of program rules and discretionary powers across participant cohorts.

In addition, existing arrangements significantly constrain the Department’s ability to respond to and justify individual decisions when subject to external scrutiny by the Commonwealth Ombudsman,³³ Administrative Appeals Tribunal,³⁴ or the Courts.

These weaknesses are compounded by the absence of a centralised governance function

with end-to-end responsibility for monitoring the cumulative impact of policy and IT system changes.³⁵ Without consolidated oversight, systemic risks may go undetected, and compliance operations remain exposed to deviation from legislative and policy intent.

Based on the procedures undertaken and the evidence reviewed, the Review finds that the governance and assurance structures supporting the TCF are insufficient to manage risk, maintain administrative integrity, or ensure equitable participant outcomes.

The absence of a consolidated governance function, the lack of systematic case validation processes, and the absence of a comprehensive ‘three lines of defence’ model undermine the Department’s capacity to oversee, monitor, and continuously improve the Framework.³⁶

➤ The Review determined that, at the time of assessment, assurance cannot be provided in relation to the adequacy, effectiveness, or responsiveness of the governance and assurance arrangements in place to support the TCF. Current arrangements are insufficient to mitigate inherent risk, support transparency, or suitably control the delivery of the Framework.

3.5 Benchmarking and Regulatory Maturity

In contrast to comparable Australian Government compliance and regulatory programs, the TCF’s compliance model has not evolved or matured since its introduction to maintain consistency with contemporary compliance and regulatory principles. It lacks the risk-based proportionality and participant-centred design evident in analogous frameworks used by the Australian Taxation Office, Australian Border Force, and the NDIS Quality and Safeguards Commission.³⁷

³¹ Joint Committee of Public Accounts and Audit, Parliament of Australia, *Report 505: Inquiry into Policy and Program Design and Implementation* (Report, November 2024) 54–56.

³² Department of Finance (Cth) ‘Commonwealth Risk Management Policy’ (Web Page, 29 November 2022) <<https://www.finance.gov.au/government/comcover/risk-services/management/commonwealth-risk-management-policy>>.

³³ See, eg, *Ombudsman Act 1976* (Cth) s 5(1)(b).

³⁴ See, eg, *Administrative Review Tribunal Act 2024* (Cth) s 9, *Administrative Review Tribunal (Consequential and Transitional Provisions No 1) Act 2024* (Cth) sch 1.

³⁵ See, as examples, Deloitte conducted interviews, MR05, MR09, MR18.

³⁶ Department of Finance (Cth) ‘Commonwealth Risk Management Policy’ (Web Page, 29 November 2022) <<https://www.finance.gov.au/government/comcover/risk-services/management/commonwealth-risk-management-policy>>.

³⁷ Australian Taxation Office, *Justified Trust Framework* (Report, December 2024); Australian Border Force (Cth), ‘Australian Trusted Trader’ (Web Page, 22 September 2024) <<https://www.abf.gov.au/about-us/what-we-do/trusted-trader>>; NDIS Quality and Safeguards Commission, *Compliance and Enforcement Policy* (Policy, September 2024).

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3.5 Benchmarking and Regulatory Maturity (Cont.)

The current TCF model is structured around a punitive assumption of non-compliance, applies uniform escalation of compliance action irrespective of participant history or context, and lacks procedural protections or alternate pathways for vulnerable participants. Whilst capability interviews and assessments are intended to prevent the escalation of compliance action without consideration of participant circumstances, there are limited controls to ensure this. Technical interviewees and code analysis established that the IT system is not configured to incorporate vulnerability indicators in assessment and contains only limited procedural fairness checkpoints.³⁸

Inbuilt safeguards, including robust controls to ensure the completion of a capability assessment as required by statute, were not fully effective or present to prevent participants with identified case complexities or vulnerabilities from automatically progressing to automated compliance action.

Research demonstrates that individualisation and compliance model adaption to complex cases and indicators, improves participant engagement and trust whilst simultaneously improving regulatory outcomes.³⁹ In limited response to this, the current operational version of the TCF attempts to entirely account for and automate every variation of a participant's case or personal circumstances within the IT system. However, does so without dedicated or specialist support for the individual.

Whilst the adaption of the Framework to support individualisation and increasingly cater for personal or complex circumstances should be encouraged and pursued, the current

methodology employed risks creating additional processing irregularities, added IT system complexity, and does not accurately interpret regulatory and compliance better practice.

Other Australian Government compliance models utilise large IT systems to deliver basic and low-vulnerability caseload processing, and place greater emphasis on human case management to respond to complex participant needs. This concept, sometimes referred to as 'digital first, but not digital only', emphasises prioritising digital channels while maintaining traditional, non-digital avenues to ensure inclusivity and accessibility.⁴⁰ This approach is particularly relevant in regulatory and compliance contexts, where diverse stakeholder needs must be met.

The current methods of responding to complex case factors or vulnerability within the TCF do not provide sufficient weight to the benefits of human case assessment and interaction to improve participant engagement, nor are they an additional measure in a 'three lines of defence' model to further reduce the risk of flawed case outcomes.⁴¹

➤ The Review determined, in contrast to comparable public sector programs, the near-exclusive reliance of the TCF on automated IT system processing, particularly in response to complex or vulnerable cases, is not reflective of contemporary practice or theories.

³⁸ See as examples, Deloitte-conducted interviews, MR18, MR22.

³⁹ See, eg, Christopher Hodges, 'An Introduction to Outcome Based Cooperative Regulation' (Research Paper No 1/2022, Faculty of Law, University of Oxford, February 2022); John Braithwaite and Ian Ayres, *Responsive Regulation: Transcending the Deregulation Debate* (Oxford University Press, 1992); Julia Black and Robert Baldwin, 'Really Responsive Risk-Based Regulation' (2010) 32(2) *Law & Policy* 181, 181-213; Jonathan Kolieb, 'When to Punish, When to Persuade and When to Reward: Strengthening Responsive Regulation with the Regulatory Diamond' (2015) 41(1) *Monash University Law Review* 136, 136-162; New South Wales Productivity Commission, *Guidance for Regulators to Implement Outcomes and Risk-Based Regulation* (Report, October 2016).

⁴⁰ See generally, Debbie Bianucci, 'Digital First Doesn't Equal Digital Only', *Forbes* (Web Page, 8 June 2021) <<https://www.forbes.com/councils/forbesfinancecouncil/2021/06/08/digital-first-doesnt-equal-digital-only/>>; The Straits Times, 'Digital-First, but Not Digital-Only, Approach Adopted', *The Straits Times* (online, 18 November 2024) <<https://www.straitstimes.com/opinion/forum/forum-digital-first-but-not-digital-only-approach-adopted>>; Serene Koh, 'Why "Digital-First" Should Not Mean "Digital-Only"', *The Business Times* (Online Article, 15 November 2023) <<https://www.businesstimes.com.sg/c-companies-markets/banking-finance/future-finance-2023/why-digital-first-should-not-mean-digital>>.

⁴¹ Department of Finance (Cth), 'Commonwealth Risk Management Policy' (Web Page, 29 November 2022) <<https://www.finance.gov.au/government/comcover/risk-services/management/commonwealth-risk-management-policy>>.

4. Urgent Interventions

4.1 High Risks Requiring Urgent Remediation

The Review was explicitly requested to identify areas of higher risk requiring urgent action or remediation.

➤ **In response, the Review recommends, as an urgent priority, the Department:**

- 1. Initiate measures to prevent the IT system from communicating participant payment cancellations to the Services Australia IT environment where the Secretary or their delegate has made a determination to pause or cease such compliance action.
- 2. Limit or suspend any further modification to the system base code without reference to an overarching architecture or system plan to constrain the risk of further disruptions to, or corruption of, the compliance program, the introduction of additional defects into the production platform, or the overall loss of TCF functionality through technical failure or a loss of processing integrity that compels a decision to suspend its operation.

However, the Review recognises the essential nature of business continuity for the TCF and recommends where changes to the platform are necessitated by policy or legislative change, the Department:

- a) Limit system changes to only those considered strictly essential to maintain compliance with legislation and policy directions, obligations, and authority;
- b) Confirm any planned changes are thoroughly assessed by policy, legal and technical authorities to ensure legislative and policy compliance and anticipated outcomes are maintained;

- c) Ensure planned changes are, from a technical perspective are:
 - i. Clearly and thoroughly documented and well understood;
 - ii. Made in accordance with the Department’s protocols supporting changes to a production environment;
 - iii. Are extensively tested using the Department’s regression testing procedures;
 - iv. Supported by sufficient facsimiles of the current production version which are stored to support the failover or immediate reversion to the last known functional version of the platform in the event of further defects; and
 - d) Specifically, and expressly increase assurance activity to monitor any participant cases affected by the system changes to ensure they are not erroneously processed or result in an inequitable outcome.
- 3. Continue and strengthen its current internal assurance program, including directing the systematic review of all negative case determinations and outcomes processed by the IT system to ensure such results are supported by appropriate evidence and consistent with legislative and policy authority.

5. Limitations

5.1 Limitations

This Statement is based on the information, documentation, and access provided to the Review at the time of preparation. Limitations include restricted visibility over legacy code, the absence of full documentation for system decision logic, and the inability to access or validate live system data. These constraints have been transparently noted within the body of the Review and factored into the level of confidence attributed to findings.

This Review is based on methodology agreed between the Department and Deloitte. The Services and this Statement are advisory in nature and are not an audit, consequently no opinions or conclusions are expressed under the Auditing and Assurance Standards Board's ('AUASB') audit and assurance standards.

The legal analysis, review or assessment of individual case processing, determinations, or outcomes falls outside the scope of this Statement. All observations and assessments made in connection to legislative provisions within this Statement are limited to the operationalisation of legislation and policy within the TCF and do not constitute a determination of the legal validity or correctness of individual or large-scale decisions under the governing legislation.

6. Conclusion

6.1 Conclusion

➤ Overall Assurance Determination

The Review is unable to provide assurance that, in its current form, the TCF reliably operates or delivers outcomes that are fully consistent with its legislative and policy objectives.

Despite this finding, it is important to note that the system processes over 640,000 participant cases on average per month.⁴² Over a five-year period, only 1,326 participants were confirmed to have been adversely affected by identified IT defects.⁴³ This figure does not include the additional 45 participants, identified by the Department, who are affected by the unsuccessful implementation of the decision to pause cancellations under s 42AM of the *Social Security Act 1999* (Cth).

Nevertheless, the statistical analysis equates to a very low detected error rate of less than 0.01% in contrast to standardised human error rates in manual data processing environments of 5 – 6.5%, which does not justify the full suspension of the Framework that the Department is legally obliged to deliver.⁴⁴

However, the persistence of these issues over an extended period, combined with the absence of comprehensive assurance, governance, and traceability mechanisms, demonstrates that existing controls are insufficient to prevent or detect systemic failures.

For this reason, the continued operation of the TCF must be supported by urgent, interim risk mitigations, tangible actions and strengthened assurance processes. These measures are required to uphold the integrity of the Framework while more substantive reforms are

progressed to embed legal alignment, fairness, and responsiveness in its design and delivery.

These changes, along with a series of longer-term recommendations for continued Framework development and enhancement, are essential to re-establish the veracity of the TCF and restore public confidence in this important welfare system integrity measure.

⁴² Department of Employment and Workplace Relations (Cth), 'Workforce Australia Caseload Time Series- October 2022 to July 2025' *Employment Services Data* (Web Page, 14 April 2023) <<https://www.dewr.gov.au/employment-services-data/resources/workforce-australia-caseload-time-series-october-2022-july-2025>>.

⁴³ Department of Employment and Workplace Relations (Cth), 'Secretary's Opening Statement, *Assuring the integrity of the Targeted Compliance Framework* (26 February 2025) <<https://www.dewr.gov.au/assuring-integrity-targeted-compliance-framework/announcements/secretarys-opening-statement>>; Department of Employment and Workplace Relations (Cth), *Targeted Compliance Framework: Mutual Obligation Failure* (Parliamentary Guideline, 30 September 2021) <<https://www.dewr.gov.au/download/7240/new-employment-service-trial-nest-targeted-compliance-framework-work-refusal-and-unemployment/23931/document/pdf>>.

⁴⁴ See, eg. Vasarhelyi, Miklos A. and Michael G. Alles, 'The "Now" Economy and the Need for Continuous Assurance and Reporting' (2008) 9(4) *International Journal of Accounting Information Systems* 227; Raymond R. Panko, *Thinking Is Bad: Implications of Human Error Research for Spreadsheet Research and Practice* (Research Paper, College of Business Administration, University of Hawaii, 21 January 2008); Raymond R. Panko, *Spreadsheet Errors: What We Know, What We Think We Can Do* (Conference Paper, European Spreadsheet Risks Interest Group Conference, 17-18 July 2000); Raymond R. Panko, *What We Don't Know About Spreadsheet Errors Today: The Facts, Why We Don't Believe Them, and What We Need to Do* (Research Paper, Shidler College of Business, University of Hawaii, 2016).

APPENDICES

The following appendices provide supplementary information and references used in the preparation of the Statement of Assurance.

A. Glossary

This glossary defines key terms used throughout the Statement to support a consistent understanding of the TCF, its supporting systems, and related legislative and policy concepts.

Glossary	
Term	Description
Administration Act	Refers to <i>Social Security (Administration) Act 1999</i> (Cth), the primary legislation that sets out eligibility, entitlements, and obligations for income support payments as well as the legislative basis for the TCF.
Assurance	A process or set of practices aimed at providing confidence that the system and processes are functioning in line with legislative, policy, and operational expectations.
Benefit Cancellation	The termination of a participant's income support payment due to continued non-compliance under the TCF.
Business Rule	A coded logic or decision point within the system that triggers specific outcomes (e.g., assigning demerit points) based on participant actions or inactions.
Compliance	The act of meeting obligations or requirements set out under policy, legislation, or program rules — in this context, relating to participation in employment services and activities.
Debt	A debt to the Commonwealth that arises from a payment or overpayment of a benefit when the participant is ineligible for such payment under the <i>Social Security (Administration) Act 1999</i> (Cth), or relevant policy. Any debts incurred as a result of TCF-related processing would be calculated within Services Australia's IT systems.
Delegate	A Departmental officer or authorised decision-maker empowered to act on behalf of the Secretary under relevant legislation.
Demerit Point	A point assigned to a participant when they miss a requirement without valid reason; accumulation of demerit points can lead to progression through the compliance zones.
Governance	The Frameworks and processes used to oversee, monitor, and manage the performance and compliance of programs and systems like the TCF.
Green Zone	The default compliance status under the TCF indicates a participant is meeting their Mutual Obligation requirements.
IT System	The IT platform that operationalises the TCF by automating compliance processes, including business rule execution, participant status changes, and benefit determination outcomes.
Legislation	Statutory instruments, such as the <i>Social Security Act 1999</i> (Cth), govern the obligations, entitlements, and compliance processes for employment services participants.
Mutual Obligation	Requirements that participants must meet (e.g., attending appointments, job searching) to receive ongoing income support, as defined under social security law and related policy. Established by the Mutual Obligations Framework contained within the <i>Social Security (Administration) Act 1999</i> (Cth).
Participant	An individual receiving employment services or income support who is subject to Mutual Obligation requirements.
Penalty Zone	Persistent and wilful non-compliance after the first applied penalty, not by virtue of being in the penalty zone and leading to payment suspensions or reductions.
Policy	Departmental rules, guidelines, or procedures are developed to implement legislative intent and govern how services and obligations are delivered and assessed.

Table 6: Glossary

A. Glossary

This glossary defines key terms used throughout the Statement to support a consistent understanding of the TCF, its supporting systems, and related legislative and policy concepts.

Glossary	
Term	Description
Reconnection	A process where a participant re-engages with their provider or obligations after non-compliance.
Social Security Act	Refers to <i>Social Security (Administration) Act 1999</i> (Cth), the primary legislation that sets out eligibility, entitlements, and obligations for income support payments as well as the legislative basis for the TCF.
Suspension	The temporary halting of a participant's payment due to a failure to meet obligations, pending re-engagement or resolution.
System	The end-to-end operationalisation of the TCF.
TCF or Framework	The Targeted Compliance Framework is a compliance system introduced by the Department to manage Mutual Obligation requirements for Workforce Australia and Disability Employment Services participants, aiming to address persistent or wilful non-compliance through a structured escalation model.
Warning Zone	A TCF compliance category for participants who have accumulated between 1 to 5 demerit points within six months, requiring them to demonstrate full compliance to return to the Green Zone.

Table 6: Glossary

B. Reference List

Throughout the Statement, there is reference to a range of sources, supporting the analysis of the TCF and its related systems, policies, and legislative concepts.

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Table 7: Reference List

B. Reference List

Throughout the Statement, there is reference to a range of sources, supporting the analysis of the TCF and its related systems, policies, and legislative concepts.

A. Articles, Books, Reports
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Throughout the Statement, there is reference to a range of sources, supporting the analysis of the TCF and its related systems, policies, and legislative concepts.

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Social Security Legislation Amendment (Technical Changes) Act (No 6) 2025 (Cth)
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Throughout the Statement, there is reference to a range of sources, supporting the analysis of the TCF and its related systems, policies, and legislative concepts.

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