

# **Management and Oversight of Compliance Activities within the Child Care Subsidy Program**

Department of Education

Services Australia

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Canberra ACT  
16 June 2025

Dear President  
Dear Mr Speaker

In accordance with the authority contained in the *Auditor-General Act 1997*, I have undertaken an independent performance audit in the Department of Education and Services Australia. The report is titled *Management and Oversight of Compliance Activities within the Child Care Subsidy Program*. Pursuant to Senate Standing Order 166 relating to the presentation of documents when the Senate is not sitting, I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's website — <http://www.anao.gov.au>.

Yours sincerely



Dr Caralee McLiesh PSM  
Auditor-General

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

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For further information contact:  
**Australian National Audit Office**  
**GPO Box 707**  
**Canberra ACT 2601**

**Phone: (02) 6203 7300**  
**Email: [ag1@anao.gov.au](mailto:ag1@anao.gov.au)**

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### Audit team

Hazel Ferguson  
Klein Anderson  
Shannon Clark  
Margaret Dunlop  
Amanda Elliot  
Kayla Hurley  
Kristian Marchiori  
Dale Todd  
David Tellis

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# Audit snapshot

## Auditor-General Report No.42 2024–25

### *Management and Oversight of Compliance Activities within the Child Care Subsidy Program*



#### Why did we do this audit?

- ▶ The Child Care Subsidy (CCS), which aims to improve access to early childhood education and care, cost the Australian Government \$13.6 billion in 2023–24.
- ▶ Fraud and non-compliance reduces available funds for public goods and services.
- ▶ This audit provides assurance to Parliament on the effectiveness of the management and oversight of compliance activities within CCS by the Department of Education (Education) and Services Australia.



#### What did we find?

- ▶ The management and oversight of compliance activities within the CCS is partly effective.
- ▶ Governance arrangements are partly effective. Education's oversight of CCS compliance activities in Services Australia is not sufficient.
- ▶ The approach to compliance activities is partly effective. Both entities have effective approaches to prevention, but deficiencies were identified in monitoring and enforcement arrangements.



#### Key facts

- ▶ CCS supports 1.45 million children to attend approved care as of September 2024.
- ▶ Education is responsible for approving child care providers and services to access CCS. Providers deliver care via services, which can be Centre Based Day Care, Outside of School Hours Care, Family Day Care or In Home Care.
- ▶ CCS is paid directly to approved providers by Services Australia and passed on to eligible families in the form of fee reductions.



#### What did we recommend?

- ▶ There were 7 recommendations to improve the management and oversight of compliance activities within the CCS — 4 to Education and 3 to both Education and Services Australia.
- ▶ Education agreed to all 7 recommendations, and Services Australia also agreed to the 3 joint recommendations.

\$484.1 m

estimated lost to CCS  
non-compliance in  
2023–24

299

provider and service cancellations by  
Education over 2022–23 and  
2023–24

\$318.2 m

estimated savings from  
compliance activities  
October 2022 to  
December 2024.

# Summary and recommendations

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## Background

1. The Child Care Subsidy (CCS) is administered by the Department of Education (Education) under the Family Assistance Law (FAL), to assist families to meet the cost of early childhood education and care.
2. At a cost of \$13.6 billion in 2023–24, CCS is one of the ‘fastest-growing major payments’ of the Australian Government, with forecast average annual growth of 5.5 per cent over 2024–25 to 2034–35. As of September 2024, CCS supported 1.45 million children to attend approved care. This equates to 32.6 per cent of all 0 to 13-year-olds in Australia.
3. Education has policy responsibility for the CCS, including the CCS special appropriation. Services Australia is accountable for delivering payment and ICT services on behalf of Education, and for prioritising the service delivery within its budget appropriation.

## Rationale for undertaking the audit

4. The CCS was estimated to be one of the top 20 expense programs in 2024–25. Australian Government spending on CCS was \$13.6 billion in 2023–24, of which an estimated 3.6 per cent (\$484.1 million) was lost to incorrect payments, including fraud and non-compliance. Fraud and non-compliance reduces available funds for public goods and services.
5. This audit was conducted to provide assurance to the Parliament over the effectiveness of the management and oversight of compliance activities within the Child Care Subsidy program. This audit was identified as a priority by the Parliament’s Joint Committee of Public Accounts and Audit in the context of the ANAO’s 2023–24 Annual Audit Work Program.

## Audit objective and criteria

6. The objective of the audit was to assess the effectiveness of the management and oversight of compliance activities within the CCS program.
7. To form a conclusion against the objective, the following high-level audit criteria were adopted:
  - Have effective governance arrangements been established?
  - Is the approach to compliance activities effective?

## Conclusion

8. The management and oversight of compliance activities within the CCS is partly effective. Governance arrangements do not provide Education with whole of program oversight, and evaluation arrangements are only partly implemented. Although the payment accuracy rate improved in 2022–23 and 2023–24, and comprehensive prevention activities are in place, gaps in monitoring and enforcement are not being effectively managed.
9. Education has established partly effective arrangements to oversee CCS compliance activities. Committees accountable to a Senior Executive Service (SES) Band 2 within Education oversee its *Child Care Subsidy Financial Integrity Strategy 2023–2027* (Integrity Strategy), which

sets out its approach to risk based and data driven regulation of CCS providers and services, to be implemented from 2023 to 2027. To successfully complete its implementation of the Integrity Strategy, Education will need to improve its data quality in the Child Care Intelligence System (CCIS) and implement evaluation arrangements across the full suite of its compliance interventions.

10. Bilateral arrangements between Education and Services Australia are set out in a *Statement of Intent* and *Program Delivery Services Schedule for Child Care Subsidy Program*, which detail the objectives, governance, risk and issue management, roles and responsibilities and assurance obligations for CCS services. These arrangements do not provide Education with sufficient oversight of CCS compliance activities within Services Australia. Education has established a CCS Fraud and Corruption Risk Assessment (FCRA), but this is not supported by engagement with Services Australia over shared risks. Services Australia has not established a FCRA that includes CCS.

11. Education and Services Australia have established a partly effective approach to compliance activities. While Education and Services Australia have comprehensive arrangements to prevent non-compliance among providers and families respectively, deficiencies were identified in relation to monitoring, investigations and enforcement.

12. Services Australia is responsible for monitoring family compliance. It does not monitor non-employment activities, is unable to identify CCS-related matters within its tip-off data, and its income monitoring via the CCS reconciliation process is not consistent with the FAL, due to its reliance on lodged tax return data before a notice of assessment has been issued.

13. Education is responsible for monitoring provider compliance, and investigations and enforcement. It monitors whether providers continue to meet some conditions to administer CCS. It does not have assurance that all conditions are met, does not apply quality assurance across all monitoring and investigation activities, and does not investigate possible CCS provider overpayments identified while monitoring payment accuracy via the Random Sample Parent Check (RSPC). Its ability to effectively implement the Integrity Strategy is undermined by poor data quality in CCIS and a lack of cohesive enforcement strategy, which mean it is not able to assess whether decisions to take enforcement action are fair, impartial, consistent, or proportional.

## Supporting findings

### Governance arrangements

14. Education oversees CCS compliance activities via a Financial Integrity Governance Board (FIGB) and Financial Integrity Operational Committee (FIOC), that are accountable to the responsible SES Band 2. Education does not have visibility of compliance activities or risk management in Services Australia. Bilateral arrangements between the Department of Education and Services Australia are set out in a *Statement of Intent* between the Chief Executive Officer (CEO) of Services Australia and the Secretary of the Department of Education (Education Secretary). Under the *Statement of Intent*, the *Program Delivery Services Schedule for Child Care Subsidy Program* details the objectives, governance, risk and issue management, roles and responsibilities and assurance obligations for CCS services. These do not provide sufficient oversight of CCS compliance activities. (See paragraphs 2.3 to 2.26)



15. Education's Integrity Strategy documents its approach to risk based and data driven regulation to be implemented from 2023 to 2027. To successfully complete its implementation of the Integrity Strategy, Education will need to improve its CCIS data quality. Although Services Australia's annual CCS risk management plans document its approach to managing risk in the program, including compliance risk, there is no documented approach (either in Education's Integrity Strategy or via Services Australia's own program documentation) that provides strategic direction or describes how risk and data inform decision-making regarding Services Australia's CCS compliance activities. Education has established a CCS FCRA, although information about the purpose, implementation status, and timeframes of risk treatments is not included. Risk identification, analysis and evaluation within the FCRA is not supported by engagement with Services Australia over shared risks. Services Australia has not established a FCRA that includes CCS. (See paragraphs 2.31 to 2.52)

16. Education monitors the effectiveness of the Integrity Strategy using payment accuracy data drawn from the RSPC and reporting against budget savings measures. As of March 2025, evaluations of compliance interventions have been planned but not yet implemented across the full suite of compliance interventions. Initial intervention evaluations and resulting adjustments for each team are due to be completed in 2025. As such, is not possible to effectively measure the impact of activities undertaken under the Integrity Strategy, or understand the relative contributions of different types of activities. (See paragraphs 2.53 to 2.70)

### **Approach to compliance activities**

17. CCS program design, including the legislative framework administered by Education, has been strengthened to support compliance. Access to the program is managed via provider and individual application processes by Education and Services Australia respectively. Both entities provide appropriate information to stakeholders via a range of sector guidance, communications and advice. Education engages regularly with sector representatives and has commenced work to improve the capability of Family Day Care (FDC) providers to comply with their obligations under the FAL. (See paragraphs 3.2 to 3.19)

18. Education and Services Australia monitor family and provider compliance with the FAL using family income, sessions of care information from providers, electronic funder transfer (EFT) provider audits, and manual checking of provider reporting. These controls focus on incorrect session reporting resulting in incorrect payment. Education does not have assurance that certain other requirements, such as fit and proper person requirements, are met after initial CCS approval has been granted. Where non-compliance is suspected, Education may choose to conduct an administrative or criminal investigation. Services Australia's use of data for checking family income is not consistent with the FAL, and there are deficiencies in Education's record keeping, monitoring of ongoing provider and service eligibility for CCS, and quality assurance arrangements in both EFT provider audits and investigations. Services Australia's collection of tip-off information does not effectively support the identification of CCS matters. (See paragraphs 3.22 to 3.62)

19. Education imposes fines, debts, conditions on approval, suspension and cancellation of approval, and refers matters for criminal prosecution as part of its work to enforce compliance with the FAL. Education does not have a policy to guide decisions on whether, and in what circumstances, to take enforcement action, and enforcement strategy has not been considered by the FIGB. Without cohesive policy guidance for staff, Education is unable to assess whether

decisions to take enforcement action are fair, impartial, consistent, or proportional. From 2022–23 to 2023–24, across the CCS, Education withdrew \$473,010 (42.2 per cent of the total \$1.1 million) of fines issued, raised and recovered 11 compliance-related debts valued at \$59,648 (0.9 per cent of the total \$6.4 million) and identified but did not investigate 970 potential overpayments with a total value of \$106,375. (See paragraphs 3.63 to 3.80)

## Recommendations

**Recommendation no. 1** The Department of Education and Services Australia review and revise arrangements giving effect to the Statement of Intent and subordinate documents to ensure sufficient oversight of shared regulatory activities is provided.

**Paragraph 2.22**

**Department of Education response:** *Agreed.*

**Services Australia response:** *Agreed.*

**Recommendation no. 2** The Department of Education strengthen its approach to implementing evaluation of the effectiveness of compliance interventions, to cover all interventions in the *Child Care Subsidy Financial Integrity Strategy 2023–2027*.

**Paragraph 2.62**

**Department of Education response:** *Agreed.*

**Recommendation no. 3** The Department of Education, in consultation with Services Australia:

**Paragraph 2.68**

- (a) develop a program-level CCS compliance and enforcement strategy including:
  - approaches to coordination;
  - governance;
  - risk management;
  - reporting between the entities;
  - reporting of savings outcomes against targets; and
  - performance and impact measurement, review and evaluation.
- (b) ensure a version of the strategy is published on each entity's website.

**Department of Education response:** *Agreed.*

**Services Australia response:** *Agreed.*

**Recommendation no. 4**  
**Paragraph 3.28**

Services Australia work with the Department of Education to review and revise its arrangements for collecting and reporting information about Child Care Subsidy compliance-related matters, including tip-offs, risk assessments and controls, and investigations, to ensure sufficient information is provided to the Department of Education to oversee compliance activities.

**Department of Education response:** *Agreed.*

**Services Australia response:** *Agreed.*

**Recommendation no. 5**  
**Paragraph 3.61**

The Department of Education review whether its electronic investigation management system (EIMS) is fit for purpose and enables staff undertaking compliance related work to meet all requirements of legislation.

**Department of Education response:** *Agreed.*

**Recommendation no. 6**  
**Paragraph 3.73**

The Department of Education seek independent legal advice from the Australian Government Solicitor regarding its obligations (under the Family Assistance Law and other relevant legislation such as the *Privacy Act 1988*) in respect to possible Child Care Subsidy provider overpayments identified while monitoring payment accuracy using the Random Sample Parent Check.

**Department of Education response:** *Agreed.*

**Recommendation no. 7**  
**Paragraph 3.79**

The Department of Education update operational policies and procedures to:

- (a) improve compliance related record keeping;
- (b) ensure quality assurance and review arrangements are in place across relevant teams; and
- (c) establish program-level investigations and enforcement policies to support fair, well documented, consistent, and proportional decision-making, and conflict-of-interest management.

**Department of Education response:** *Agreed.*

## Summary of entity responses

20. The proposed audit report was provided to the Department of Education and Services Australia. The summary responses are reproduced below and the full responses are at Appendix 1. Improvements observed by the ANAO during the course of this audit are listed in Appendix 2.

### Department of Education

The Department of Education (the department) acknowledges the Australian National Audit Office (ANAO) performance audit on the management and oversight of compliance activities within the Child Care Subsidy (CCS) program.

The management and oversight of compliance activities plays an important role in ensuring the proper use of CCS and the achievement of program outcomes. In the 2023–24 financial year, the department’s integrity activities resulted in the highest accuracy rates in provider claims for CCS on record, exceeding the program target.

These are substantial achievements, testament to the department’s commitment to strong regulation of CCS approved providers and its obligations under the Resource Management Guide-128.

The department is progressing a large work program to strengthen and further mature the delivery of its CCS compliance activities under the *CCS Financial Integrity Strategy 2023–27*. The department agrees with the seven recommendations and will address these as part of its ongoing commitment to strengthen the management and oversight of CCS compliance activities.

## Services Australia

Services Australia (the Agency) welcomes the ANAO report on Management and Oversight of Compliance Activities within the Child Care Subsidy (CCS) Program. The Agency notes the report findings, including that management and oversight of compliance activities within the CCS Program are partly effective.

The Agency’s focus is on efficiently and effectively delivering payments and services to the Australian community, and compliance and program integrity are important aspects of this work. The Agency’s strategies, performance measures, and governance arrangements are focussed on ensuring the right payment to the right person at the right time.

The Agency is committed to continually improving its internal and external governance arrangements, performance monitoring and reporting, compliance activities, and guidance and support to staff to ensure the integrity of the CCS Program.

## Key messages from this audit for all Australian Government entities

21. Below is a summary of key messages, including instances of good practice, which have been identified in this audit and may be relevant for the operations of other Australian Government entities.

### Governance and risk management

- Where different entities are responsible for policy and service delivery, the entity with policy responsibility should have oversight of the full scope of program activities undertaken by the other entity. Roles and responsibilities must be clearly defined, risks understood and addressed, and performance measurement and reporting frameworks in place, to enable accountabilities to be effectively discharged.
- Entities operating in inter-jurisdictional regulatory environments should ensure they work closely with state and territory regulators to take a holistic, coordinated approach to regulatory policy and practice.

### Program design

- Entities should ensure program design accounts for the proper use of information about incorrectly made payments, to meet the obligation to pursue the recovery of debts owed to the Commonwealth.

### **Performance and impact measurement**

- Regulators should establish an appropriate data driven methodology for evaluating the effectiveness of regulatory activities. Performance monitoring should include effectiveness measures to help provide assurance that regulatory activities are directly contributing to the achievement of performance outcomes.



# Audit findings

# 1. Background

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## Introduction

1.1 The Child Care Subsidy (CCS) is administered by the Department of Education (Education) under the Family Assistance Law (FAL)<sup>1</sup>:

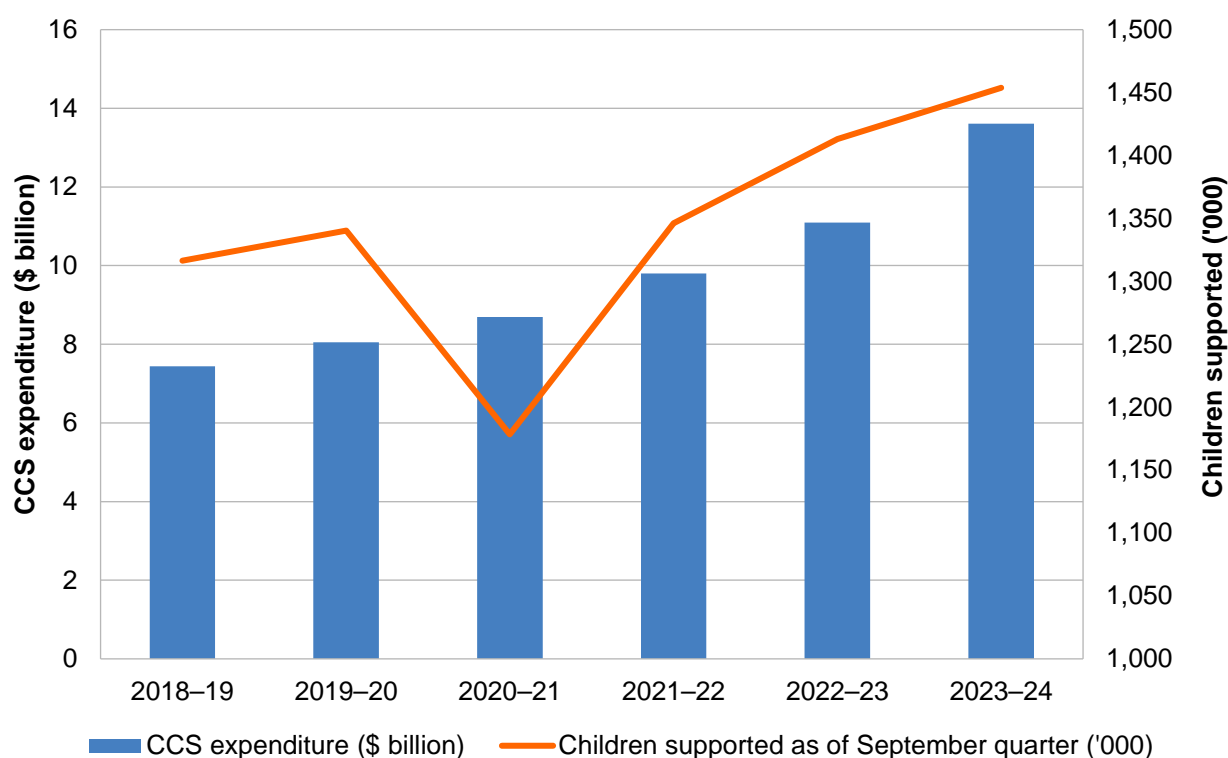
to improve access to quality early childhood education and care by providing assistance to meet the cost of early childhood education and care for families engaged in work, training, study or other recognised activity.<sup>2</sup>

1.2 At a cost of \$13.6 billion in 2023–24, CCS is one of the ‘fastest-growing major payments’ of the Australian Government, with forecast average annual growth of 5.5 per cent over 2024–25 to 2034–35.<sup>3</sup> As of September 2024, CCS supported 1.45 million children to attend approved care (Figure 1.1). This equates to 32.6 per cent of all 0 to 13 year old’s in Australia.<sup>4</sup>

1.3 Education has policy responsibility for the CCS, including the CCS special appropriation. Services Australia is accountable for delivering payment and ICT services on behalf of Education, and for prioritising the service delivery within its budget appropriation.<sup>5</sup>

- 
- 1 The Family Assistance Law comprises six pieces of legislation, primarily *A New Tax System (Family Assistance) Act 1999*, and *A New Tax System (Family Assistance) (Administration) Act 1999*. Education, *Family Assistance Law*, available from <https://www.education.gov.au/early-childhood/provider-obligations/family-assistance-law> [accessed 18 December 2024].
  - 2 Department of Education (Education), *Portfolio Budget Statements 2024–25*, Budget Related Paper No. 1.5, Education Portfolio, Commonwealth of Australia, May 2024, p. 32, available from <https://www.education.gov.au/about-department/resources/202425-education-portfolio-budget-statements> [accessed 29 November 2024].
  - 3 The other fastest-growing major payments include: interest on government debt; the National Disability Insurance Scheme; defence; hospitals payments; medical benefits payments; and aged care payments. For more information see: Australian Government, *Mid-year economic and fiscal outlook 2024–25*, Commonwealth of Australia, Canberra, 2024, p. 61, available from <https://budget.gov.au/content/myefo/download/myefo2024-25.pdf> [accessed 30 January 2025].
  - 4 Proportion calculated using Australian Bureau of Statistics (ABS) estimated resident population (ERP) as of second quarter 2024. ABS, *Quarterly Population Estimates (ERP)* [Data Explorer], National, state and territory population, ABS, Canberra, June 2024, available from <https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/dec-2023> [accessed 13 February 2025].
  - 5 Auditor-General Report No. 30 2019–20, *Bilateral Agreement Arrangements Between Services Australia and Other Entities*, ANAO, Canberra, 2020, available from <https://www.anao.gov.au/work/performance-audit/bilateral-agreement-arrangements-between-services-australia-and-other-entities> [accessed 24 February 2024]; Auditor-General Report No. 19 2024–25, *Administration of the Pharmaceutical Benefits Scheme*, ANAO, Canberra, 2024 available from <https://www.anao.gov.au/work/performance-audit/administration-of-the-pharmaceutical-benefits-scheme> [accessed 24 February 2024]. *A New Tax System (Family Assistance) (Administration) Act 1999*, sections 220 and 233.



**Figure 1.1: CCS expenditure<sup>a</sup> and children<sup>b</sup> supported<sup>c</sup>**

Note a: Expenditure does not precisely correspond to the number of children supported in each financial year, due to the reconciliation process undertaken after the end of each financial year.

Note b: The lower number of children in 2020-21 is because of the COVID-19 pandemic, especially service closures.

Note c: Figures include Additional CCS (ACCS), which provides support for: child wellbeing; grandparent care; temporary financial hardship; and transitioning to work.

Source: ANAO analysis based on the Education's quarterly CCS data reports and annual reports.

1.4 Families apply to Services Australia to receive CCS. Entitlement to CCS depends on family income thresholds (Table 1.1) and activity requirements (Table 1.2). Families with more than one child aged 5 or under in care may get a higher subsidy for their second child and younger children.

**Table 1.1: Standard CCS subsidy rates, 2024-25**

Family income	CCS subsidy rate for first child aged 13 or under	Rate for second and younger children aged 5 or under
\$0 to \$83,280	90%	95%
More than \$83,280 to \$141,321	Decreasing from 90%  The percentage decreases by 1% for every \$5,000 of income a family earns above \$83,280.	
More than \$141,321 to below \$186,321		Decreasing from 95%  The percentage decreases by 1% for every \$3,000 of income a family earns.
\$186,321 to below \$265,611		80%

Family income	CCS subsidy rate for first child aged 13 or under	Rate for second and younger children aged 5 or under
\$265,611 to below \$355,611		Decreasing from 80% The percentage decreases by 1% for every \$3,000 of income a family earns.
\$355,611 to below \$365,611		50%
\$365,611 to below \$533,280		Higher CCS rates no longer apply, all children in the family will receive the standard CCS rate.
\$533,280 or more	0%	0%

Source: ANAO based on the Education documents.

**Table 1.2: CCS activity<sup>a</sup> requirements<sup>b</sup>, 2024–25**

Hours of activity each fortnight	Hours of subsidised care, per child, each fortnight
Less than 8 hours	0 hours for family income above \$83,280 24 hours for family income of \$83,280 or below 36 hours — Aboriginal and/or Torres Strait Islander child, regardless of family activity
8 hours to 16 hours	36 hours
More than 16 hours to 48 hours	72 hours
More than 48 hours	100 hours

Note a: Recognised activities can include paid or unpaid work or leave, including parental leave and setting up a business, doing an approved course of education or training, actively looking for work, or other activities on a case-by-case basis. Families that are exempt from activity requirements (such as grandparents who are the principal carer of a grandchild) can access 100 hours of subsidised care per child per fortnight.

Note b: On 13 February 2025, legislation passed in Parliament to replace these activity requirements with guaranteed access to three days subsidised child care for CCS eligible children from 1 January 2026. See Parliament of Australia, Early Childhood Education and Care (Three Day Guarantee) Bill 2025, available from <https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id%3A%22legislation%2Fbillhome%2F7316%22> [accessed 17 February 2025].

Source: ANAO based on Education and Services Australia documents.

1.5 CCS is paid directly to approved providers by Services Australia and passed on to eligible families in the form of fee reductions. Families pay the difference between the provider's fee and the subsidy amount (the 'gap fee') to the provider. Additional CCS (ACCS) may be paid to some families to provide additional support for: child wellbeing (if a child is vulnerable or at risk of harm, abuse or neglect); grandparent care; temporary financial hardship; and transitioning to work.

1.6 Throughout each year, a family's CCS subsidy rate is based on estimated income. They must then confirm their annual income at the end of each financial year, generally by lodging a tax return

with the Australian Taxation Office (ATO).<sup>6</sup> If there is a difference between the person's actual and estimated income, Services Australia repays the family for any underpayment, or recovers any overpayment as a debt. (See paragraphs 3.24 and 3.25).

1.7 Education is responsible for approving providers and services to receive CCS payments on behalf of eligible families. Each provider must operate at least one service which provides care.<sup>7</sup> In order to gain and maintain approval, providers and services must meet conditions set out in the FAL. The provider is the person or business entity responsible for operating the child care service (or services).<sup>8</sup> Under the FAL, the provider is the legal entity that receives CCS payments, passes on payments in the form of fee reductions, and incurs a debt to the Commonwealth where CCS is paid incorrectly and the debt was caused by provider actions.<sup>9</sup> The approval and payment process is summarised in Appendix 3 (controls to ensure the integrity of access to the CCS are discussed in Chapter 3).

1.8 Under the *Education and Care Services National Law Act 2010* (Vic) (the National Law), state and territory regulatory authorities (SRAs) are responsible for assessing and approving early childhood education and care services and providers to provide care.<sup>10</sup> SRAs assess applications against educational quality, child health and safety, physical environment, staffing, relationships with children, families and communities, and governance and leadership requirements under the National Quality Framework, which is administered by the Australian Children's Education & Care Quality Authority (ACECQA).<sup>11</sup> The interface between state and Australian Government regulatory arrangements is discussed at paragraphs 2.28 and 2.30.

1.9 There are four types of care that can be approved for CCS and ACCS (Table 1.3). Of these, most subsidised care is provided by Centre Based Day Care, which received 85.3 per cent of CCS and ACCS funding in the September 2024 quarter.

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6 Services Australia, *Balancing Child Care Subsidy*, available from <https://www.servicesaustralia.gov.au/balancing-child-care-subsidy?context=41186> [accessed 7 March 2025].

7 Education, *Child Care Provider Handbook*, Education, October 2024, pp. 83–84 and 98–99, available from <https://www.education.gov.au/early-childhood/resources/child-care-provider-handbook> [accessed 29 November 2024].

8 *ibid.*

9 *A New Tax System (Family Assistance) Act 1999; A New Tax System (Family Assistance) (Administration) Act 1999*, Part 3A, Division 5, and Part 4, Division 2.

10 The National Law was passed in 2010 and 2011 by all jurisdictions except Western Australia, which passed the *Education and Care Services National Law (WA) Act 2012*, with some variations.

11 On 27 March 2025, the Australian Government announced it would work with 'state and territory regulators, the Australian Children's Education & Care Quality Authority (ACECQA) and the sector to develop future policies to strengthen quality and safety through the Child Care Subsidy (CCS).' Education, *Strengthening safety and quality in early childhood education and care*, available from <https://www.education.gov.au/early-childhood/announcements/strengthening-safety-and-quality-early-childhood-education-and-care> [accessed 27 March 2025].

**Table 1.3: Services and children<sup>a</sup> supported by CCS and ACCS for the September 2024 quarter**

Type of care	Description	Approved services	Children	Subsidy <sup>b</sup> (\$'000) for September 2024 quarter
Centre Based Day Care	Provided in licenced or registered centres and includes child care such as long day care and occasional care	9,472	845,980	3,334,937
Family Day Care	Services provided in the educator's home or an agreed venue to small groups of children	357	71,340	195,058
Outside School Hours Care	Provided to children generally of primary school age outside normal school hours (before and after school and can also be during school holidays or pupil free days)	5,077	566,600	368,777
In Home Care	Provided by an educator in the child's home and restricted to families who cannot access other forms of early childhood education	31	1,640	9,033
<b>Total September 2024 quarter<sup>c</sup></b>		<b>14,937</b>	<b>1,453,780</b>	<b>3,907,805</b>

Note a: The ratio of children to educators, or children to care locations, cannot be inferred from this table. Each service may engage many educators across a large geographical region. See Australian Children's Education & Care Quality Authority, *Educator to child ratios*, ACECQ, available from <https://www.acecqa.gov.au/nqf/educator-to-child-ratios> [accessed 17 February 2025].

Note b: Amounts include both CCS and ACCS payments.

Note c: As children may use more than one service type, and due to rounding, the sum of the component parts may not equal the total.

Source: ANAO based on Education information.

## Non-compliance in the CCS

1.10 Between 2018–19 and 2023–24, identified non-compliance accounted for an estimated \$2.7 billion of total CCS expenditure of \$58.7 billion (Table 1.4).<sup>12</sup> Over this period, Education identified \$13.0 million lost to CCS fraud, and recovered \$116,707 of this from seven cases.

**Table 1.4: Estimated total cost<sup>a</sup> of CCS non-compliance, 2018–19 to 2023–24**

	Per cent of CCS payments	Cost (\$ million) <sup>b</sup>
2018–19	4.1	305.3
2019–20	3.9	315.2
2020–21	5.2	455.7
2021–22	7.0	684.2

<sup>12</sup> For the purposes of this audit, examination of non-compliance has been limited to over-payment of CCS, or payment where there was no entitlement. Underpayments and non-payment where there is entitlement is not considered by the audit or included in these figures.

Per cent of CCS payments		Cost (\$ million) <sup>b</sup>
2022–23	3.8	420.2
2023–24	3.6	484.1
<b>Total</b>		<b>2,664.9</b>

Note a: The rate of inaccurate payment is based on the Random Sample Parent Check (RSPC), which collects information from families about their children's attendance at approved child care services. A comparison between the information provided by the families and the attendance information reported by services is used to measure payment accuracy. A payment is inaccurate if the information provided by the parent does not match that provided by the service. On 28 August 2024, Education advised the ANAO that RSPC data is the best available measure of all fraud and non-compliance within the CCS.

Note b: Values may not sum to total due to rounding.

Source: ANAO based on Education documents.

1.11 As of 2024–25, Education and Services Australia compliance activities are jointly funded via three budget measures summarised in Table 1.5.<sup>13</sup> These measures contribute to funding staff in both entities, as summarised in Table 1.6. Appendix 4 provides more details about these measures and other key program changes.

**Table 1.5: Funding for departmental investment in activities to address non-compliance in the CCS, 2022–23 to 2024–25**

Budget measures		2022–23 \$'000	2023–24 \$'000	2024–25 \$'000
Child Care Subsidy Reform Integrity Package <sup>a</sup>	Education	5,011	12,745	11,379
	Services Australia	–	–	–
Child Care Subsidy Reform — additional integrity <sup>b</sup>	Education	–	4,287	2,988
	Services Australia	–	1,261	1,316
Child Care Subsidy Reform — further measures for strong and sustainable foundations <sup>c</sup>	Education	–	–	52,365
	Services Australia	–	–	5,582

Note a: 2022–23 (October) Budget funded. This measure did not include any departmental funding for Services Australia.

Note b: 2023–24 Budget funded.

Note c: 2024–25 Budget funded.

Source: ANAO analysis of Australian Government budget papers.

13 This report uses the term 'compliance activities' throughout to refer to the variety of activities intended to support, encourage, or enforce provider and family adherence to the conditions of receiving CCS, as set out in the Family Assistance Law and related guidelines and policies. This includes: prevention, including activities to control entry to programs, promote compliance, and reduce the risk of inadvertent non-compliance, such as education products (fact sheets, Frequently Asked Questions) and sessions; compliance monitoring; detection and investigation of potential non-compliance; and remedying non-compliance through enforcement activity.

**Table 1.6: Staffing<sup>a</sup> to address non-compliance in the CCS, 2022–23 to 2024–25<sup>b</sup>**

	2022–23	2023–24	2024–25
Education	94.1	127.5	182.0
Services Australia	9.35	4.1	7.7

Note a: Staffing to address non-compliance activities in the CCS is comprised of budget measures funding and funding through departmental budget allocations. The Average Staffing Level (ASL) figures provided for 2022–23 and 2023–24 are actual ASL as at the end of each financial year, the 2024–25 ASL are the budgeted ASL for the financial year. Actuals for 2024–25 will not be known until the end of financial year.

Note b: This does not include staff undertaking functions that are not specifically identified and funded as compliance-related. This excludes the approximately 2,877 customer-facing staff in Services Australia (at 30 June 2024) trained to deliver CCS-related services (such staff usually also complete work on other programs).

Source: ANAO based on Education and Services Australia documents.

## Previous audits and reviews

1.12 Auditor-General Report No. 10 2019–20 *Design and Governance of the Child Care Package* found that Education’s design and governance of the Child Care Package, which included the CCS, was largely effective, except that the focus on key policy objectives for the Package in key documentation had diminished over time, and ongoing oversight arrangements were not established in a timely manner.<sup>14</sup>

1.13 CCS was also considered as part of Auditor-General Report No. 28 2022–23 *Debt Management and Recovery in Services Australia*, which found that Services Australia’s debt management and recovery of social security and welfare debt on behalf of policy entities was partly effective. Services Australia did not have a coordinated approach for the debt management lifecycle including detecting potential overpayments, determining whether a potential overpayment is a legally recoverable debt, raising the debt and either waiving or recovering the debt.<sup>15</sup>

1.14 The need for improved compliance monitoring in the CCS was identified in ANAO Audit Report No.13 2013–14 *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013*.<sup>16</sup> In response, the Random Sample Parent Check (RSPC), which provides the basis for current measurements of non-compliance (paragraph 1.10) was introduced in 2014–15.<sup>17</sup>

14 Auditor-General Report No. 10 2019–20, *Design and Governance of the Child Care Package*, ANAO, Canberra, 2019, available from <https://www.anao.gov.au/work/performance-audit/design-and-governance-the-child-care-package> [accessed 11 October 2024].

15 Auditor-General Report No. 28 2022–23, *Debt Management and Recovery in Services Australia*, ANAO, Canberra, 2023, available from <https://www.anao.gov.au/work/performance-audit/debt-management-and-recovery-services-australia> [accessed 28 February 2025].

16 ANAO Audit Report No.13 2013–14, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013*, ANAO, Canberra, 2013, pp. 153–154, available from <https://www.anao.gov.au/work/financial-statement-audit/australian-government-entities-2013> [accessed 18 March 2025].

17 ANAO Report No. 33 2016–17, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2016*, ANAO, Canberra, 2017, pp. 130–131, available from <https://www.anao.gov.au/work/financial-statement-audit/australian-government-entities-2016> [accessed 4 March 2025].

1.15 Since 2021–22, performance statements audit has considered the effectiveness of the RSPC in measuring payment accuracy.<sup>18</sup>

## Rationale for undertaking the audit

1.16 The CCS was estimated to be one of the top 20 expense programs in 2024–25.<sup>19</sup> Australian Government spending on CCS was \$13.6 billion in 2023–24, of which an estimated 3.6 per cent (\$484.1 million) was lost to incorrect payments, including fraud and non-compliance. Fraud and non-compliance reduces available funds for public goods and services.

1.17 This audit was conducted to provide assurance to the Parliament over the effectiveness of the management and oversight of compliance activities within the Child Care Subsidy program. This audit was identified as a priority by the Parliament's Joint Committee of Public Accounts and Audit in the context of the ANAO's 2023–24 Annual Audit Work Program.

## Audit approach

### Audit objective, criteria and scope

1.18 The objective of the audit was to assess the effectiveness of the management and oversight of compliance activities within the Child Care Subsidy program.

1.19 To form a conclusion against the objective, the following high-level audit criteria were adopted:

- Have effective governance arrangements been established?
- Is the approach to compliance activities effective?

### Audit methodology

1.20 To assess the audit objective and criteria, the audit methodology included:

- examination and analysis of Education and Services Australia records;
- meetings with relevant Education and Services Australia staff; and
- extraction and analysis of compliance data from Education and Services Australia systems.

1.21 The audit was open to contributions from the public between 11 July and 15 December 2024. The ANAO received and considered one submission from a member of the public.

1.22 The audit was conducted in accordance with ANAO Auditing Standards at a cost to the ANAO of approximately \$725,100.

1.23 The team members for this audit were Hazel Ferguson, Klein Anderson, Shannon Clark, Margaret Dunlop, Amanda Elliot, Kayla Hurley, Kristian Marchiori, Dale Todd, and David Tellis.

18 See Auditor-General Report No. 25 2024–25, *Performance Statements Auditing in the Commonwealth — Outcomes from the 2023–24 Audit Program*, ANAO, 2025, Canberra, pp. 19 and 76–78, available from <https://www.anao.gov.au/work/performance-statements-audit/performance-statements-auditing-the-commonwealth-outcomes-from-the-2023-24-audit-program> [accessed 4 March 2024].

19 Australian Government, *Budget Paper No. 1: Budget Strategy and Outlook*, p. 198, available from <https://budget.gov.au/content/bp1/index.htm> [accessed 28 February 2025].

1.24 The ANAO has co-operative evidence gathering arrangements in operation with entities. On 4 July 2024 Services Australia advised the ANAO that it was unable to voluntarily provide certain information requested by the ANAO due to legislative restrictions on the disclosure of requested information. On 25 July 2024, the audit team issued Services Australia with a notice to provide information and produce documents pursuant to section 33 of the *Auditor-General Act 1997* to enable it to provide the requested information taking account of legislative requirements. Services Australia provided the information requested within the specified time, following receipt of the notice.



## 2. Governance arrangements

### Areas examined

This chapter examines whether effective governance arrangements have been established to oversee compliance activities within the Child Care Subsidy (CCS) program.

### Conclusion

The Department of Education (Education) has established partly effective arrangements to oversee CCS compliance activities. Committees accountable to a Senior Executive Service (SES) Band 2 within Education oversee its *Child Care Subsidy Financial Integrity Strategy 2023–2027* (Integrity Strategy), which sets out its approach to risk based and data driven regulation of CCS providers and services, to be implemented from 2023 to 2027. To successfully complete its implementation of the Integrity Strategy, Education will need to improve its Child Care Intelligence System (CCIS) data quality and implement evaluation arrangements across the full suite of its compliance interventions.

Bilateral arrangements between Education and Services Australia are set out in a *Statement of Intent and Program Delivery Services Schedule for Child Care Subsidy Program*, which detail the objectives, governance, risk and issue management, roles and responsibilities and assurance obligations for CCS services. These arrangements do not provide Education with sufficient oversight of CCS compliance activities within Services Australia. Education has established a CCS Fraud and Corruption Risk Assessment (FCRA), but this is not supported by engagement with Services Australia over shared risks. Services Australia has not established a FCRA that includes CCS.

### Areas for improvement

The ANAO made three recommendations aimed at developing and implementing arrangements to ensure Education has sufficient oversight of Services Australia's work as it relates to CCS compliance, and can directly measure the effectiveness of compliance activities.

2.1 Effective oversight is critical to proper use and management of public resources.<sup>20</sup> To ensure oversight is effective where service delivery is split from policy responsibility, roles and responsibilities must be clearly defined, risks understood and addressed, and reporting frameworks in place to enable the entity with policy responsibility to have oversight of the services delivered by the other entity.<sup>21</sup>

2.2 Where entities are performing regulatory functions, their governance arrangements should be as set out in the Department of Finance Resource Management Guide 128, *Regulator*

20 *Public Governance, Performance and Accountability Act 2013* (PGPA Act), sections 15, 16 and 17.

21 Auditor-General Report No. 30 2019–20, *Bilateral Agreement Arrangements Between Services Australia and Other Entities*, ANAO, Canberra, 2020, available from <https://www.anao.gov.au/work/performance-audit/bilateral-agreement-arrangements-between-services-australia-and-other-entities> [accessed 24 February 2024].

*Performance* (RMG 128), including the adoption of a risk based and data driven approach to operational policy development, administration, compliance and enforcement activities.<sup>22</sup>

## Have effective arrangements been established to oversee compliance activities?

Education oversees CCS compliance activities via a Financial Integrity Governance Board (FIGB) and Financial Integrity Operational Committee (FIOC), that are accountable to the responsible Senior Executive Service (SES) Band 2. Education does not have visibility of compliance activities or risk management in Services Australia.

Bilateral arrangements between the Department of Education and Services Australia are set out in a *Statement of Intent* between the Chief Executive Officer (CEO) of Services Australia and the Secretary of the Department of Education (Education Secretary). Under the *Statement of Intent*, the *Program Delivery Services Schedule for Child Care Subsidy Program* details the objectives, governance, risk and issue management, roles and responsibilities and assurance obligations for CCS services. These do not provide sufficient oversight of CCS compliance activities.

### Roles and responsibilities

2.3 Education has policy responsibility for administering the CCS, and Services Australia delivers CCS payments and IT systems on behalf of Education.

2.4 The Education Secretary, as the accountable authority for Education, is responsible for administering the CCS, including the CCS special appropriation, under the Family Assistance Law (FAL).<sup>23</sup> The Education Secretary delegates certain powers under the FAL to the CEO of Services Australia, to allow Services Australia to determine individuals' entitlement to be paid CCS, make relevant payments, recover overpayments, and undertake internal reviews of decisions.

2.5 Each entity's responsibilities are affirmed in a *Statement of Intent* between the CEO of Services Australia and the Secretary of Education, and subordinate *Program Delivery Services Schedule for Child Care Subsidy Program* (the Services Schedule) (Appendix 5).

2.6 As the accountable authority, the Education Secretary is responsible for establishing governance arrangements to promote the proper use and management of public resources, and an appropriate system of risk oversight and management, as well as encouraging officials to cooperate with others to achieve common objectives, where practicable.<sup>24</sup> The *Public Governance, Performance and Accountability Act 2013* (PGPA Act) requires that an Accountable Authority ensure

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22 Department of Finance (Finance), *Guidance Note* [Internet], Finance, July 2023, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/regulator-performance-rmg-128/guidance-note> [accessed 16 July 2024]. The Australian Government regulator stocktake identifies Services Australia and Education as regulators, see: Department of Finance, *Australian Government regulator stocktake* [Internet], Regulatory Reform, available from <https://www.regulatoryreform.gov.au/priorities/regulator-best-practice-and-performance/regulator-stocktake> [accessed 24 July 2024].

23 Administrative Arrangements Order - 13 October 2022, Part 5; *Public Governance, Performance and Accountability Act 2013* (PGPA Act), section 12, and *A New Tax System (Family Assistance) (Administration) Act 1999*, sections 220 and 233.

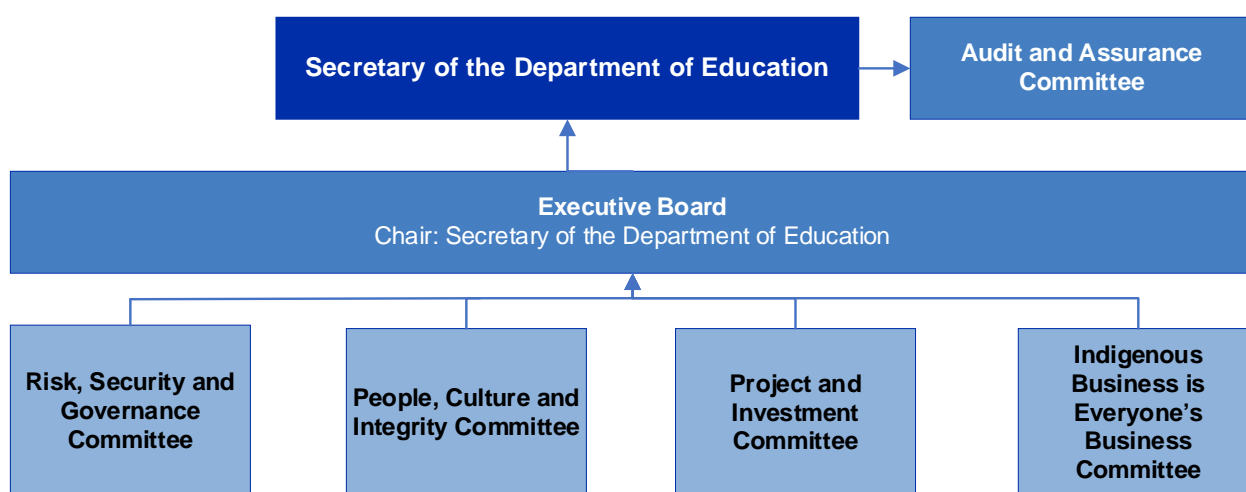
24 PGPA Act, sections 15, 16 and 17.

the entity has an audit committee.<sup>25</sup> *The Department of Education Governance Framework* provides for an independent Audit and Assurance Committee (AAC), and four strategic governance committees which report to the Executive Board, Education's key decision-making body (Figure 2.1).<sup>26</sup>

2.7 Education's AAC was provided with information about CCS compliance work in 2022–23 and 2023–24. CCS compliance matters were discussed twice during this period by Education's key governance committees. The Project and Investment Committee considered:

- Approving change to the schedule, budget and scope for a project related to the Civil Penalties Management System, which is used to send infringement notices, and conduct electronic funds transfer (EFT) provider audits and campaigns.<sup>27</sup>
- Consideration of a proposed budget for the Child Care Subsidy Digital Data Exchange project, which aims to automate early childhood education and care data extraction from Services Australia, and agreement that work would be undertaken to reduce the budget before it could be considered again.

**Figure 2.1: Department of Education, key governance committees, 2022–23 and 2023–24<sup>a</sup>**



Note a: In November 2024, Education's governance arrangements were updated to remove the Risk, Security and Governance Committee, and rename the Audit and Assurance Committee the Audit and Risk Committee.

Source: ANAO based on Education documents.

2.8 Education's oversight of its internal CCS compliance activities is generally provided via CCS specific committees, which do not report directly to Education's key governance committees as set out in Figure 2.1. Instead, they are accountable to, and must have decisions ratified by, the accountable SES Band 2 or SES Band 1 officer. In 2022–23 and 2023–24, a total of 20 CCS compliance related decisions were escalated above the SES Band 2 to the Deputy Secretary or Secretary. These

25 PGPA Act, section 45.

26 In November 2024, Education's governance arrangements were updated to remove the Risk, Security and Governance Committee, and rename the Audit and Assurance Committee the Audit and Risk Committee.

27 The 2024–25 Budget measure, CCS Reform—Further Measures for Strong and Sustainable Foundations included funding to streamline and automate gap fee compliance activities. As part of this work, Education has undertaken exploratory work to develop a platform that would replace CCIS, and provide an end-to-end ICT solution for its compliance activities.

predominantly related to legal or funding approvals, or engagement with Services Australia or other entities. The committees do not directly report to the Deputy Secretary, Early Childhood and Youth, or Education Secretary.

**Table 2.1: Department of Education oversight of CCS compliance functions**

Body	Established	Purpose	Membership level	ANAO assessment	
				Is oversight provided in line with the body's purpose?	Are conflicts of interest dealt with effectively?
Financial Integrity Governance Board (FIGB)	June 2023	As the highest governance body within Education that has specific oversight of CCS integrity, the FIGB provides strategic oversight and direction to activities undertaken by Education teams. <sup>a</sup>	SES Band 2 (Chair) and SES Band 1 levels	✓	✗
Financial Integrity Operations Committee (FIOC) <sup>b</sup>	May 2024	Under the strategic direction of the FIGB, the FIOC supports a coordinated response to CCS integrity risks by Education's operational teams. <sup>a</sup>	SES Band 1 (Chair) and EL2 levels	✓	✓

Key: ✓ Yes ✗ No.

Note a: No oversight or coordination of Services Australia activities is provided by these bodies.

Note b: The FIOC was preceded by the Compliance Fraud Management Team (CFMT), which performed similar functions. The activities of the CFMT are not analysed in the table.

Source: ANAO based on Education documents.

2.9 In 2022–23 and 2023–24, the FIGB and FIOC met every six weeks, and operated in line with their respective stated purposes. For example:

- FIGB approved the *Financial Integrity Strategy 2023–2027*; and
- FIOC received operational updates, including teams' caseloads, IT system updates and hot topics, and approved cases for referral.

2.10 Two deficiencies in these arrangements were identified:

- (a) The FIGB had not established arrangements for members to declare conflicts of interest. The Australian Public Service Commission identifies regulators as having a 'heightened

risk’ of conflict of interest.<sup>28</sup> While CCS staff must adhere to Education’s enterprise *Conflict of Interest Policy*, Education has not established specific guidance for its staff to manage conflicts of interest issues particular to regulators, such as issuing or reviewing fines or penalties. In accordance with Education’s *Conflict of Interest Policy*, staff attending FIGB meetings are required to declare actual and/or apparent conflicts (the SES requirement is to do so annually), but are not required to make a declaration at the opening of each meeting. Staff attending FIOC meetings are asked to declare conflicts at the opening of each meeting.

- (b) Oversight arrangements did not cover the entire program. Despite having oversight of compliance activities administered internally, during 2022–23 and 2023–24, Education’s FIGB and FIOC did not have oversight of Services Australia’s compliance-related work, or the impact of this work on CCS compliance. The ANAO identified some examples of FIGB and FIOC members attending bilateral meetings with Services Australia, but these were meetings provided by the *Statement of Intent*, which focus on service standards rather than compliance activities (Table 2.2). During the audit, Education revised its governance arrangements to include Services Australia SES Band 2 and SES Band 1 membership in a new Joint CCS Program Board.

Opportunity for improvement

2.11 The Department of Education could consider developing specific guidance for CCS staff to aid in the management of conflicts of interest that may arise in the performance of their duties as a regulator.

2.12 Within Services Australia, the Families and Child Care Branch provides oversight of the entity’s work on CCS through its line management and committee structure. Relevant internal Services Australia meetings are documented via agendas only. As a consequence, there is no evidence these arrangements are used to oversee CCS compliance activities, except for the Services Australia Audit and Risk Committee, which was updated about major CCS fraud investigations that the entity engaged in, in 2022–23 and 2023–24. Services Australia provides regular reporting to Education under the *Services Schedule* but this does not include key compliance risks and controls (paragraph 2.20).

**Table 2.2: Implementation of bilateral CCS governance arrangements<sup>a</sup> by Education and Services Australia**

	Bilateral Management Committee	Operational Committee
Membership level as per the <i>Statement of Intent</i>	Deputy Secretary/Deputy CEO	SES Band 2 or delegate

28 Australian Public Service Commission, *APS Values and Code of Conduct in practice: Section 5: Conflict of Interest*, APSC, Table 1, available from: <https://www.apsc.gov.au/publication/aps-values-and-code-conduct-practice/section-5-conflict-interest> [accessed 17 January 2025].

Bilateral Management Committee		Operational Committee
Purpose as per the <i>Statement of Intent</i>	Fosters and supports a culture of alliance between policy objectives and service delivery across programs, fulfills ministerial objectives, and manages organisational relationship health and culture, and reputational and organisational risks	Facilitates discussion, assessment, review and if necessary, problem resolution on matters relating to the Services Schedule
Operating arrangements as per the <i>Statement of Intent</i>	Meets quarterly; peak governance body for the relationship	Required to meet quarterly; reports and escalates any unresolved issues or disputes to relevant deputy heads for consideration
2022–23 and 2023–24 operating arrangements	The Bilateral Management Committee has not met since 2022. Instead, regular Deputy Secretary/Deputy CEO meetings take place, but are not supported by formal agendas, minutes, or papers — records consist of notes each entity prepares for its senior executive.	Operating as per <i>Statement of Intent</i> , except with SES Band 1 Chair and EL2 attendance
2022–23 and 2023–24 meeting frequency	No agreed meeting frequency. Meetings occurred twice in 2022–23, and seven times in 2023–24	Meeting more than required, at eight times per year across the relevant period
CCS compliance matters dealt with 2022–23 and 2023–24	Deputy Secretary/Deputy CEO meetings focus on maintaining service standards and remediating service issues under the Services Schedule, with issues for discussion including: <ul style="list-style-type: none"> <li>work underway to fix system errors creating opportunities for non-compliance;</li> <li>administrative or system errors resulting in payments being made where no entitlement existed; and</li> <li>systems to implement debt forgiveness following discovery of legislative issues leading to incorrect debts.</li> </ul>	<ul style="list-style-type: none"> <li>CCS application approval rates and decision-making arrangements</li> <li>Administrative or system errors resulting in payments being made where no entitlement existed</li> <li>System changes resulting from integrity-related policy or legislative changes</li> </ul>

Note a: Bilateral governance arrangements are taken from the *Statement of Intent* signed in July 2024, and *Services Schedule*, signed in March 2022. The previous *Statement of Intent*, signed in April 2021, also included the Bilateral Management Committee and supporting Operational Committee.

Source: ANAO based on Education and Services Australia documents.

## Risk management

2.13 The *Statement of Intent* provides for the establishment of shared risk management arrangements. It states:

Managing shared risk is a crucial element of effective policy and program delivery. Entities will implement arrangements and jointly manage shared risk in accordance with the *Commonwealth Risk Management Policy*.

Entities agree to discuss the requirements for undertaking risk assessments and to cooperate in conducting any assessments required.

Entities will inform each other of risks relating to the performance of the services that come to its attention.

Specific risk management arrangements, including the requirement for any risk registers, are to be set out in the individual bilateral arrangements.

2.14 The Services Schedule identifies entities' respective risk management responsibilities.

- Education is responsible for controlling risks to CCS payment accuracy in relation to:
  - child care service providers;
  - other third party or combined child care service providers; and
  - individual non-compliant behaviours, such as where individuals and service provider collude in non-compliant behaviours.
- Services Australia is responsible for controlling risks to payment accuracy that are solely the result of CCS customer behaviours, changed circumstances, and system issues.

2.15 These arrangements mean risks involving individuals failing to accurately report their income or activity levels, or providing inaccurate information about their eligibility for CCS, are managed by Services Australia. Education is responsible for managing any risk that involves the provider or service, including where an individual colludes with a provider to fraudulently claim more CCS than they are entitled to. As CCS payments are made to the provider, the bulk of the non-compliance risk is managed by Education.

2.16 The risk management section of the Services Schedule does not address risks associated with legislation and policy, or IT system effectiveness, although responsibility for these is with Education and Services Australia respectively (Appendix 5).

2.17 In respect to shared risks, the Services Schedule specifies entities will:

cooperate in communicating and managing any identified risks and to discuss in good faith the requirements (including key resources, activities, deliverables and timeframes) for the conduct of risk assessments, privacy impact assessments, fraud assessments, business continuity assessments and other assessments.

...

The Operational Committee will be responsible for the management of shared risks.

2.18 The Operational Committee does not consider shared compliance risks. Between August 2023 and June 2024, Education attempted to address this deficiency. It shared information relevant to CCS fraud risks, and sought information from Services Australia on the same. In response, Services Australia provided a copy of its risk management plan, and a redacted risk control pressure test report.<sup>29</sup>

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29 Four of eight risk treatments were redacted from the report provided to Education. All related to CCS non-compliance risk. The report also redacted information about one ineffective control, and two control gaps, all of which related to CCS.



2.19 Separately from the Operational Committee, on 9 September 2024, Education and Services Australia held the first meeting to discuss shared risk management arrangements. Meetings to discuss shared risks continued in 2025.

## Reporting

2.20 Services Australia's reporting to Education is compliant with its obligations under the Services Schedule. It comprises:

- an annual assurance statement, which aligns with strategic principles set out in the *Statement of Intent*;
- monthly CCS and ACCS reports of claim processing, payments, reconciliations, and debts;
- a quarterly operational managers report, which summarises CCS and ACCS claim processing, reconciliation, debts, breaches, complaints, and internal and external reviews; and;
- daily and monthly financial reporting.

2.21 This reporting does not cover compliance risks or Services Australia's management of these.

### Recommendation no. 1

2.22 The Department of Education and Services Australia review and revise arrangements giving effect to the Statement of Intent and subordinate documents to ensure sufficient oversight of shared regulatory activities is provided.

**Department of Education response:** *Agreed.*

2.23 *The Department of Education (the department) acknowledges the ANAO's report and its seven recommendations on the Management and oversight of compliance activities within the Child Care Subsidy (CCS) program.*

2.24 *The department has made substantial progress to improve and further mature its regulation of the CCS program during this performance audit, including creating a new branch to manage its regulatory functions and recruiting additional staff to support its compliance activities.*

2.25 *The department is committed to further improving its integrity approach. The key findings from this audit will be considered in further maturing its approach to addressing program risks, in line with its regulatory responsibilities.*

**Services Australia response:** *Agreed.*

2.26 *The Agency will continue to consult with the Department of Education on current bilateral arrangements and will negotiate revised arrangements to ensure there is sufficient oversight of shared regulatory activities.*

## Multi-agency and intergovernmental engagement

### Multi-agency engagement

2.27 Education engages with other Australian Government entities via:



- the Fraud Fusion Taskforce, a forum for Australian Government entities, including the Australian Criminal Intelligence Commission (ACIC), Australian Federal Police (AFP), and Australian Taxation Office (ATO), to work together to share information and build skills detect and prevent fraud — Education proactively discloses intelligence via this forum;
- Task Force Reston, an ACIC operation which facilitates the sharing of criminal information within the Fraud Fusion Taskforce and supports the development of enhanced national responses to identify, prevent and disrupt fraud and related criminal activity within Australian Government payments and programs;
- the Government Payments Program, an ATO-led program to improve system integrity across Commonwealth programs through better use of ATO data;
- project-specific or investigation-specific engagement with other Australian Government entities, such as:
  - search warrant assistance from the AFP (paragraphs 3.50 to 3.53);
  - intelligence-related investigations assistance from the ACIC;
  - work with the ATO to introduce Statement of Tax Record requirements to the CCS application process from 1 April 2025;
  - work with the Australian Transaction Reports and Analysis Centre to identify people who have high unexplained wealth with connections to early childhood education and care;
  - work with the ACIC, which is in the early stages of development, to increase information available about possible unsuitable and/or fraudulent actors applying for CCS approval; and
  - work with the National Disability Insurance Scheme Quality and Safeguards Commission (NQSC) and the ACIC, which is in the early stages, to improve the identification of serious and organised crime and systemic fraud across programs.

### *Intergovernmental engagement*

2.28 Education's *Child Care Subsidy Financial Integrity Strategy 2023–2027* (Integrity Strategy, paragraphs 2.32 to 2.33) states that Education's regulation of providers and services under the FAL is separate from state and territory government regulatory authorities' responsibilities for the safety and quality of early childhood education providers and services under the National Law.

2.29 The Integrity Strategy identifies 'limited coordination with states and territories and other regulators' as a challenge to be addressed. Work with state and territory governments on early childhood education system reform is progressed via the Education Ministers Meeting and subordinate Australian Education Senior Officials Committee and Early Childhood Policy Group. Inter-jurisdictional work with state and territory early childhood education and care regulatory

authorities (SRAs) and the Australian Children's Education & Care Quality Authority (ACECQA) to improve regulation in early childhood education and care takes place via<sup>30</sup>:

- project-specific work on regulatory systems reform, such as 'Joined Up Approvals', to allow Education and SRAs to use a single application system (completed in June 2023, see paragraph 3.8), and the Joint Compliance Monitoring Program (under which joint investigations are conducted, see paragraphs 3.55 to 3.57);
- direct engagement with SRAs to share intelligence and perform complimentary regulatory action (for example attendance by the SRA at the execution of search warrants resulting from Education investigations);
- two non-decision-making regulatory communities of practice with SRAs and ACECQA:
  - the Regulatory Practice Committee (RPC), a non-decision-making community of practice to share information and improve practice and 'establish consistent, effective and efficient procedures for the operation of the NQF [National Quality Framework]'; and
  - the Lead Investigator Network, a working group of the RPC, with a focus on investigative practice in monitoring and enforcing compliance with the Education and Care Services National Law and Regulations.

2.30 Limitations at the intersection between state and territory regulators and Education's enforcement actions is discussed at paragraph 3.72.

## Has a risk based and data driven approach to compliance been established?

Education's *Child Care Subsidy Financial Integrity Strategy 2023–2027* (Integrity Strategy) documents its approach to risk based and data driven regulation to be implemented from 2023 to 2027. To successfully complete its implementation of the Integrity Strategy, Education will need to improve its Child Care Intelligence System (CCIS) data quality.

Although Services Australia's annual CCS risk management plans document its approach to managing risk in the program, including compliance risk, there is no documented approach (either in Education's Integrity Strategy or via Services Australia's own program documentation) that provides strategic direction or describes how risk and data inform decision-making regarding Services Australia's CCS compliance activities.

Education has established a CCS Fraud and Corruption Risk Assessment (FCRA), although information about the purpose, implementation status, and timeframes of risk treatments is not included. Risk identification, analysis and evaluation within the FCRA is not supported by engagement with Services Australia over shared risks. Services Australia has not established a FCRA that includes CCS.

30 On 27 March 2025, the Australian Government announced it would work with 'state and territory regulators, the Australian Children's Education & Care Quality Authority (ACECQA) and the sector to develop future policies to strengthen quality and safety through the Child Care Subsidy (CCS).' Education, *Strengthening safety and quality in early childhood education and care*, available from <https://www.education.gov.au/early-childhood/announcements/strengthening-safety-and-quality-early-childhood-education-and-care> [accessed 27 March 2025].

2.31 Principle 2 of RMG 128 states that regulators should adopt a ‘risk based approach to operational policy development, administration, compliance and enforcement activities, and [be] informed by data, evidence and intelligence.’<sup>31</sup> This includes maintaining a compliance and enforcement strategy that articulates the regulator’s approach to risk and how this informs decision-making, publishing where appropriate.

### Compliance approach

2.32 Education’s compliance approach is set out in the Integrity Strategy. The Integrity Strategy outlines a ‘whole-of-system’<sup>32</sup> approach to address CCS ‘fraud and non-compliance’. Education published the Integrity Strategy on 26 August 2024, replacing the previous strategy, which had been in place since 2019. The Integrity Strategy is in the process of being implemented, with change actions ongoing to 2027 (paragraphs 2.38 to 2.44, 2.48, and 2.65 to 2.67).

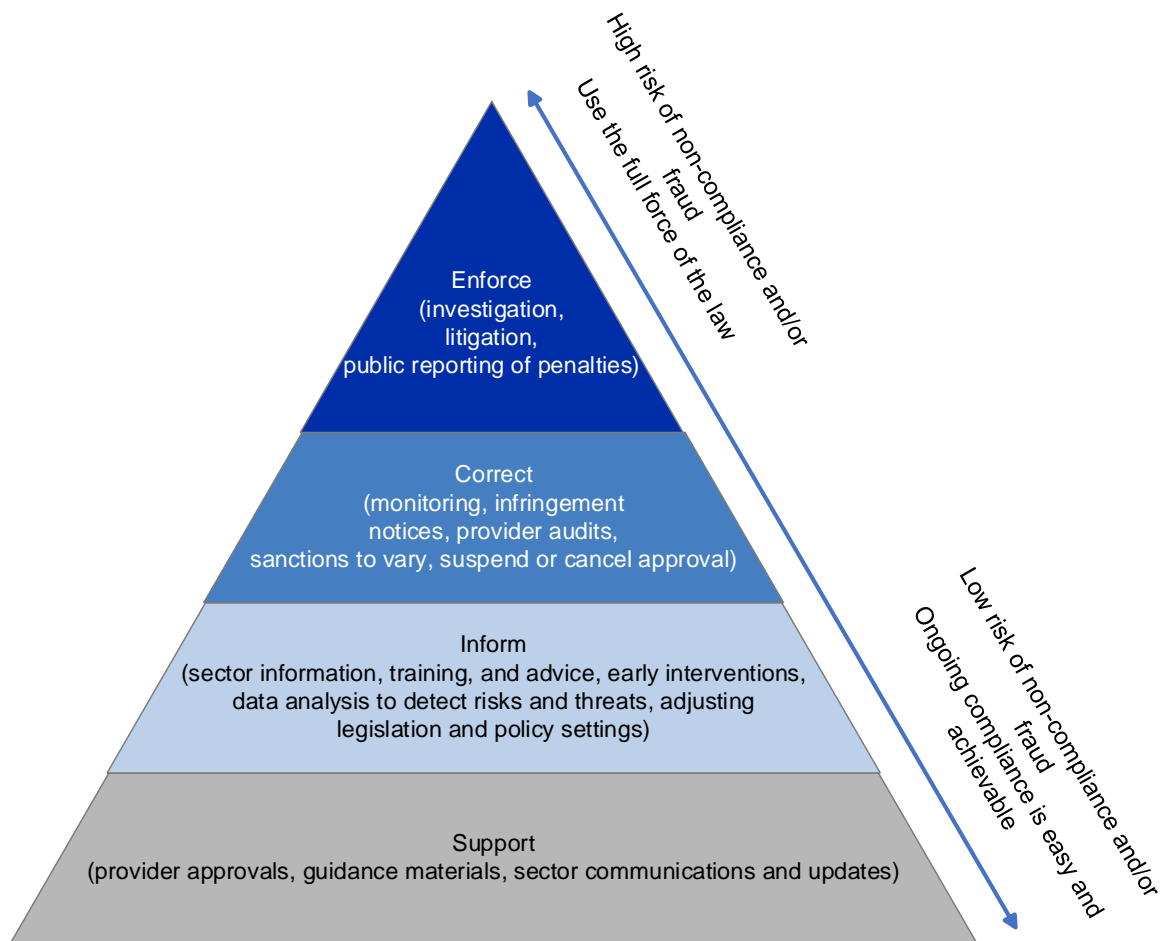
2.33 Education’s intended approach to addressing behaviours across the integrity continuum is depicted in a compliance pyramid (Figure 2.2), which includes enforcement, correction, information, and support activities, based on a provider’s risk profile and pattern of compliance behaviours, with most activity concentrated on preventative activity at the bottom of the pyramid. According to the pyramid, the entity’s pattern of compliance behaviour corresponds to Education’s likely intervention response. In the Integrity Strategy, for example, opportunistic non-compliance, where the entity ‘generally disregards compliance, has limited/poor compliance systems, governance and management is not compliance oriented or takes opportunities to exploit for personal gain’ would be addressed via corrective measures including EFT provider audits, infringement notices, and sanctions to limit, vary, suspend or cancel CCS access.

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31 Finance, *Guidance Note* [Internet], Finance, July 2023, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/regulator-performance-rmg-128/guidance-note> [accessed 16 July 2024]. The Australian Government regulator stocktake identifies Services Australia and Education as regulators, see: Department of Finance, *Australian Government regulator stocktake* [Internet], Regulatory Reform, available from <https://www.regulatoryreform.gov.au/priorities/regulator-best-practice-and-performance/regulator-stocktake> [accessed 24 July 2024].

32 The Department of Education defines whole-of-system as an ‘[a]pproach to advocate all parts of the regulatory functions across the Financial Integrity Branch work together to respond to risk through shared understanding and collaboration.’

**Figure 2.2: Department of Education CCS financial integrity compliance pyramid**



Source: ANAO adapted from the Department of Education, *Child Care Subsidy Financial Integrity Strategy 2023–2027*.

2.34 Services Australia controls to mitigate CCS non-compliance risks are set out in a risk management plan, which is reviewed and updated annually (paragraphs 2.50 to 2.52). On 12 July 2024, Services Australia advised the ANAO that the CCS compliance strategy is ‘managed by our partner Agency, Department of Education’. Education’s Integrity Strategy does not account for any regulatory actions that may be taken by Services Australia, including those described in Service Australia’s risk management plan. As such, there is no document that provides strategic direction or describes how risk and data inform decision-making regarding Services Australia’s CCS compliance activities.

2.35 In 2024, both entities documented their regulatory approach in respective Statements of Intent, which respond to Ministerial Statements of Expectations, as detailed in guidance for entities that perform regulatory functions (including standalone regulators and those located within larger entities) in RMG 128.<sup>33</sup>

<sup>33</sup> Auditor-General Report No. 38 2024–25, *Ministerial Statements of Expectations and Responding Statements of Intent*, available from: <https://www.anao.gov.au/work/performance-audit/ministerial-statements-of-expectations-and-responding-regulator-statements-of-intent> [accessed 3 June 2025].

## Data driven approaches to compliance

2.36 According to RMG 128, data driven regulation involves use of intelligence and data to inform a risk based approach to compliance and enforcement.

2.37 Education's *Integrity Detection Framework* (the Framework) sets out its approach to managing, analysing, and sharing CCS compliance-related data to achieve the objectives of the Integrity Strategy. Key data sets for CCS compliance functions identified in the Framework are:

- CCS data, which covers all sessions of care (that is, the period for which a family is charged a fee for care of their child) that take place at each approved service;
- CCIS data, which records all CCS compliance activities;
- data from the Australian Business Register (Australian Business Name information is used to identify persons with management and control at child care centres); and
- Department of Home Affairs data (the movement record database is used to identify if any children and educators were overseas at the time a session of care is claimed to have taken place).<sup>34</sup>

2.38 Beginning in 2022–23, Education's approach to compliance and enforcement is informed by analysis of CCS data against financial integrity risk indicators. A risk rating (from low to high<sup>35</sup>) is allocated to each service against each indicator. An overall rating is attributed to the service based on aggregating the service's score on all indicators.

2.39 Six indicators were used to guide compliance activities in 2023–24. These were developed based on consultation with internal and external stakeholders, to develop profiles of non-compliant providers. Validation was then undertaken to test the applicability of the profiles beyond individual staff experience. As of December 2024, nine additional indicators have been added, and work is underway to introduce further indicators.

2.40 CCIS information and other administrative data on regulatory activity is accessed by staff to understand the compliance history of certain providers or services. These data sources are used in intelligence analytics reports, risk indicators work, and intelligence assessments (paragraph 2.47). ANAO analysis identified limitations in CCIS data quality including incomplete record keeping and incorrect categorisation of investigations (paragraph 3.60).

2.41 Data from Services Australia reporting (paragraph 2.20) is used to:

- provide information across the whole program (using Education and Services Australia data) in the form of 'dashboards' provided to senior executives;
- track trends via the Quarterly Operational Managers Report, and raise issues with Services Australia where Education has relevant concerns; and
- monitor the financial position of the program, including debt recovery outcomes and doubtful debt (i.e. estimates of debt not likely to be repaid).

34 Random Sample Parent Check (RSPC) data, drawn from surveys of families about their children's attendance at approved child care services and matches these with CCS data, is also mentioned as a key source in the *Integrity Detection Framework* (the Framework). As of December 2024, the Framework does not provide for RSPC data to be used to detect non-compliance.

35 Formerly 'extreme'.

2.42 Services Australia reporting (paragraphs 2.20) is not integrated into Education's compliance-related analytics (paragraph 2.37 to 2.39).

2.43 On 27 September 2024, Services Australia advised ANAO that it uses data in the development and monitoring of risk management plans. Data matching forms the basis of many key controls in Services Australia's *Child Care Subsidy Risk Management Plan 2024–25* — this includes monitoring payroll data for certain CCS recipients, immigration data (for both children and educators) and immunisation data (for children) to confirm payment eligibility.

2.44 Education's Integrity Strategy identifies addressing a 'mismatch of data holdings and systems' and 'limited measurement of performance against outcomes' between 2023 and 2027. Under the Integrity Strategy, the (January 2024) *Data Improvement Plan* sets out an approach to improve how Education collects, modifies, analyses, and uses CCS compliance-related data. The *Data Improvement Plan* was informed by interviews, a data survey across stakeholders and subject matter experts, and benchmarking against other organisations. As of March 2025, work under the *Data Improvement Plan* has focused on developing and refining risk indicators (paragraph 2.39).

### **Risk based approaches to compliance**

2.45 RMG 128 states that risk based regulation involves considering risks in decision-making, actively monitoring and planning for emerging risks, and focusing compliance and enforcement activity where risks and impact of harm are greatest.

2.46 Regulators are also required to adhere to other risk management requirements, which apply to all Commonwealth entities, including managing shared risks (paragraphs 2.13 to 2.18) and managing fraud and corruption risks under the *Commonwealth Fraud and Corruption Control Framework 2024*.

#### ***Education***

2.47 Education's Integrity Strategy provides that enforcement, correction, information, and support activities should be taken based on a provider's risk profile (paragraph 2.33), which is developed using session data (paragraphs 2.37 to 2.39).

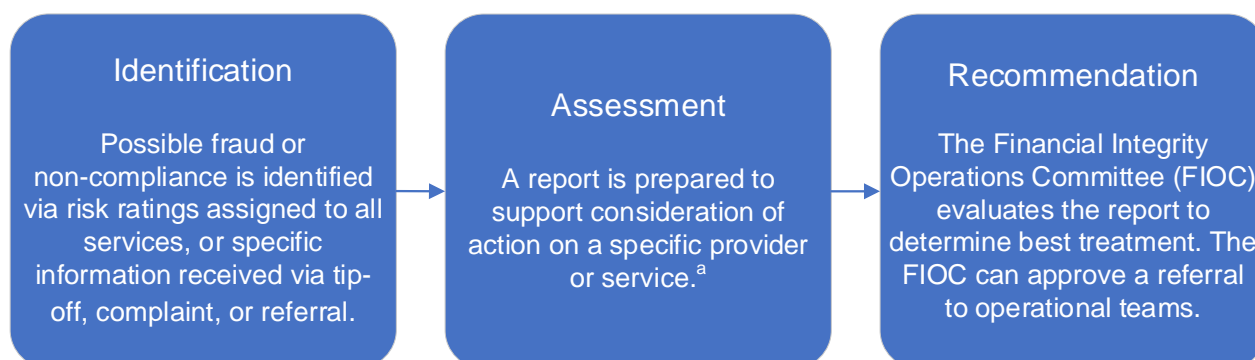
2.48 In 2023–24, Education implemented arrangements under the Integrity Strategy for using risk profiles in decision-making and focusing compliance and enforcement activity where risks and impact of harm are greatest (summarised in Figure 2.3).<sup>36</sup> All decisions to take compliance activity made by FIOC (known as 'referrals' to the relevant team for further action) are supported by an assessment of provider or service risk profile. Bulk referrals are supported by a referral report with accompanying spreadsheets of services with risk rating information.<sup>37</sup> Referrals based on information received via tip-off, complaint, or referral, may be supported by detailed intelligence assessments, which include risk ratings and compliance history information.

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36 Before 2023–24, decision-making was informed by analysis of available intelligence, but was not informed by analysis of risk indicators.

37 Bulk referrals are based on analysis of session reports using risk indicators, rather than individual analysis of a provider or service's risk profile.

**Figure 2.3: Education’s compliance risk identification, assessment and recommendation process**



Note a: During 2022–23 and 2023–24, the report was an Intelligence Assessment Report (IAR). On 20 November 2024, Education advised the ANAO that its practice is to use ‘Referral Reports’ for bulk referrals, rather than Intelligence Assessment Reports. Referral reports provide a short overview of the matter being referred, risk indicators, compliance history, and the coordination team’s recommendation of whether, given the information provided, the matter should be accepted for investigation. The use of referral reports for bulk referrals is evident in FIOC papers starting in September 2024, although neither of the investigation teams’ policies refer to this process.

Source: ANAO analysis of Education documents.

2.49 Education has established a Fraud and Corruption Risk Assessment (FCRA). Two deficiencies in Education’s FCRA were identified:

- risk identification, analysis, and evaluation was not supported by engagement with Services Australia over shared risks; and
- risk treatment information was incomplete:
  - information about the purpose, implementation status, and timeframes of risk treatments was not included.
  - teams were identified as risk owners, contrary to the guidance provided in the template, which indicates risk owners should be ‘the SRO [Senior Responsible Officer] or other senior officer’ — a revised version of the FCRA was produced during the audit to address this issue.

### *Services Australia*

2.50 Services Australia’s CCS risk management plan is updated annually. *Child Care Subsidy Risk Management Plan 2024–25* risk 4 covers CCS compliance matters. This risk is owned by the National Manager (NM) Families and Child Care Branch. The risk management plan covers risk causes, consequences, and controls relevant to mitigating the risk of fraud and non-compliance in the CCS. The plan relies predominantly on prevention, especially system rules and controls (16 of 18 controls are at least partly preventative), and detection through data matching.

2.51 Services Australia’s risk management plan guidance for 2024–25 notes that reviews of plans should include ‘assessing emerging risks ... for inclusion in the RMP [risk management plan] and updating risk decision statements and risk assessments if emerging risks are significant’. On 27 September 2024 Services Australia advised the ANAO that the data reported to Education is used in the continuous monitoring of and development of risk management plans (paragraph 2.42).

2.52 Services Australia has not established a FCRA for CCS, collaborated with Education in the development of its CCS FCRA, or included CCS in its entity-wide FCRA.

## Is the compliance approach regularly reviewed, and where appropriate, updated?

Education monitors the effectiveness of the Integrity Strategy using payment accuracy data drawn from the Random Sample Parent Check (RSPC), and reporting against budget savings measures. As of March 2025, evaluations of compliance interventions have been planned but not yet implemented across the full suite of compliance interventions. Initial intervention evaluations and resulting adjustments for each team are due to be completed in 2025. As such, it is not possible to effectively measure the impact of compliance activities undertaken under the Integrity Strategy, or understand the relative contributions of different types of compliance activities.

### Performance measurement and monitoring

2.53 Education measures the effectiveness of the Integrity Strategy against:

- the program's overall payment accuracy rate target of over 90 per cent, which was set in 2018 based on a reduction from 95 per cent due to 'changes to integrity resourcing and management systems' and the replacement of existing programs with the CCS;
- an internal goal of 95 per cent payment accuracy — this was achieved in 2022–23 and 2023–24 (Table 1.4), but no basis for this has been documented; and
- a savings target of \$448.3 million by the end of 2026–27, which reflects the combined savings agreed in CCS compliance-related October 2022 Budget and 2023–24 Budget measures.

#### *Payment accuracy*

2.54 Payment accuracy is estimated, using the Random Sample Parent Check (RSPC).<sup>38</sup> The RSPC compares attendance data from providers with survey responses from families about their children's attendance. It measures three reasons for a payment being made incorrectly:

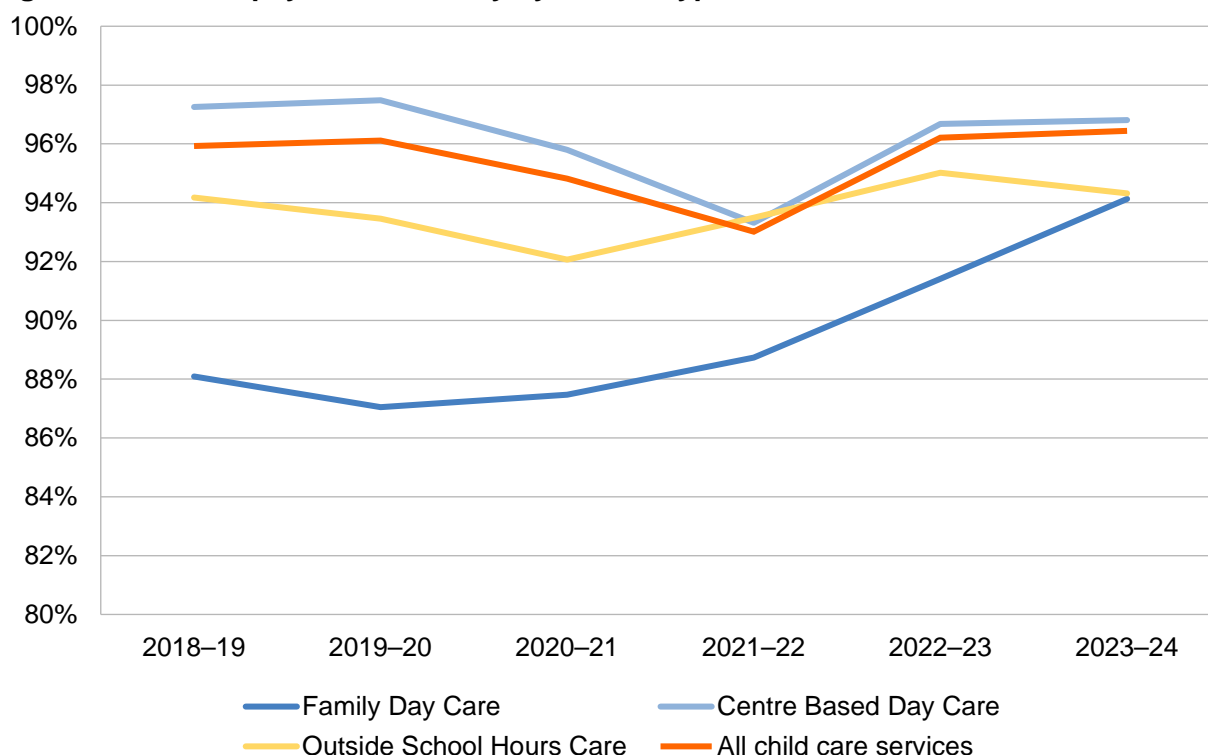
- all sessions reported by the provider were not attended;
- some sessions reported by the provider were not attended; and
- the family was not asked to make a co-contribution (i.e. pay a 'gap fee').

38 The performance statements audit considered the measure on effectiveness of the RSPC in measuring payment accuracy. See Auditor-General Report No. 25 2024–25, *Performance Statements Auditing in the Commonwealth — Outcomes from the 2023–24 Audit Program*, ANAO, Canberra, 2025, available from <https://www.anao.gov.au/work/performance-statements-audit/performance-statements-auditing-the-commonwealth-outcomes-from-the-2023-24-audit-program> [accessed 4 March 2024]. The RSPC was introduced in 2014–15, in response to a 2013–14 ANAO financial statements audit that observed of the then Child Care program that '[r]educing monitoring and compliance activities and the inconsistent application of the compliance inspections increases the risk of incorrect payments being identified, recorded and subsequently recovered'. See ANAO Audit Report No.13 2013–14, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2013*, ANAO, Canberra, 2013, pp. 153–154, available from <https://www.anao.gov.au/work/financial-statement-audit/australian-government-entities-2013> [accessed 18 March 2025] and discussion in ANAO Report No. 33 2016–17, *Audits of the Financial Statements of Australian Government Entities for the Period Ended 30 June 2016*, ANAO, Canberra, 2017, pp. 130–131, available from <https://www.anao.gov.au/work/financial-statement-audit/australian-government-entities-2016> [accessed 4 March 2024].



2.55 The contracted survey provider<sup>39</sup>, which has been engaged until 30 June 2026, reports quarterly and annually to Education on estimated payment accuracy rates by service type (Figure 2.4) and reasons for incorrectness (Figure 2.5). Education reports overall payment accuracy against the target of over 90 per cent in its annual report. (See Appendix 2 for additional reporting introduced during the course of this audit.)

**Figure 2.4: CCS payment accuracy by service type<sup>a</sup>, 2018–19 to 2023–24**

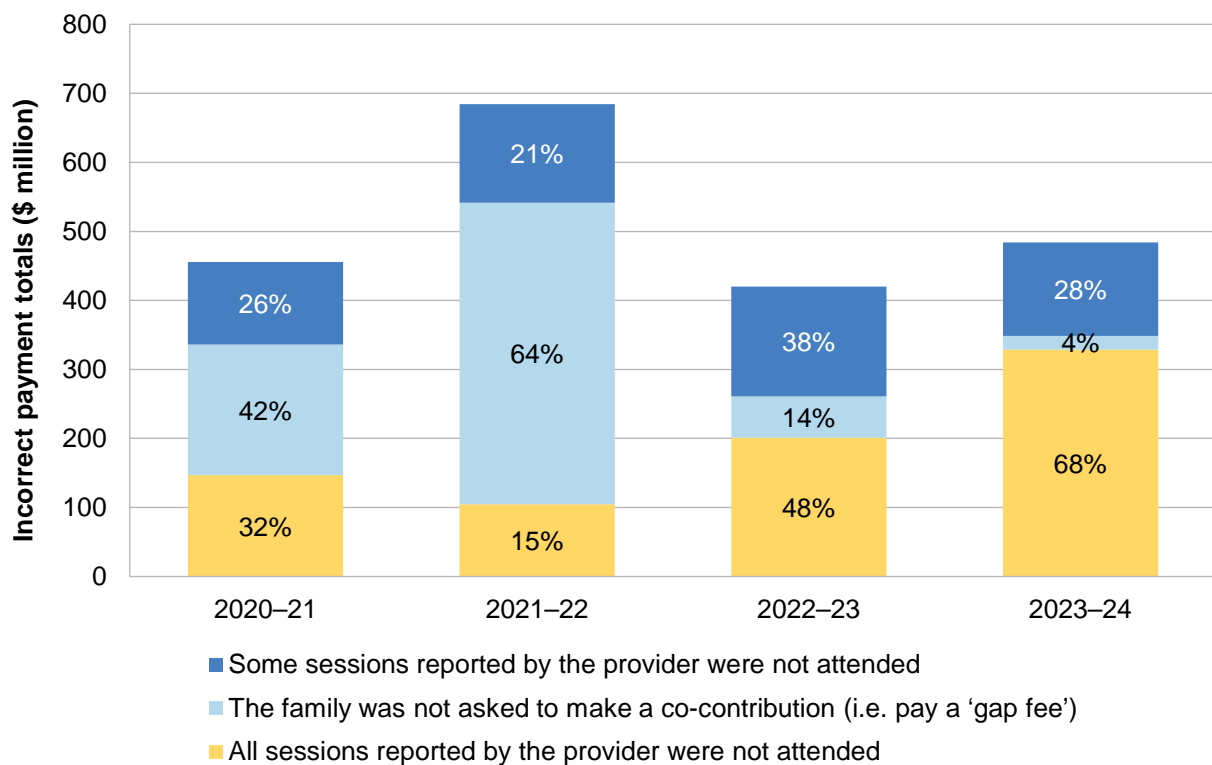


Note a: In Home Care service type is not captured by the RSPC.

Source: ANAO based on Education documents.

39 The current survey provider was first engaged in 2014, when the RSPC was introduced. The provider was re-engaged in 2019 and again in 2023. The current appointment (Support for the Child Care Payment Integrity Measures, CN4039096, which has a contract value of \$2,474,549.64) was via Request for Quote sent to four suppliers identified based on past knowledge and experience on previous projects, and capacity and experience to manage and deliver large-scale surveys, data analytics, and performance metrics and measures.

**Figure 2.5: CCS, reasons for payment inaccuracy, 2020–21 to 2023–24**



Source: ANAO based on Education documents.

### *Savings*

2.56 The savings target of \$448.3 million by the end of 2026–27 is based on the compliance-related October 2022 Budget and 2023–24 Budget process, which were costed based on activity in the following areas:

- the Electronic Funds Transfer (EFT) audit program;
- fraud investigations;
- compliance operations with states and territories; and
- early intervention compliance campaigns.

2.57 The measure costings have been assured by the RSPC supplier. Education reports progress against the two budget measures via:

- senior executive briefing provided for Senate Estimates;
- budget commitment tracking reports provided to the Minister for Early Childhood Education since August 2024; and
- advice to government against budget measures, which provides progress against the savings target from 25 October 2022 to 15 January 2024, and shows savings targets being exceeded.

2.58 Education reporting on the budget measures that form the basis for the Integrity Strategy savings target shows estimated savings from 25 October 2022 to 30 June 2024 were \$242.8 million

against a target of \$121.5 million. Total savings from all three integrity-related budget measures to December 2024 (Table 1.5) were \$318.2 million against a target of \$187.4 million.

### Limitations

2.59 Under the Integrity Strategy, the effectiveness of teams' execution of their work is measured according to Team Performance Frameworks. Although Education evaluates some of its compliance activities (namely communication campaigns and training, see paragraphs 3.14 and 3.16), only one intervention has been measured and progress reported against payment accuracy targets and program savings (case study 1). Regular evaluations of interventions, using RSPC data, is planned but as of March 2025 has not been implemented. Initial intervention evaluations and resulting adjustments for each team are due to be completed in 2025. As such, it is not possible to effectively measure the impact of compliance activities undertaken under the Integrity Strategy, or understand the relative contributions of different types of compliance activities. (See Appendix 2 for progress during the course of this audit.)

2.60 Education's reporting does not draw a direct link between the savings attributed to budget measures, and improvements in payment accuracy as recorded by the RSPC, or the relative contributions of different activities to payment accuracy rates.

2.61 RSPC data is not used to direct compliance activity at a provider or service level. Service level non-compliance detection is discussed at paragraphs 2.37 to 2.46, and using RSPC data in enforcement is discussed at paragraphs 3.69 to 3.73. Education advised the ANAO on 1 August 2024 that using the RSPC to target individual cases for compliance action would undermine the integrity of RSPC itself, by potentially causing changes to the way people respond to the survey.

### Recommendation no. 2

2.62 The Department of Education strengthen its approach to implementing evaluation of the effectiveness of compliance interventions, to cover all interventions in the *Child Care Subsidy Financial Integrity Strategy 2023–2027*.

**Department of Education response:** *Agreed.*

2.63 See paragraphs 2.23 to 2.25.

### Arrangements to review and update the Integrity Strategy

2.64 Education does not include strategy review arrangements in its Integrity Strategy. The current strategy was endorsed by the FIGB in August 2023, and published on 26 August 2024, replacing the previous strategy, which had been published in 2019. On 31 July 2024, Education advised the ANAO the development of the 2024 strategy was not informed by a review or evaluation of the previous strategy.

2.65 Under the Integrity Strategy, changes to compliance activities are set out in Integrity Response Plans (IRP), which describe the goals, scope, required resources, deliverables, measures of success, roles and responsibilities, and implementation schedules for actions across different operational teams in response to 'high value' integrity risks.<sup>40</sup> As of December 2024, one IRP has been developed, the *Integrity Response Plan for Initial CCS Risk Indicators 2023–24*. This IRP provided targets for compliance activities, including the number of EFT provider audits and investigations to be undertaken.

2.66 Changes to administrative arrangements to implement the Integrity Strategy are specified in Change Action Charters, which describe the activities and owners of change to be implemented under the Integrity Strategy. The FIGB receives progress reports and tracks progress against the Change Action Charters.

2.67 The introduction of specific and publicised compliance priorities is an agreed action under the Integrity Strategy. These are expected to be developed by 30 June 2025. Education advised the ANAO on 1 May 2025 that the publication of these will 'likely occur after June 2025'.

### Recommendation no. 3

2.68 The Department of Education, in consultation with Services Australia:

- (a) develop a program-level CCS compliance and enforcement strategy including:
- approaches to coordination;
  - governance;
  - risk management;
  - reporting between the entities;
  - reporting of savings outcomes against targets; and
  - performance and impact measurement, review and evaluation.
- (b) ensure a version of the strategy is published on each entity's website.

**Department of Education response:** *Agreed.*

2.69 *See paragraphs 2.23 to 2.25.*

**Services Australia response:** *Agreed.*

2.70 *The Agency will work with the Department of Education to support the development of a program-level compliance and enforcement strategy.*

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40 The *Child Care Subsidy Financial Integrity Strategy 2023–2027*, defines 'high-value' integrity risks as where:

- the risk directly threatens the achievement of our core outcomes of payment accuracy or savings to government.
- the risk is emerging and, if left unchecked, has the potential to threaten payment accuracy or savings in the future.
- the risk represents some other type of strategic threat to the efficacy of the payment system, as agreed by our [Financial Integrity] Governance Board.

### 3. Approach to compliance activities

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#### Areas examined

This chapter examines whether the approach to compliance activities within the Child Care Subsidy (CCS) program is effective.

#### Conclusion

The Department of Education (Education) and Services Australia have established a partly effective approach to compliance activities. While Education and Services Australia have comprehensive arrangements to prevent non-compliance among providers and families respectively, deficiencies were identified in relation to monitoring, investigations and enforcement.

Services Australia is responsible for monitoring family compliance. It does not monitor non-employment activities, is unable to identify CCS-related matters within its tip-off data, and its income monitoring via the CCS reconciliation process is not consistent with the Family Assistance Law (FAL), due to its reliance on lodged tax return data before a notice of assessment has been issued.

Education is responsible for monitoring provider compliance, and investigations and enforcement. It monitors whether providers continue to meet some conditions to administer CCS. It does not have assurance that all conditions are met, does not apply quality assurance across all monitoring and investigation activities, and does not investigate possible CCS provider overpayments identified while monitoring payment accuracy via the Random Sample Parent Check (RSPC). Its ability to effectively implement the *Child Care Subsidy Financial Integrity Strategy 2023–2027* (Integrity Strategy) is undermined by poor data quality in its Child Care Investigations System (CCIS) and a lack of cohesive enforcement strategy, which mean it is not able to assess whether decisions to take enforcement action are fair, impartial, consistent, or proportional.

#### Areas for improvement

The ANAO made four recommendations aimed at improving Services Australia's capacity to report to Education on CCS-related compliance matters, and Education's electronic investigation management system, management of possible overpayments detected by the RSPC, and operational policies and procedures.

3.1 Under the *Child Care Subsidy Financial Integrity Strategy 2023–2027* (Integrity Strategy), CCS compliance activities are based on a compliance pyramid (Figure 2.2), which provides for the following:

- where there is low risk of non-compliance and/or fraud, Education aims to make ongoing compliance easy and achievable by promoting voluntary compliance;
- where there is a risk of unintentional non-compliance, Education aims to provide information to support compliance;
- where there is opportunistic non-compliance, Education aims to correct behaviours; and

- where there is wilful non-compliance and fraud, Education aims to use the full force of the law to enforce compliance.<sup>41</sup>

## Is the management of prevention activities effective?

CCS program design, including the legislative framework administered by Education, has been strengthened to support compliance. Access to the program is managed via provider and individual application processes by Education and Services Australia respectively. Both entities provide appropriate information to stakeholders via a range of sector guidance, communications and advice. Education engages regularly with sector representatives and has commenced a project in March 2024 to improve the capability of Family Day Care (FDC) providers to comply with their obligations under the Family Assistance Law (FAL).

3.2 Regulators have responsibilities under both the Department of Finance Resource Management Guide 128, *Regulator Management Guide* (RMG 128) and *Commonwealth Fraud and Corruption Framework* to prevent non-compliance and fraud, including via program design and communication with stakeholders.<sup>42</sup> Effective prevention activities support individuals and child care providers to understand and comply with their CCS obligations.

### Program design

3.3 CCS program settings are documented in:

- The FAL, which includes application and ongoing eligibility requirements for families, providers and services.<sup>43</sup> Education maintains a proposed integrity legislation amendment register, which allows all relevant teams to suggest changes to the FAL, 'to increase financial integrity in the Child Care Subsidy'. Changes must be supported by the FIGB to be taken forward. Potential legislative amendments are included in Integrity Response Plans.
- 'First principles' documents agreed between Education and Services Australia, which set out how the FAL should be interpreted and given effect by Services Australia, for example in claims processing. These are regularly updated in accordance with protocols under the Services Schedule.
- Internal entity policies and processes which give effect to Government policy.

41 At each level of potential non-compliance, tactics introduced at the previous level may still be used. For example, adjustment of legislation and policy settings is used at the top three levels of the pyramid: inform; correct; and enforce.

42 Department of Finance (Finance), *Regulator Management Guide 128* [Internet], Finance, 2023, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/regulator-performance-rmg-128> [accessed 12 December 2024]; Attorney-General's Department, *Commonwealth Fraud and Corruption Control Framework 2024* [Internet], AGD, 2024, available from <https://www.counterfraud.gov.au/sites/default/files/2024-06/cfpc-framework-2024.pdf>, p. 13 [accessed 21 October 2024].

43 The Family Assistance Law comprises six pieces of legislation, primarily *A New Tax System (Family Assistance) Act 1999*, and *A New Tax System (Family Assistance) (Administration) Act 1999*. Education, *Family Assistance Law*, available from <https://www.education.gov.au/early-childhood/provider-obligations/family-assistance-law> [accessed 18 December 2024].

3.4 Since July 2022, Education has introduced program design changes to the CCS to better enable compliance, and close loopholes being exploited by non-compliant providers (Appendix 4).<sup>44</sup> Case study 1 details Education's process to develop and implement one of these changes, the Electronic Funds Transfer (EFT) requirements for child care fees introduced as part of the Cheaper Child Care package.

#### Case study 1. Electronic Funds Transfer measure

There is no entitlement to CCS for a session of care where a gap fee is not paid. Prior to 1 July 2023, Education's ability to identify non-compliance with this requirement was undermined by cash payment of gap fees to providers and services. Services can mask fraud by claiming gap fees are paid in cash. Electronic payment creates transaction records which can be used to determine whether CCS payments made match the sessions of care claimed.

Analysis of Random Sample Parent Check (RSPC) data indicated that an estimated 98.3 per cent of families usually paid gap fees electronically, meaning changes could be implemented without change for most families and providers. Education undertook targeted consultation with the child care providers and services from July 2022 to August 2022, which identified the need for an individual-level exception. From August 2022 to March 2023, Education consulted on the development of the individual exception with additional stakeholders, including domestic violence advocacy groups, third-party software providers and other government entities.

From 1 July 2023, changes came into effect. Subsection 201B(1) *A New Tax System (Family Assistance) (Administration) Act 1999* (the Administration Act) now requires a provider to take all reasonable steps to ensure an individual pays the gap fee using an electronic funds transfer (EFT) system. There are two exceptions to the EFT measure for individuals at risk of domestic violence and services experiencing exceptional circumstances in subsections 201B(1A) and (1B). A failure to comply with the EFT requirement is an offence under the FAL. The EFT measure is supported by an audit program to monitor compliance with the EFT requirements.

Education's analysis of RSPC data shows payment inaccuracy decreased from 7.0 per cent in 2021–22 to 3.6 per cent in 2023–24. Education estimated that, had payment accuracy not improved during this period, losses would have been \$998.4 million in 2023–24, compared with actual losses of \$484.1 million (Table 1.4). The improvement equates to a saving of \$508.4 million in projected versus actual payment accuracy.<sup>a</sup> In 2021–22, non-payment of gap fees made up 64 per cent of incorrect payments — by 2023–24 this had decreased to 4.1 per cent. In September 2023 and December 2023, no RSPC surveyed families reported non-payment of gap fees. EFT provider audits found non-compliance with EFT requirements in 12.6 per cent of audits conducted from October 2023 to October 2024 (paragraph 3.34).

44 While not in place during the period covered by this audit, *Regulatory Policy, Practice & Performance Framework* released in August 2024 (available from <https://www.regulatoryreform.gov.au/sites/default/files/Regulatory-Policy-Practice-and-Performance-Framework.pdf>) as part of the Australian Public Service Regulatory Reform agenda confirms the need for 'a more holistic, coordinated approach to regulatory policy, practice, and performance to prevent regulatory issues culminating in regulatory failure'. This means policymakers should 'work closely with regulators and stakeholders' and regulatory design should be informed by an understanding of 'existing regulatory systems' to 'leverage, integrate with, and modernise existing regulatory systems where possible'.



Note a: This figure is not comparable to savings figures presented elsewhere in this report (paragraphs 2.56 to 2.58) because it represents a saving against a projected loss, whereas savings presented elsewhere represent estimated actual year on year reductions in expenditure.

## Program access

3.5 Services Australia is responsible for approving family applications to access CCS.<sup>45</sup> Table 3.1 shows total application numbers and approval rates, and application and approval rates for CCS and ACCS separately.

**Table 3.1: CCS and ACCS applications, 2022–23 to 2023–24**

	2022–23	2023–24
CCS	493,488	437,288
CCS per cent approved (%)	97.16	97.24
ACCS	132,306	121,788
ACCS per cent approved (%)	84.79	88.58
<b>Total for CCS and ACCS</b>	<b>625,794</b>	<b>559,076</b>
<b>Total for CCS and ACCS per cent approved (%)</b>	<b>94.54</b>	<b>95.35</b>

Source: ANAO based on Services Australia documents.

3.6 The CCS application and approval process (Appendix 3) requires families to:

- report income and activity details to meet CCS entitlement criteria;
- provide proof of birth for each child included in the application; and
- verify enrolment details provided by the child care provider.

3.7 Application details are reviewed by Services Australia. Services Australia, through data-sharing arrangements with other government agencies, verifies identity or eligibility documents if provided, such as passport, tax file number and immunisation records via the Australian Immunisation Registry. Services Australia advised the ANAO on 24 October 2024 that if applications appear incomplete or irregular, officers will contact the applicant to seek further information.

3.8 Education is responsible for assessing and approving CCS applications from child care providers.<sup>46</sup> Since July 2023, as a result of the Joined Up Approvals project, National Law and FAL applications for new providers and services are made through the Australian Children’s Education and Care Quality Authority’s (ACECQA) National Quality Agenda IT System (NQA ITS). To be

45 Services Australia (SA), *Child Care Subsidy - How to claim* [Internet], SA, 2024, available from <https://www.servicesaustralia.gov.au/how-to-claim-child-care-subsidy?context=41186> [accessed 26 November 2024]. To access CCS, families must: care for a child 13 or younger who’s not attending secondary school, unless an exemption applies; use an approved child care service; be responsible for paying the child care fees; and meet residence and immunisation requirements. See: Services Australia, *Child Care Subsidy* [Internet], SA, 2024, available from <https://www.servicesaustralia.gov.au/child-care-subsidy> [accessed 21 October 2024].

46 The Department of Education (Education), *About the approval process* [Internet], Education, 2024, available from <https://www.education.gov.au/early-childhood/approval/about-approval-process> [accessed 21 October 2024].



approved, providers must have approval to operate under National Law<sup>47</sup>, meet eligibility rules set out in the FAL, and operate at least one service that meets the service eligibility requirements. There are two types of application: new provider applications, and applications to add a service to an existing provider. Applications and outcomes for 2022–23 and 2023–24 are outlined in Table 3.2.

**Table 3.2: CCS provider and service applications received, 2022–23 and 2023–24**

Year	Application type	Total applications <sup>a</sup>	Approval rate (%) as of September 2024 <sup>b</sup>
2022–23	<b>Provider applications</b>	<b>443</b>	<b>78</b>
	<b>Service applications</b>	<b>1,514</b>	<b>87</b>
	<i>Centre Based Care</i>	835	87
	<i>Outside of School Hours Care</i>	637	89
	<i>Family Day Care</i>	39	14 <sup>c</sup>
	<i>In Home Care</i>	3	100
2023–24	<b>Provider applications</b>	<b>896</b>	<b>83</b>
	<b>Service applications</b>	<b>1,113</b>	<b>95</b>
	<i>Centre Based Care</i>	566	88
	<i>Outside of School Hours Care</i>	544	96
	<i>Family Day Care</i>	3	0 <sup>d</sup>
	<i>In Home Care</i>	0 <sup>e</sup>	N/A <sup>f</sup>

Note a: 'Total applications' refers to the total number of applications received by Education in the period.

Note b: The approval rate does not include applications that were under assessment as at 23 September 2024. Where applications have not been approved, reasons were invalid (no valid information was submitted), lapsed (an application with 53 calendar days of inactivity), withdrawn by the applicant or refused applications.

Note c: The ANAO observed one Family Day Care application status was incorrect in the data provided by Education.

Note d: As at September 2024, one application was withdrawn and two were under validation.

Note e: There were no In Home Care service applications in 2023–24.

Note f: Not applicable.





Source: ANAO analysis of Education documentation.


3.9 The ANAO examined 26 approved CCS applications for Centre Based Care (CBC), Outside of School Hours Care (OSHC) and Family Day Care (FDC) from 2022–23 and 2023–24.<sup>48</sup> ANAO findings are summarised in Table 3.3.




47 *ibid.*

48 There were no Family Day Care provider or service applications that were submitted and approved in 2023–24. The applications assessed were submitted in 2020–21, 2021–22 and 2022–23.

**Table 3.3: ANAO assessment of Education’s management of provider and service CCS applications received, 2022–23 and 2023–24**

Requirement	Assessment
<b>National Law Approval</b> Prior to CCS approval, providers must obtain approval from their state or territory regulator to operate under National Law. <sup>a</sup>	 All (26) approved provider applications met this requirement.
<b>Eligibility for CCS under the FAL</b> Applicants must demonstrate eligibility for CCS under the FAL by: <ul style="list-style-type: none"> <li>operating an approved care type;</li> <li>meeting requirements for care type;</li> <li>demonstrating key personnel are fit and proper (including financial viability); and</li> <li>providing appropriate governance arrangements.</li> </ul>	 All (26) applications demonstrated eligibility under the FAL. Of the FDC applications selected (six), 33 per cent (two) were approved only after a request to review the initial approval decision was received.
<b>Fit and proper person checks</b> The FAL requires CCS provider persons in management or control (PMC) to be ‘fit and proper’. <sup>b</sup> <ul style="list-style-type: none"> <li>Required documentation for a provider application to demonstrate a PMC is ‘fit and proper’ includes: a national police check, a Working With Children Check<sup>c</sup> (WWCC), a national personal insolvency check, and evidence of sustainable financial management to sustain a business.</li> <li>For FDC provider applications, PMCs are required to complete a governance statement and an online assessment testing FAL obligations.</li> <li>For service applications, only persons with day-to-day operational responsibility are required to provide a national police check.<sup>d</sup></li> </ul>	 All (26) applications had the required mandatory documentation for application type.
<b>Document verification</b> Some documents required by the application processes can be verified by contacting the issuing authorities (national police check, working with children checks and ASIC records).	 96 per cent (25 out of 26) of application assessments stated all mandatory documentation was verified, and evidence of this was not consistently recorded: <ul style="list-style-type: none"> <li>27 per cent (seven out of 26) of application assessments contained evidence of verification.</li> <li>4 per cent (one out of 26) recorded that the assessment did not verify all mandatory documentation.</li> </ul>

Requirement	Assessment
<b>Correspondence record keeping</b>	 <p>All (26) applications have correspondence with the applicant documented in a record management system.<sup>e</sup></p>

Key:  Fully meets criteria  Partly meets criteria  Does not meet criteria.

Note a: Section 194(b) of the *A New Tax System (Family Assistance) (Administration) Act 1999*.

Note b: *ibid.*, Part 8, Division 1, section 194D.

Note c: A WWCC, also known as Working With Vulnerable People checks in the Australian Capital Territory and Tasmania, are administered by state and territory based legislation, regulations and pre-screening requirements. WWCC are not transferable between states and territories. See: Australian National Character Check, *Working with Children Checks in Australia* [Internet], ANCC, 2024, available from <https://www.australiannationalcharactercheck.com.au/working-with-children-checks> [accessed 22 November 2024].

Note d: Child Care Subsidy Secretary's Rules 2017, paragraph 7(a)(vi).

Note e: Prior to Education's use of NQA ITS for Provider Approvals, it would use Content Manager as its record management system. Education advised the ANAO on 16 December 2024 that the Provider Approvals team would 'store the documents that related to the assessment of the application in NQA ITS and store the email correspondence as well as the final Notice of Approval in Content Manager' until early 2024. There was no clear reference that the email correspondence, including Notice of Approval was saved into Content Manager for five applications.

Source: ANAO based on Education documents.

3.10 Training and guidance documentation is provided for staff processing applications. The following deficiencies were identified in relation to this training and guidance:

- Education advised the ANAO on 4 September 2024 that all new staff undertaking provider approvals are required to undertake relevant training, however 'no formal register [of training completions] is kept'.
- Education does not have separate quality assurance process for its provider approvals.
- Education does not provide guidance to staff to manage conflicts of interest in the application process (paragraph 2.10).
- Services Australia has limited oversight of the completion of mandatory training for officers processing CCS applications. On 10 October 2024, Services Australia advised the ANAO that CCS related 'skill tags' are allocated once mandatory training is completed. Once a skill tag has been allocated, an officer may (but does not necessarily) undertake the relevant work.

## Information provision

3.11 RMG 128 emphasises meaningful, timely, and accessible communication and stakeholder engagement.<sup>49</sup> The Integrity Strategy aims to make ongoing compliance easy and achievable through provider guidance and sector communications, and frontline sector advice.

49 Finance, *Regulator Management Guide 128 Principle 3: Collaboration and engagement* [Internet], Finance, 2023, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/regulator-performance-rmg-128> [accessed 12 December 2024].

### *Provider guidance and sector communications*

3.12 Both Education and Services Australia encourage compliance by providing information about program eligibility and compliance requirements via their websites and communicating with providers, services and families about program changes. For example, in 2023 and 2024:

- Education communications focussed on provider and service obligations, changes to the implementation or requirements of CCS that may impact services, and promoting voluntary compliance; and
- Services Australia communications focussed on advising families about their ongoing obligations, including how to prepare for and what may occur at tax time, and changes to legislation that may impact families' eligibility for CCS services.

3.13 Both entities also communicate the consequences of non-compliance:

- Education's website includes information about how CCS is regulated, including information about the Integrity Strategy and the Enforcement Action Register.<sup>50</sup> Relevant information is also included on its application forms, supporting documents, and notice of approval.
- Services Australia informs families of their obligations to provide and maintain accurate information and the consequences of non-compliance in its application form. The form also states '[a]ny incorrect information will cause delays. Also, if any information you give us is intentionally false or misleading, then your payments may stop.'

3.14 ANAO assessment of the communication activities relevant to CCS during this period and selected guidance and information products are summarised in Table 3.4. Both entities evaluated their campaigns, and found:

- access and engagement targets were met;
- increased understanding was either not measured (Education) or not achieved (Services Australia); and
- the Child Care Subsidy Changes campaign was certified as compliant with the *Australian Government Guidelines on Information and Advertising Campaigns by Commonwealth entities (Guidelines)* by the Secretary.

3.15 Only Services Australia recorded lessons learned from campaigns for future implementation.

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50 The Enforcement Action Register publishes information about enforcement action against early childhood education and care providers and services who do not comply with Family Assistance Law. It includes details of instances of suspending or cancelling approvals, civil penalty orders, and criminal convictions. Education, *Enforcement action register* [Internet], Education, 2025, available from <https://www.education.gov.au/early-childhood/providers/compliance-and-enforcement/enforcement-action-register> [accessed 11 March 2025].

**Table 3.4: ANAO assessment of entity communication activities, 1 July 2023 to 30 December 2024**

<i>Elements of Resource Management Guide 128 Principle 3: Collaboration and engagement</i>	Education	Services Australia
<b>Communications</b>		
Are communications provided at a time where it allows for appropriate engagement by relevant stakeholders?	◆	◆
Are communications relevant and clear to target populations?	◆	◆
Are communications accessible to a wide range of audiences, including vulnerable populations?	▲ <sup>a</sup>	◆
Has Education appropriately identified and profiled the audience to effectively communicate to the correct groups?	◆	◆
<b>Guidance and information products</b>		
Are guidance and information products provided at a time where it allows for appropriate engagement by relevant stakeholders?	◆	◆
Are guidance and information products relevant and clear to target populations?	◆	◆
Are guidance and information products accessible to a wide range of audiences, including vulnerable populations?	▲ <sup>a</sup>	▲ <sup>b</sup>

Key: ◆ Fully meets criteria ▲ Partly meets criteria ■ Does not meet criteria.

Note a: In its high-level communication plan, Education's observations of the sector included 'research shows that a significant proportion of our audience have a language other than English', and that 'unintentional non-compliance can be improved by providing non-English translations of key materials'. As of 20 January 2025, Education has translated four out of nine videos of its compliance video series into 11 languages. See The Department of Education, Compliance video series [Internet], Education, 2025, available from <https://www.education.gov.au/early-childhood/providers/compliance-and-enforcement/video-series> [accessed 17 February 2025].

Note b: The information provided is clearly written with visual aids, such as short informational videos. Videos have the option of closed caption in English and can be automatically translated to other languages. The headlining webpage, *Child Care Subsidy*, has the option for translation, the explanatory webpage pages (for example, 'How much you can get [of CCS]') do not.

Source: ANAO analysis of Education and Services Australia documentation, based on Department of Finance, *Resource Management Guide 128 Principle 3: Collaboration and engagement* [Internet], Finance, 2023, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/regulator-performance-rmg-128/principle-3-collaboration-and-engagement> [accessed 4 November 2024]; and Government of South Australia Department of Premier and Cabinet, *Fact Sheet: High quality communication strategy* [Internet], Government of South Australia, available from <https://www.dpc.sa.gov.au/responsibilities/community-engagement/documents/bt-fact-sheet-high-quality-communication-strategy.pdf> [accessed 4 November 2024].

3.16 Education also provides training for providers and services via Get Early Child Care Knowledge Online (GECKKO) learning modules. An evaluation of GECKKO, undertaken in September 2023, found 90 per cent of users said the courses met or exceeded their expectations, with average course ratings of 4.56 out of 5. The evaluation cited requests for additional languages and accessibility tools (for example, voice over), pointing to further work needed on the accessibility of courses.

## Sector advice

3.17 Education provides support for child care providers and services through its call centre telephone line and email ‘Provider Helpdesk’, see Table 3.5.

**Table 3.5: Contacts with Education’s Provider Helpdesk, 2022–23 and 2023–24**

Communication type	Year	Number	Phone wait/email resolution time <sup>a</sup>
Telephone line	2022–23	28,690	2 minutes 14 seconds
	2023–24 <sup>b</sup>	28,261	1 minute 21 seconds
Email <sup>c</sup>	2022–23	9,227	4 days
	2023–24 <sup>b</sup>	8,932	2 days

Note a: The call centre telephone line is measured by average wait time, and email cases are measured by the median resolution time.

Note b: Education advised the ANAO on 14 February 2025 that the reduction in wait and resolution time was due to an additional two staff in 2023–24.

Note c: Education advised the ANAO on 4 December 2024 that the numbers reflect email cases created and do not reflect number of emails sent and received within a single case.

Source: ANAO analysis from Education documentation.

3.18 Services Australia answers inquiries from individuals about CCS via its Families and Parents Centrelink call centre telephone line. Services Australia advised the ANAO on 5 December 2024 that it is ‘unable to accurately separate CCS caller experiences from other Family and Parenting caller experiences’, see Table 3.6.

**Table 3.6: Contacts with Services Australia’s Families and Parents call centre line in 2022–23 and 2023–24**

Year	Number of calls	Average speed of answer (minutes:seconds)
2022–23	7,749,244	34:58
2023–24	8,376,118	49:34

Source: ANAO analysis of Services Australia documentation.

3.19 Between January 2022 and January 2024, Education also contacted selected providers and services to remind them of their obligations under the FAL. In 2022–23 and 2023–24, letters were sent to providers about four issues. Three issues related to providers identified as in breach of their obligations, and are discussed in paragraph 3.38. One campaign targeted providers without known non-compliance issues. This campaign focused on FDC providers in August 2023, it referred to ‘articles in the media about a recent operation’ related to an ‘alleged Family Day Care fraud of a Western Australian Provider’. Letters reminded providers about their obligations and encouraged compliance.

## Capability building and sector engagement

3.20 In March 2024, after ongoing consultation since 2022, Education began a project to improve compliance capability in the FDC sector, which has the lowest payment accuracy rate. Called the ‘Family Day Care Capability Trial’, this work aims to ‘inform potential systemic fixes to the current [FDC] model to improve integrity’ and to increase capacity of participating educators, focussing on

regional areas with limited supply of early childhood education and care. The Family Day Care Capability Trial is funded for three years from 11 March 2024 to 30 June 2026.

3.21 Ongoing consultation with representatives of the early childhood education and care sector, is maintained via the Early Childhood Education and Care Reference Group (ECECRG), which is chaired by Education's Deputy Secretary, Early Childhood and Youth. Membership is representative of care types, jurisdictions, for-profit, not-for-profit, and government providers, as well as Indigenous, rural and remote, and vulnerable and disadvantaged cohorts.

## Is the management of monitoring and investigation activities effective?

Education and Services Australia monitor family and provider compliance with the FAL using family income, sessions of care information from providers, EFT provider audits, and manual checking of provider reporting. These controls focus on incorrect session reporting resulting in incorrect payment. Education does not have assurance that certain other requirements, such as fit and proper person requirements, are met after initial CCS approval has been granted. Where non-compliance is suspected, Education may choose to conduct an administrative or criminal investigation. Services Australia's use of data for checking family income is not consistent with the FAL, and there are deficiencies in Education's record keeping, monitoring of ongoing provider and service eligibility for CCS, and quality assurance arrangements in both EFT provider audits and investigations. Services Australia's collection of tip-off information does not effectively support the identification of CCS matters.

3.22 Monitoring of families by Services Australia, and providers by Education, is a proactive way of assessing and influencing compliance. It is critical to understanding the extent and nature of non-compliance within the CCS. It also provides an incentive for providers, services, and families to comply with their regulatory obligations.

3.23 In instances where monitoring detects potential non-compliance, Education is responsible for determining if an investigation should be conducted to collect information or evidence to inform a course of action, which may be preventative, disruptive, or prosecutorial.<sup>51</sup>

## Monitoring

### Families

3.24 Services Australia applies two monitoring mechanisms to families receiving CCS:

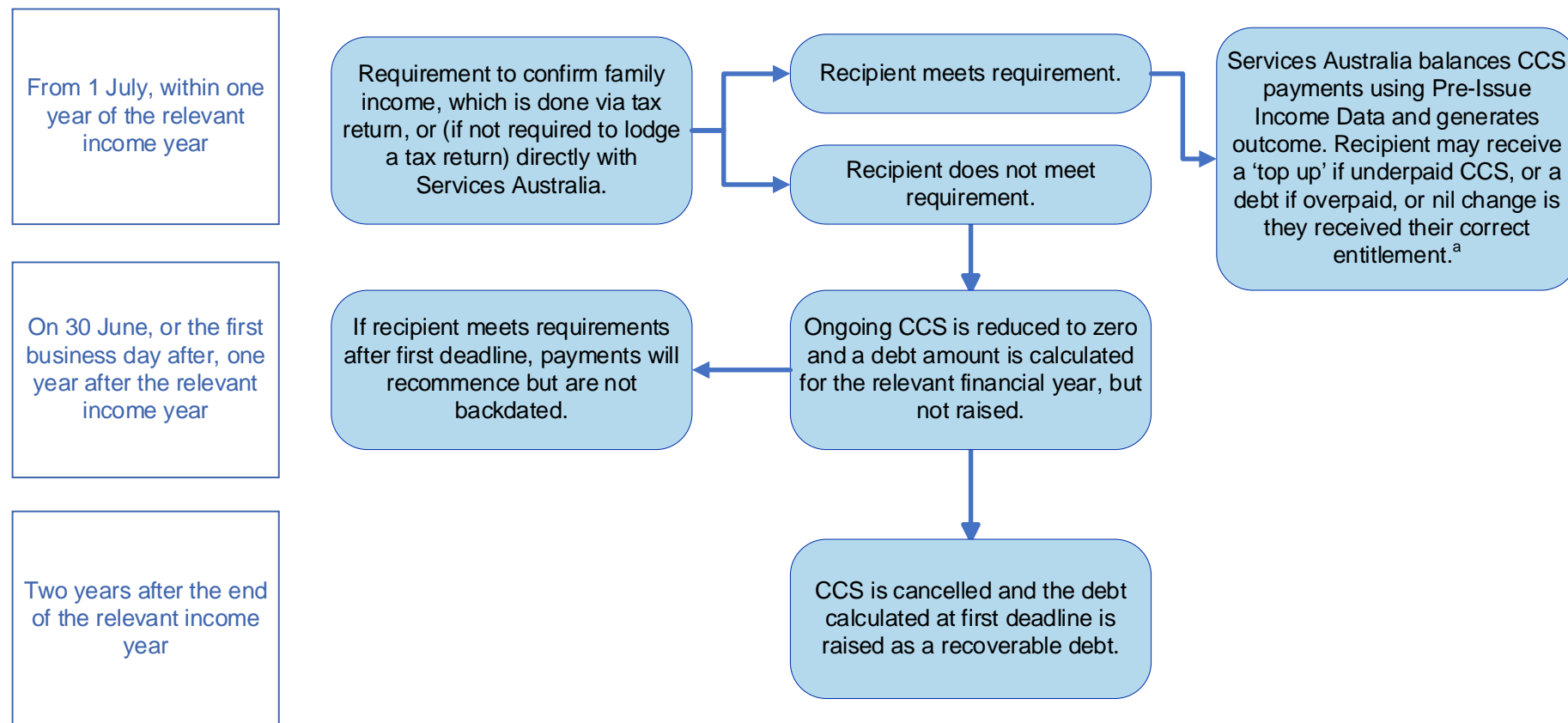
- Throughout the year, Single Touch Payroll (STP) data from the Australian Taxation Office (ATO) is used to monitor the income of Family Tax Benefit (FTB) recipients.<sup>52</sup>
- After the end of each financial year, Services Australia compares the amount of CCS paid to families (based on initial income estimates by the family, see paragraph 1.6), with the amount the family should have received, based on financial year income. The reconciliation process is summarised in Figure 3.1.

51 Paraphrased from Australian Federal Police, *Australian Government Investigations Standards 2022*, AFP, October 2022, available from <https://www.afp.gov.au/news-centre/publications/australian-government-investigations-standard> [accessed 12 July 2024].

52 In 2022–23, 474,291 out of approximately 1.2 million CCS recipients, or 40.7 per cent, of CCS recipients also received FTB. In 2023–24, the figure was 427,252 of approximately 1.0 million CCS recipients, or 41.8 per cent. Messages are not sent to individuals who are single and receiving income support (who are not income tested for FTB) and individuals who have received a message via the STP program within the past 42 days.



**Figure 3.1: Simplified CCS reconciliation process**



Note a: Services Australia will rebalance CCS if change in circumstances, including new income details, is received.

Source: ANAO based on Education and Services Australia documents.



3.25 Services Australia uses Pre-Issue Income Data (PIID) from the ATO (that is, data taken from a claimant's lodged tax return before a notice of assessment has been issued) in the reconciliation process. If new income details are received, Services Australia will recalculate the reconciliation outcome (referred to as 'rebalancing'). On 7 May 2025, Services Australia advised the ANAO that fewer than one per cent of reconciliations are rebalanced. *A New Tax System (Family Assistance) (Administration) Act 1999* provides that where a person is required to submit a tax return, CCS reconciliation conditions are met only if the Commissioner of Taxation has made an assessment of the taxable income of the CCS claimant(s).<sup>53</sup> The use of PIID for CCS reconciliations is not consistent with the FAL.<sup>54</sup>

3.26 Table 3.7 shows most families met the reconciliation deadline requirements, with 0.82 per cent of families not meeting second deadline requirements in 2021–22 as at October 2024. The most common outcome from reconciliation is for the family to have an outstanding CCS amount repaid to them. Services Australia withholds 5 per cent of a person's CCS (unless the person chooses to vary this amount) to reduce the likelihood of overpayment.

**Table 3.7: Services Australia reported CCS reconciliation outcomes, 2021–22<sup>a</sup> to 2023–24, as at October 2024<sup>b</sup>**

	Total	2 <sup>nd</sup> deadline not met <sup>c</sup>	1 <sup>st</sup> deadline not met <sup>c</sup>	Not reconciled <sup>c</sup>	Difference paid to family <sup>c</sup>	Debt raised <sup>c</sup>	No change <sup>c</sup>
2021–22	1,406,774	11,501 (0.82%)	176 (0.01%)	1,495 (0.11%)	796,228 (56.60%)	266,611 (18.95%)	330,763 (23.51%)
2022–23	1,166,076	N/A <sup>d</sup>	31,514 (2.70%)	8,227 (0.71%)	796,650 (68.32%)	255,495 (21.91%)	74,190 (6.36%)
2023–24	1,023,184	N/A <sup>d</sup>	N/A <sup>d</sup>	484,862 (47.39%)	443,479 (43.34%)	77,562 (7.58%)	17,281 (1.69%)

Note a: Although this audit focused on 2022–23 and 2023–24, reconciliation outcomes back to 2021–22 were analysed to capture outcomes from the multi-year first deadline and second deadline processes referred to in Figure 3.1.

Note b: Figures are taken as of October 2024, and may not match other data, as reconciliation outcomes are subject to ongoing revision.

Note c: Percentages are of the yearly total.

Note d: N/A indicates the 2nd deadline has not yet arisen for the financial year.

Source: ANAO analysis of Services Australia data.

3.27 CCS recipients or third parties can provide tip-offs about non-compliant or fraudulent CCS recipients to Services Australia. Services Australia cannot identify the number of tip-offs that relate to CCS, as there is no CCS-specific category in the Services Australia tip-off data. Where relevant information is identified during tipoff analysis, Services Australia refers CCS tip-offs to the

53 Section 103A of the *A New Tax System (Family Assistance) (Administration) Act 1999* provides that reconciliation conditions are met where the Commissioner of Taxation has made an assessment of the taxable income of the CCS claimant(s) for the relevant income year, or, if a claimant is not required to lodge an income tax return in respect of the income year, the Secretary is provided with the claimant's adjusted taxable income for the relevant year.

54 As of May 2025, Services Australia and Education are in the process of considering legal advice on the use of PIID for CCS reconciliations.

Department of Education. Services Australia identified one such example from September 2024 of possible child care provider fraud lodged with Services Australia.

#### Recommendation no. 4

3.28 Services Australia work with the Department of Education to review and revise its arrangements for collecting and reporting information about Child Care Subsidy compliance-related matters, including tip-offs, risk assessments and controls, and investigations, to ensure sufficient information is provided to the Department of Education to oversee compliance activities.

**Services Australia response:** *Agreed.*

3.29 *The Agency will work with the Department of Education to review and revise arrangements for collecting and reporting information about program compliance-related matters.*

**Department of Education response:** *Agreed.*

3.30 *See paragraphs 2.23 to 2.25.*

#### Providers and services

3.31 In 2022–2023 and 2023–2024, Education applied four monitoring and detection mechanisms (Table 3.8) to detect possible non-compliance among providers and services:

- Intelligence analytics using weekly ‘session reports’ of all sessions of care, which the Secretary’s rules require providers to submit with information about dates, times, and whether the child attended.<sup>55</sup> Education uses session reports to monitor service risk against risk indicators, and prioritise services for further compliance action (paragraph 2.38 to 2.39).<sup>56</sup>
- Tip-offs, complaints, and fraud referrals.
- Checking of selected providers’ compliance with electronic payment of gap fee requirements (referred to as provider audits by Education and EFT providers audits in this

<sup>55</sup> Requirements for session reports are set out in section 13 of the Secretary’s rules.

<sup>56</sup> Under its Integrity Detection Framework, Education is aiming to improve the identification of emerging risks by training a machine learning model to predict the subsidy each provider would be expected to receive, and identify providers significantly exceeding predicted subsidy payment rates. According to Education, its ‘machine learning models learn relationships within labelled data to identify similar relationships in unlabelled data’. In August 2024, the government released the *Policy for the responsible use of AI in government* to position the Australian Government sector ‘as an exemplar under its broader safe and responsible AI agenda’ and ‘to create a coordinated approach to the government’s use of AI’. The policy came into effect on 1 September 2024 and requires: entities designate ‘accountable officials’ by 30 November 2024, and entities publish AI transparency statements by 28 February 2025. Digital Transformation Agency, *Policy for the responsible use of AI in government*, DTA, August 2024, available from <https://www.digital.gov.au/policy/ai/policy> [accessed 16 August 2024]. Education published a transparency statement on 28 February 2025. Education, *Artificial Intelligence (AI) Transparency Statement*, Education, available from <https://www.education.gov.au/about-department/corporate-reporting/artificial-intelligence-ai-transparency-statement> [accessed 24 March 2025]. The transparency statement does not cover CCS machine learning models.

report), which check compliance with electronic collection of gap fee requirements based on provider records (case study 1).

- Compliance checks across the sector (Table 3.8 and case study 2).

**Table 3.8: Monitoring and detection mechanisms used by Education, 2022–23 to 2023–24**

	Intelligence analytics	Tip-offs, complaints, and referrals		EFT provider audits <sup>a</sup>	Compliance checks
		Complaints and tip-offs	Fraud referrals		
2022–23	105 <sup>b</sup>	167	5	0	0
2023–24	6 <sup>c</sup>	163	4	278	3

Note a: 70 EFT provider audits conducted in the first quarter of 2024–25 are included in Figure 3.3 and Table 3.9. These are not included here as they are outside the relevant financial years.

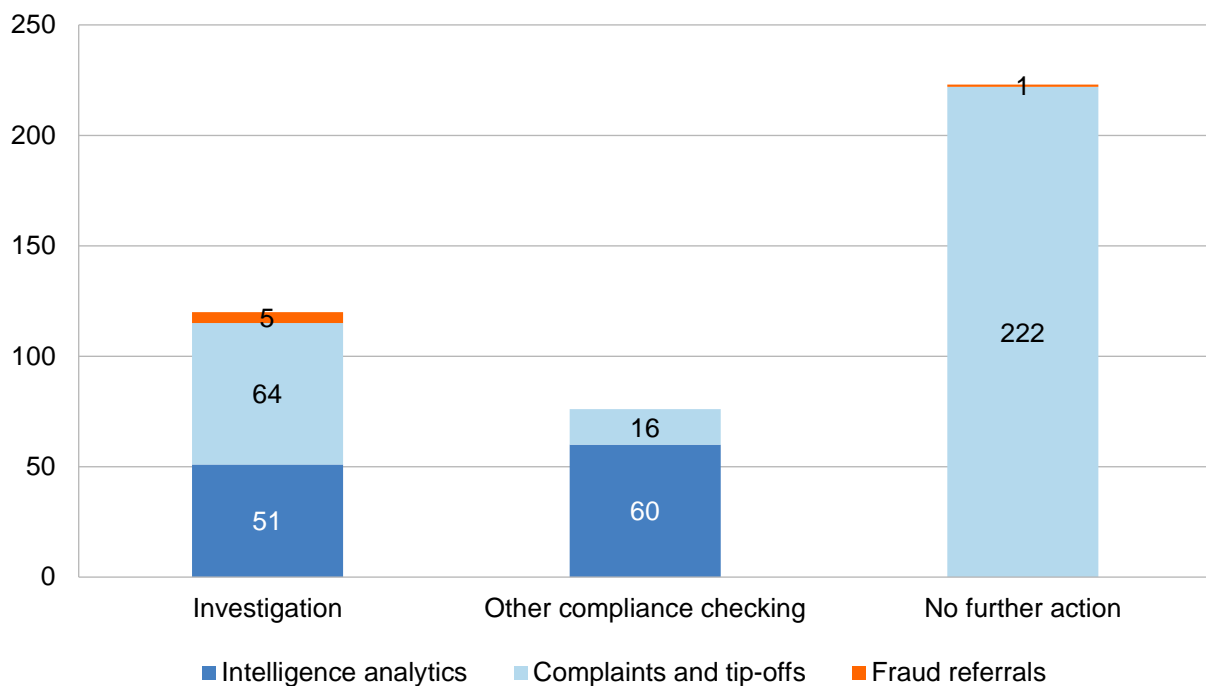
Note b: Includes 6 referrals based on Intelligence reports, and 99 bulk referrals based on risk indicators, which were referred as part of Education's testing of detection capabilities.

Note c: The decline in Intelligence Analytics from 2022–23 to 2023–24 reflects no 'bulk referrals' (which are based on analysis of session reports using risk indicators, rather than individual analysis of a provider or service's risk profile) identified for 2023–24. Bulk referrals continued to be used in 2024–25.

Source: ANAO based on Education data.

3.32 In 2022–23 and 2023–24, intelligence analytics, complaints and tip-offs and fraud referrals collectively led to 120 referrals for investigation, and 76 referrals for other compliance checking, including EFT provider audits, and 223 decisions to take no further action (Figure 3.2).

**Figure 3.2: Outcomes<sup>a</sup> of intelligence analytics, tip-offs, complaints, and referrals<sup>b</sup>, 2022–23 to 2023–24**



Note a: Items still open or with no agreed referral outcome have been excluded from this figure. As such, the totals do not match those in Table 3.8.

‘Other compliance checking’ is made up of sending letters reminding providers and services of their obligations, or letters identifying specific areas of non-compliance to be addressed, or conducting an EFT provider audit, or re-audit.

Note b: Number of referrals for investigation or other action do not equate to number of investigations, audits, or other checks undertaken, as investigations may not be accepted, and more than one referral can be processed for a single matter.

Source: ANAO analysis based on Education data.

3.33 Between October 2023, when Education’s EFT provider audit function commenced, and October 2024, Education conducted 348 EFT provider audits against an annual target of 500 under the Integrity Strategy. Providers with low to high risk<sup>57</sup> ratings were selected, based on risk ratings against indicators hypothesised to indicate potential issues with gap fees.

3.34 Non-compliance was identified in 207 of the audits conducted (59.5 per cent of all EFT provider audits) (Figure 3.3). Of those providers identified as non-compliant, 13 (6.3 per cent) were non-compliant with gap fee requirements only, 26 (12.6 per cent) were non-compliant with gap fee and other requirements, and 168 (81.2 per cent) were non-compliant with other requirements only.<sup>58</sup> From these audits, as of January 2025, Education:

- issued 20 infringements notices;
- imposed conditions three times<sup>59</sup>;
- referred two matters for fraud investigation; and
- decided to conduct 48 re-audits, all of which have been conducted or scheduled for early 2025.

3.35 Although non-compliance was observed at all risk levels (Figure 3.3), the current selection approach is not consistent with the risk based approach outlined in the Integrity Strategy. Under the Integrity Strategy, EFT provider audits should be conducted to correct non-compliance and address exploitative and opportunistic behaviours, at the correction level of the compliance pyramid, which applies to medium to high risk providers. The team responsible for EFT provider audits is also identified in the Integrity Strategy as providing guidance, early intervention, and public reporting and media exposure of enforcement action (but not conducting audits) at the other levels of the compliance pyramid. On 1 May 2025, Education advised the ANAO that:

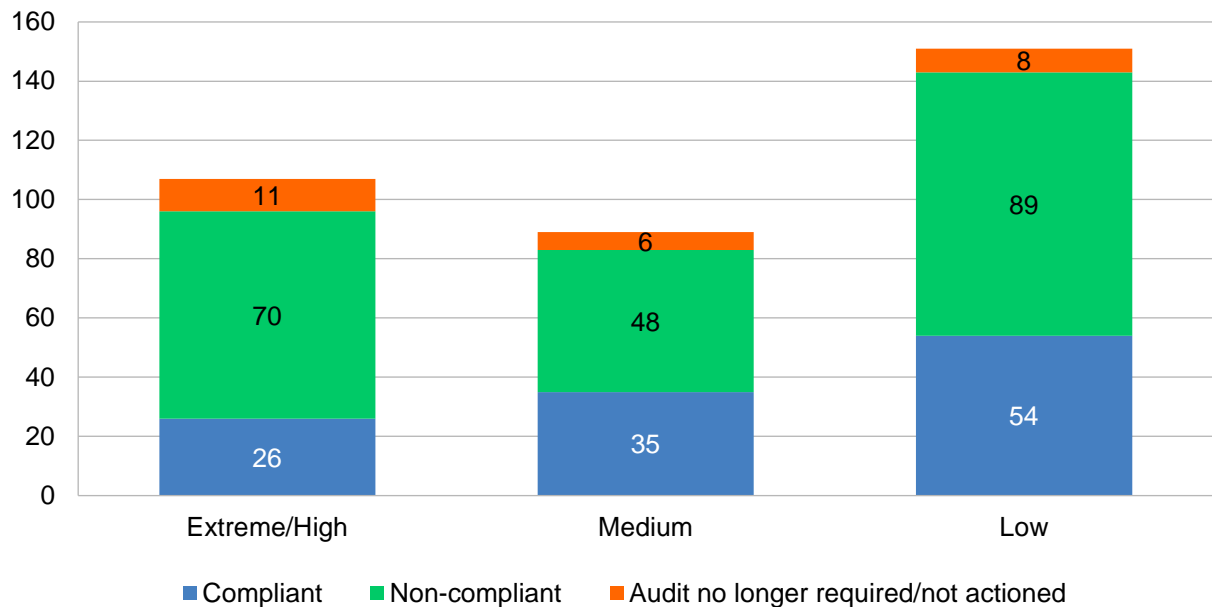
the department’s experience shows the educative focus of provider audits has been highly valued by the sector, and non-compliance has still been detected in lower risk providers ... Ensuring a case mix across high medium and low risk providers also reinforces the message that all providers need to ensure full compliance because they may be subject to an audit, helping to maximise sector wide behaviour change.

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57 Previously ‘extreme’.

58 Examples of non-compliance that was not gap fee related include failure to report or update working with children check details; failure to notify of changes to fees; late notice of variations to enrolments; inaccurate or incomplete reporting of sessions of care; failure to report a new PMC or educator; and failure to notify of closure of service.

59 Conditions were two instances of requiring the provider to move to centralised collection of gap fees rather than educator collection within three months, and one instance of the provider being required to complete training courses in relation to provider obligations via the Get Early Child Care Knowledge Online (GECKKO) learning modules.

**Figure 3.3: EFT provider audits and outcomes<sup>a</sup> by risk rating<sup>b</sup>, October 2023 to October 2024**

Note a: One audit no longer required/not actioned has been omitted from this figure as no risk rating was recorded.

Note b: On 14 February 2025, Education advised that the 'extreme' risk rating was in use until approximately September 2024. It has now been replaced with 'high'. Extreme and high risk ratings have been combined by the ANAO for this figure.

Source: ANAO analysis based on Education data.

3.36 ANAO analysis of 35 EFT provider audits (Table 3.9) found the department's management of EFT provider audits complied with policy guidance except for:

- quality assurance, which involved only delegate approval of process documents and outcomes;
- documentation, some of which had been omitted in the switch from one information management system to another; and
- documenting approval for audits not proceeding.

**Table 3.9: ANAO assessment of EFT provider audits, October 2023 to October 2024**

Investigation type	Authorisation	QA/review	Documentation	Adherence to departmental process
Desktop audits	●	◐	◐	●
Site visit audits	●	◐	●	●
Audits that did not proceed <sup>a</sup>	◐	N/A	◐	N/A

Key:

- No deficiencies identified
- ◐ Minor deficiencies identified
- ◑ Criteria not met in at least half of items tested
- ◒ Criteria not met in at least one quarter of items tested, and absent in some items
- Criteria not met

**N/A** Audits did not proceed far enough for Education to take action required for the ANAO to accurately assess adherence to departmental processes.

Note a: Assessment relates only to documentation and authorisation of audit processes up to the point the decision was taken not to proceed with the audit.

Source: ANAO analysis of Education documents.

3.37 In 2022–23 and 2023–24, checking compliance with the FAL was undertaken in three cases outside the EFT provider audit process:

- Family Day Care and In Home Care educator WWCC reporting (services with registered educators without a current WWCC were identified and contacted);
- provider fee reporting (case study 2); and
- late session reporting (providers requesting to submit, update or withdraw session reports outside the allowed 14 days during the previous year were identified and contacted).

3.38 Together, these compliance checks resulted in 12 infringement notices being issued.

#### Case study 2 Provider fee reporting educational letters

Under the FAL, providers are required to report each services' full hourly fees, session fees and any changes to fees to Education within 14 days of the change. Education publishes the fee information from providers on StartingBlocks.gov.au, 'for families and communities to find and compare services'.<sup>a</sup>

Education's website data showed as of July 2023, 36 per cent of providers had not updated their fees in 12 months and 824 were reporting a website address only, rather than actual fees. Between 4 and 12 July 2023, Education reviewed the URL links for the 824 providers and identified 128 providers whose published fee information was incorrect. On 3 October 2023, the 128 providers identified were sent a letter via email noting the service was not compliant with the fee reporting obligation, and providing information about the obligation and consequences for non-compliance.

At the time of project closure in January 2024, Education referred a total of 12 providers for infringements<sup>b</sup> against section 204F of the *A New Tax System (Family Assistance) (Administration) Act 1999*.

Note a: Australian Children's Education & Care Quality Authority, *StartingBlocks.gov.au* [Internet], ACECQA, available from <https://www.startingblocks.gov.au/> [accessed 15 January 2025].

Note b: Education issued four infringements on 31 August 2023 where it identified providers that had no record of reported fees on StartingBlocks.gov.au prior to the commencement of the letters campaign.

#### Gaps in monitoring and detection

3.39 Table 3.10 summarises the coverage of Education's monitoring and detection activities, as outlined in paragraphs 3.31 to 3.38. These focus on incorrect reporting/claiming, consistent with the Integrity Strategy objective to improve payment accuracy. Education does not have assurance that providers and services meet certain other requirements for ongoing approval after initial approval has been granted.<sup>60</sup> These include:

60 Under section 195G of the *A New Tax System (Family Assistance) (Administration) Act 1999*, the Secretary may at any time reassess whether a provider is complying with any conditions for continued approval.

- some conditions for continued approval, such as fit and proper person requirements and provider governance requirements; and
- some requirements to notify Education of certain matters, such as advertised fee arrangements, staff changes, and if the provider enters into administration, liquidation or bankruptcy — while Education has developed reports to monitor reporting of many of these items, incorrect or missing reporting cannot be detected via these.

3.40 Education advised the ANAO on 28 April 2025 that its approach to assurance over requirements for ongoing approval after initial approval is risk based. A provider declaration of compliance with the FAL is to come into effect from 1 July 2025. The accuracy of the information in the declaration will not be directly tested by Education. Education further advised the ANAO, it 'is intended to be used as a non-burdensome method to establish non-compliance history, enable an opportunity for education, and inform more involved compliance activities such as audits and compliance investigations.'

**Table 3.10: ANAO assessment of monitoring and detection to identify provider non-compliance with the FAL**

	Incorrect session reporting resulting in incorrect payment	Failure to comply with requirements to notify the Secretary of certain matters	Failure to comply with other <sup>a</sup> conditions for continued approval
Monitoring	◆	▲	▲
Detection	◆	▲	▲

Key: ◆ Good coverage. ▲ Partial coverage. ■ Low coverage.

Note a: 'Other conditions for continued approval' refer to conditions for continued approval not captured by session reporting and Secretary notification requirements, such as the requirement for large providers to be financially viable and be likely to remain so.

Source: ANAO based on Education information.

3.41 Education has identified gaps in relation to monitoring families, or the interface between families and providers, where Education has no line of sight to Services Australia's risk management, such as:

- monitoring of compliance with non-employment activity requirements such as study or job search;
- detection of income concealment, such as cash-in-hand work and certain tax avoidance schemes; and
- detection of collusion between parents and providers.

3.42 As of April 2025, no actions are underway to address these gaps.

## Investigations

3.43 The *Australian Government Investigations Standards 2022* (AGIS) establish requirements for Australian Government investigations, including record keeping, performance measures, investigator qualifications, work with other agencies (including foreign agencies), information sharing, ethical conduct, and media management.

3.44 All CCS investigations are led by Education, which conducts administrative and criminal investigations, as well as joint investigations with state and territory regulators under the Joint Compliance Monitoring Program (JCMP). Services Australia provides support for investigations via its digital forensics capabilities, which are engaged by Education’s criminal investigators team to assist with major fraud operations. In 2022–23 and 2023–24, Education requested digital forensics assistance six times for five investigations, comprising four requests in 2022–23, and two requests in 2023–24.

3.45 In 2022–23 and 2023–24, Education reports having undertaken a total of 193 administrative investigations, and 13 criminal investigations (Table 3.11).

**Table 3.11: Education-led investigations completed<sup>a</sup>, 2022–23 to 2023–24<sup>b</sup>**

	2022–23	2023–24	Total
Administrative <sup>c</sup>	100	93	193
Non-JCMP <sup>d</sup>	75 <sup>e</sup>	68 <sup>e</sup>	143
JCMP	25	25	50
Criminal	8	5	13

Note a: The number of investigations completed in a year does not equate to the number of investigations commenced in that same year.

Note b: There may be some duplication between administrative and criminal investigation counts in this table, due to referrals between functions.

Note c: Education’s reported number of administrative investigations includes all activity coded as such in the Child Care Intelligence System (CCIS). This includes activity that does not meet the definition of an investigation under the AGIS, such as a single phone call to establish the validity of a request to modify a session report.

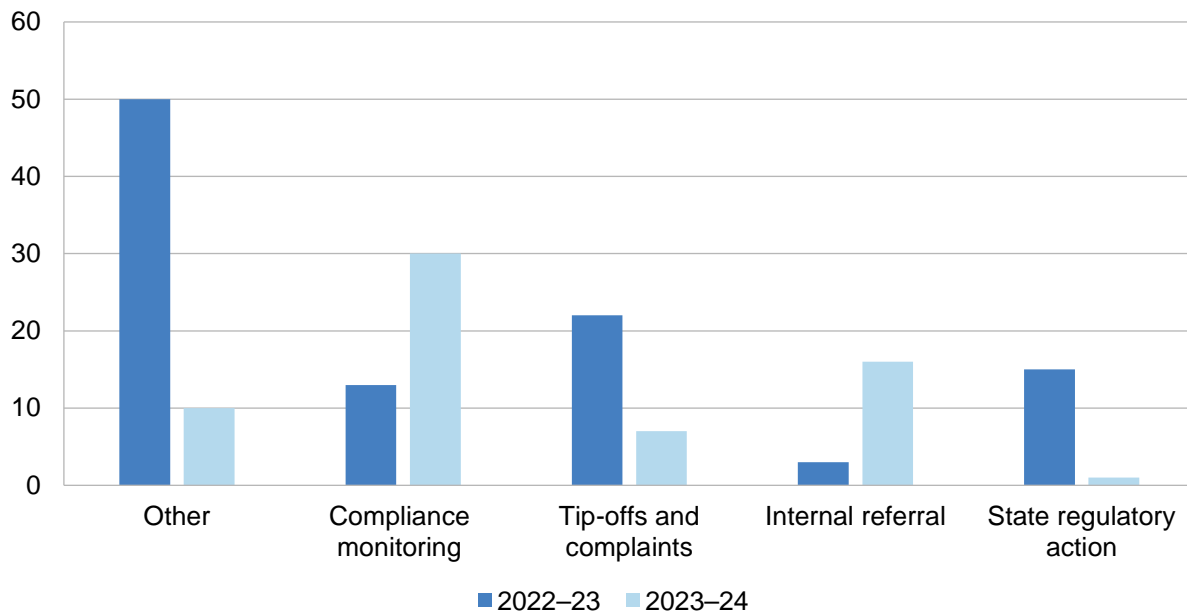
Note d: Non-Joint Compliance Monitoring Program (JCMP) investigations are those not formally under the JCMP program. They may still involve collaboration with state and territory regulators.

Note e: A total of 54 investigations have been removed from this data (53 in 2022–23, and 1 in 2023–24). These were recorded as investigations by Education, but do not meet the AGIS description of investigation as ‘gather[ing] information across a broad spectrum to assist entities to determine a course of action, which may also be preventative and/ or disruptive action instead of prosecutorial’. ANAO and Education examination of records associated with these activities (paragraph 3.60) showed they involved amending session reports in response to provider advice.

Source: ANAO based on Education data.

3.46 The top reasons for initiating investigations are summarised in Figure 3.4. The data driven approach set out in Education’s *Integrity Detection Framework* (paragraphs 2.37 to 2.41), which intends to rely on analytics to drive compliance actions, is not evident in these reasons. On 1 May 2025, Education advised the ANAO that this is due to teams entering analytics-based referrals into CCIS under the ‘internal referral’, ‘compliance monitoring’ or ‘other’ codes.



**Figure 3.4: Top five reasons<sup>a</sup> for initiating Education-led investigations<sup>b</sup>, 2022–23 to 2023–24**

Note a: Internal referral category includes items described in Education systems as 'internal referral', 'intelligence analytics referral', 'fraud referral', 'referral from market strategy', and 'fee reporting'.

The 'other' category is used by Education staff to indicate where a reason has been manually entered into the notes field. Notes do not always contain a clear reason. Where they do, the investigations have predominantly been initiated as part of joint compliance action with states and territories (the Joint Compliance Monitoring Program, discussed at paragraphs 3.55 to 3.57).

Note b: A total of 54 investigations, which were prompted by requests to amend session reports, have been removed from this data (53 in 2022–23, and 1 in 2023–24). These were recorded as investigations by Education, but do not meet the AGIS description of investigation as 'gather[ing] information across a broad spectrum to assist entities to determine a course of action, which may also be preventative and/ or disruptive action instead of prosecutorial'. ANAO and Education examination of records associated with these activities (paragraph 3.60) showed they involved amending session reports in response to provider advice.

Source: ANAO based on Education data.

### *Administrative investigations*

3.47 Administrative investigations aim to determine correct entitlements by answering questions of payment qualification, payability or rate. Investigators can use coercive information gathering powers outlined within the FAL to answer these questions. The standard of proof for decisions made under administrative law is 'on the balance of probabilities'.

3.48 During 2022–23 and 2023–24, Education prioritised and conducted administrative investigations according to its *Case Categorisation and Prioritisation Model (CCPM)*,<sup>61</sup> *Investigation Policy*, the Compliance Operations Team *Child Care Subsidy Compliance Policy*, and *Compliance Plan 2023–24*. Under these arrangements, the Compliance Operations Team Compliance Management Committee (COTCMC) prioritises and assigns cases, supported by a coordination unit, which:

- assesses whether referred issues are owned by Education under the FAL;
- considers risks, including the potential impact of the alleged contravention on child protection and payment accuracy; and

61 The CCPM was discontinued in October 2024, and a case referral template was introduced.

- considers resourcing, including what would be required to deliver an effective response, and whether using the department's resources in this way is in the public interest.

3.49 Once a referral is accepted, investigators are required to:

- undertake detailed planning of investigations, including establishing the possible sources and methods of investigation to be used, and how key risks will be managed;
- record all compliance activity, a running timeline of the investigation, and critical decisions, in an appropriate record keeping system; and
- manage case closure, including gaining supervisor approval for a case closure report.

### *Criminal investigations*

3.50 Criminal investigations gather evidence to show that criminality is reasonably suspected of having occurred, with the intention of referring a brief of evidence to the Commonwealth Director of Public Prosecutions (CDPP) to consider prosecution action. The standard of proof is higher than administrative law, i.e. beyond reasonable doubt. Investigators undertaking criminal investigations can use coercive information gathering powers outlined within the FAL, as well as surveillance and search warrants to answer these questions.<sup>62</sup>

3.51 Education's criminal investigations are conducted according to the (May 2021) *Fraud Investigations and Tactical Operations Investigations Manual* (Investigations Manual). The Investigations Manual requires an initial Case Assessment Report (CAR) to be developed if the referral is within the relevant team's remit. The CAR provides a basis for consideration of the risk and prioritisation of the prospective case.

3.52 Following acceptance of a case, the investigator is required to prepare an investigation plan, undertake regular reporting, record decisions critical to the direction of the investigation, finalise the case through a Case Closure Report, and engage, where relevant, in a Quality Assurance Review.

3.53 Education-led criminal investigations rely on engagement with:

- the Australian Federal Police (AFP) to issue and execute search warrants; and
- Services Australia's digital forensics capability, to process digital evidence.

3.54 Operation Velo (case study 3) illustrates how this engagement can operate.

#### **Case study 3. Operation Velo**

Education commenced Operation Velo on 25 October 2022, to investigate alleged false claims for CCS connected to a Family Day Care service. The service was flagged for investigation following a tip off from a state regulator, and analysis by Education, which showed unusually high educator earnings and weekend care being claimed by the service. CCS of \$5.5 million in

62 Education's fraud investigators use section 220A of the *A New Tax System (Family Assistance) (Administration Act) 1999*, to compel financial institutions to provide documents to assist investigations. The principal Commonwealth search warrant provision is section 3E of the *Crimes Act 1914*. The warrant may only be executed by a police officer. The Department of Education engages the Australian Federal Police for search warrant assistance. Agency representatives involved in executing searches are authorised as Constables Assisting under subsection 3C(1) of the *Crimes Act 1914* for the purposes of the search warrant. See Australian Federal Police, *Search Warrants*, APF, available from <https://www.afp.gov.au/our-services/national-policing-services/search-warrants> [accessed 10 January 2025].

2021–22 and \$6.8 million in 2022–23 had been paid to the service. The matter was accepted for investigation by Education’s Fraud Investigation and Tactical Operations team in July 2022.

The investigation relied on:

- Bank records, obtained by Education using section 220A of the *A New Tax System (Family Assistance) (Administration Act) 1999*, which confirmed the flow of CCS payments from the service provider to educators.
- Surveillance of persons of interest for a total of 223 days, at a cost of \$293,980.18. Surveillance showed between 24 per cent and 79 per cent of care claimed by these individuals was not occurring.
- Simultaneous searches of premises undertaken by the Australian Federal Police, Education, Services Australia (Digital Forensics) and the state regulator. Services Australia’s role was to process digital evidence from electronic devices, email accounts, social media accounts and cloud-based storage to demonstrate fraud occurred outside the surveillance period, which had been important in obtaining evidence of non-compliance in previous investigations.

CCS approval was suspended on 2 August 2023, and cancelled on 13 March 2024, and a proceeds of crime application has restrained almost \$5 million from bank accounts identified in the investigation.

### *The Joint Compliance Monitoring Program*

3.55 Education’s collaboration with state and territory regulators to investigate potential breaches of the FAL and National Law is in the process of being formalised via the Joint Monitoring Compliance Program (JCMP). Originally established in January 2022 as a pilot project between Education and the Victorian and New South Wales State Regulatory Authorities, the JCMP provides for:

- sharing of information, data and intelligence;
- joint site visits, including across numerous sites simultaneously;
- Multi-Disciplinary Team (MDT) Investigation; and
- targeted call campaigns to validate information in conjunction with visits.

3.56 In 2022–23 and 2023–24, Education undertook 47 JCMP investigations with state and territory regulatory authorities.

3.57 According to Education’s analysis, the pilot (which concluded in June 2023) resulted in 15 provider cancellations, and approximately \$41.4 million in annual savings. As of April 2025, arrangements are in place to continue the JCMP with New South Wales, Victoria, Queensland, South Australia and Northern Territory regulatory authorities.

### *Effectiveness of Education’s management of investigations*

3.58 ANAO assessment of 10 administrative and eight criminal investigations (Table 3.12) found:









- five investigations had all authorisation steps completed in accordance with the relevant policy (i.e. internal agreement from the relevant team or delegate) for the commencement of an investigation;

- seven investigations met all quality assurance and review requirements;
- three investigations were supported by complete documentation;
- all administrative and six criminal investigations were missing at least one requirement under departmental policies and processes — in general adherence was higher in larger criminal investigations involving engagement with Services Australia and/or the AFP;
- administrative investigations were all supported by appropriate legislative authorisation; and
- in 47 instances during 2022–23 financial year Education’s fraud investigators compelled banks to provide information under section 220A of the Administration Act, on the basis of an authorisation made by a former Minister for Education — this was addressed via the provision of additional guidance in March 2025.<sup>63</sup>

3.59 Consistent with the AGIS, Education’s *Investigations Policy* requires both administrative and criminal investigators to have either a Certificate IV Government (Investigations) (foundational), Diploma in Government (Investigations) (supervisory), or equivalent. As of 30 June 2024, these requirements were met by:

- 30 out of 43 Education investigators responsible for administrative investigations; and
- 20 out of 21 Education investigators responsible for criminal investigations.

**Table 3.12: ANAO assessment of investigations, 2022–23 to 2023–24**

Investigation type	Authorisation	QA/review	Documentation	Adherence to departmental process
Administrative				
Criminal				

Key:

- No deficiencies identified
- Minor deficiencies identified
- ⦿ Criteria not met in at least half of items tested
- ⦿ Criteria not met in at one quarter of items tested, and absent in some items
- Criteria not met.

Source: ANAO analysis of Education documents.

3.60 Documentation deficiencies identified in paragraph 3.58 and Table 3.12 most commonly related to Education’s electronic investigation management system (EIMS), referred to as the Child Care Intelligence System (CCIS), which has been in place since 2008 and is being considered for

63 Section 220A of the *A New Tax System (Family Assistance) (Administration) Act 1999* empowers the minister to request a person to give reasonable assistance in connection with criminal proceedings for an offence against this Act. This provision does not expressly empower the minister to authorise others to act on their behalf in requesting such assistance. Rather, the minister has an implied power to authorise others to request such assistance. Pursuant to this implied power, the former minister signed an instrument of authorisation. The former minister then resigned. Education received advice in 2025 that there are conflicting authorities on whether the authorisation would survive a change in officeholder.

replacement.<sup>64</sup> The AGIS recommends that entities should have an EIMS to record, collate and manage investigations, and interface or synchronise with other relevant systems to ensure integrity and continuity of information and evidence collection.<sup>65</sup> The ANAO observed:

- CCIS is used to record fraud and compliance matters from the point of tip-off through to resolution, as well as for reporting on operational outcomes of activities.
- Investigations in CCIS usually include some missing or incorrectly saved documents, or incomplete data fields.
- Activity categorisation in CCIS contains errors. For example, fifteen items identified as administrative investigations were initially selected for ANAO testing, but found not to meet the definition of an investigation under the AGIS.
- CCIS is not integrated with other relevant systems. Information is duplicated or supplemented by records in a shared drive, Content Manager, SharePoint, and Education's Civil Penalty Management System. Network drives are not able to manage information to meet Australian Government information management standards.<sup>66</sup>
- Consultation with CCIS users in 2022 showed a range of reported issues, including slow system access, delayed updates, information fields not being completed as required, and data extracts from CCIS not being used in analytics.

### Recommendation no. 5

3.61 The Department of Education review whether its electronic investigation management system (EIMS) is fit for purpose and enables staff undertaking compliance related work to meet all requirements of legislation.

**Department of Education response:** *Agreed.*

3.62 *See paragraphs 2.23 to 2.25.*

## Is the management of enforcement effective?

Education imposes fines, debts, conditions on approval, suspension and cancellation of approval, and refers matters for criminal prosecution, as part of its work to enforce compliance with the FAL. Education does not have a policy to guide decisions on whether, and in what circumstances, to take enforcement action, and enforcement strategy has not been considered by the Financial Integrity Governance Board.

64 The 2024–25 Budget measure, CCS Reform—Further Measures for Strong and Sustainable Foundations included funding to streamline and automate gap fee compliance activities. As part of this work, Education has undertaken exploratory work to develop a platform that would replace CCIS, and provide an end-to-end ICT solution for its compliance activities.

65 *Australian Government Investigations Standard (AGIS)*, October 2022, p. 8.

66 The National Archives of Australia (NAA) recommends entities '[i]dentify and assess your agency's specific risks. A risk assessment may result in the decision to stop storing information and records in network drives'. NAA, *Network drives* [Internet], available from <https://www.naa.gov.au/information-management/managing-information-assets/systems-manage-information/network-drives> [accessed 17 January 2024]. On 10 December 2024, Education advised the ANAO that shared drives will be converted to read only in August 2025.

Without cohesive policy guidance for staff, Education is unable to assess whether decisions to take enforcement action are fair, impartial, consistent, or proportional. From 2022–23 to 2023–24, across the CCS, Education withdrew \$473,010 (42.2 per cent of the total \$1.1 million) of fines issued, raised and recovered 11 compliance-related debts valued at \$59,648 (0.9 per cent of the total \$6.4 million) and identified but did not investigate 970 potential overpayments with a total value of \$106,375.

## Use of enforcement powers

3.63 Effective enforcement activities, based on fair and impartial decision-making, are required to ensure serious CCS fraud and non-compliance has consistent and proportionate consequences. Under the FAL, Education may issue infringement notices, seek civil penalty orders, vary, suspend, or cancel approval, and pursue criminal prosecution, and is required to manage debts to recover CCS overpayments.<sup>67</sup> These powers (with the exception of issuing debt notices) are not delegated to Services Australia.

3.64 RMG 128 states that a ‘risk based approach allows a regulator to properly assess the risks of non-compliance and respond in a proportionate way to the harm being managed’. Education’s Integrity Strategy aims to achieve an approach that is risk based and uses ‘the spectrum of proportionate regulatory tools in the Child Care Financial Integrity compliance pyramid’. It states that the ‘full force of the law’ should be directed against those providers and services engaged in wilful non-compliance and fraud. It has not established an overarching enforcement strategy or policy.<sup>68</sup>

3.65 Table 3.13 provides an overview of Education’s use of its enforcement powers under the FAL in 2022–23 and 2023–24. During this period, Education:

- raised 11 compliance-related debts, all of which were recovered, totalling \$59,648 (0.9 per cent) out of \$6.4 million debts raised;
- withdrew 41 of 113 infringement notices issued (42.2 per cent of the total \$1.1 million fines issued); and
- recovered \$15,294 out of \$249,734 fraud losses reported. Since 2018–19, when the CCS commenced, Education has reported \$13.0 million fraud losses and \$116,707 recovered.

3.66 The Financial Integrity Governance Board (FIGB), which has responsibility for strategic oversight of CCS compliance activities (paragraphs 2.8 to 2.10), has not recorded consideration of its strategic approach to enforcement decisions, such as whether the overall volume of infringement notices waived is in line with its risk tolerances under the Integrity Strategy, in 2023–24. The two matters that were considered by the FIGB with possible direct relevance to enforcement (persons with management or control breaches and child swapping breaches) were discussed and decided in terms of detection, communications, and a ‘light touch compliance action approach taking into account the teams’ capacity’.

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67 Education has not delegated regulatory powers to Services Australia.

68 Enforcement actions are managed under the *Fraud Investigations and Tactical Operations Investigations Manual* (Investigations Manual), the Compliance Operations Team *Child Care Subsidy Compliance Policy*, and policies and standard operating procedures for infringement notices and mandatory decisions. As of April 2025, Education has a draft compliance policy and guidelines.

**Table 3.13: Enforcement of service and provider compliance with the FAL<sup>a</sup>, 2022–23 to 2023–24<sup>b</sup>**

Action	2022–23	2023–24	Outcomes
Infringement notices	31 (\$76,240)	82 (\$1.0 million)	113 infringement notices totalling \$1.1 million in fines were issued. As of October 2024, Education had received 55 requests to withdraw the notices, and approved 41 of these (75% of requests, equal to \$473,010).
Conditions on approval	3	4	7 conditions were imposed as a consequence of non-compliance.
Suspending approval	44	9	53 suspensions were processed, of which 47 went ahead. <ul style="list-style-type: none"> <li>• 15 related to Education’s regulation under the FAL (for example, providers not meeting conditions for ongoing approval);</li> <li>• 29 resulted from National Law suspension (paragraph 3.72); and</li> <li>• the remainder were voluntary or did not have a reason recorded.</li> </ul>
Cancelling approval	186	133	319 cancellations were processed, of which 299 went ahead. <ul style="list-style-type: none"> <li>• 61 related to Education’s regulation under the FAL;</li> <li>• 207 were required under the FAL due to National Law cancellation; and</li> <li>• the remainder related to service closure, or did not have a reason recorded.</li> </ul>
Debts <sup>c</sup>	2 (\$4,264)	9 (\$55,384)	From 2022–23 to 2023–24, 1,589 debts, totalling \$6.4 million were raised. Eleven of these, totalling \$59,648, were the result of compliance action. All compliance debts raised during were recovered. <sup>d</sup> 970 possible overpayments, with a total value of \$106,375, were identified but not investigated.
Fraud recovery <sup>e</sup>	0	\$15,294	\$15,294 recovered, out of \$249,734 fraud losses between 2022–23 and 2023–24.

Note a: Actions available to Education omitted from the table as they have not been used: civil penalty orders, other sanctions, and actions to recover unpaid debt.

Note b: In each case, the best available data source has been relied on to produce the counts in this table. The ANAO has identified discrepancies between sources (for example, infringements recorded in the Civil Penalty Management System that have not been recorded in CCIS) and data quality issues, especially in CCIS.

Note c: On 9 December 2024, Education advised the ANAO that the increase in debt notices issued from 2022–23 to 2023–24 was due to increased resourcing.

Note d: Recovery rates for other debt types are lower. As of 31 March 2025, of the \$6.4 million of debts raised from 2022–23 to 2023–24, \$4.1 million (64.1 per cent) has been repaid, and \$857,740 (13.4 per cent) has been written off or waived. Where a provider closes and is a deregistered company, Education writes off any outstanding debt, as there is no legal entity to recover the debt from. This does not include payment offsetting resulting from compliance action, which can occur without raising a debt.

Note e: Losses recovered via court Reparation Orders under the *Crimes Act 1914*, section 21B.

Source: ANAO based on Education documents.



## Management of enforcement actions

3.67 The ANAO assessment of Education's management of 14 infringement notices, 28 sanctions (comprising conditions, suspensions and cancellations) and 11 debts, is summarised in Table 3.14.

- Most enforcement decisions were taken in accordance with the FAL, and authorised by the appropriate delegate.
- Education is unable to assess whether enforcement action is proportional to the risk being addressed, as staff are not required to document justification of the relevant compliance action with reference to the seriousness of the contravention, risks posed by the contravention, or any other relevant matters set out in the Child Care Subsidy Minister's Rules 2017.<sup>69</sup>
- Enforcement actions were not subject to quality review beyond delegate approval, except for infringement notices and debts.
- Enforcement actions were documented according to Education policy, except for some omissions of key documents from CCIS.

3.68 Additionally, Education does not provide guidance to staff to manage conflicts of interest in the enforcement process (or the application or investigation process, paragraphs 2.10 and 3.10).

**Table 3.14: ANAO assessment of management of provider enforcement actions<sup>a</sup>, 2022–23 to 2023–24**

Enforcement action	Authorisation	Proportionality	Review/Quality assurance	Documentation
Infringement notices	●	◐	◐	◐
Conditions on approval due to non-compliance <sup>b</sup>	●	◐	◐	◐
Suspending approval	●	◐	◐	●
Cancelling approval	◐	◐	◐	◐
Debts raised <sup>c</sup>	●	N/A <sup>c</sup>	●	●

Key: ● No deficiencies identified  
◐ Minor deficiencies identified

<sup>69</sup> Section 52 of the Child Care Subsidy Minister's Rules 2017 requires the Secretary to take into account whether it would be more appropriate to exercise the power to suspend or cancel the provider's approval rather than imposing a different sanction, having regard to whether the provider's non-compliance is systemic and ongoing, has resulted in significant debts, or significant and multiple overpayments, of CCS and ACCS, or is likely to do so, whether the non-compliance indicates a failure to take reasonable care to comply, or a lack of ability to understand the obligation to comply, whether the non-compliance indicates that the provider is no longer fit and proper, whether the non-compliance constitutes an unacceptable risk to the safety, health or wellbeing of children being cared for, and any other relevant matters. Child Care Subsidy Minister's Rules 2017, available from <https://www.legislation.gov.au/F2017L01464/latest/text> [accessed 10 January 2025].



- Criteria not met in at least half of items tested
- ◐ Criteria not met in at one quarter of items tested, and absent in some items
- Criteria not met

**N/A** The relevant test does not apply to this type of enforcement action.

Note a: Actions that are not a departmental response to non-compliance are not included in this table. These are: suspending approval on the request of the provider (section 197AA of *A New Tax System (Family Assistance) (Administration) Act 1999*); and cancelling approval on the request of the provider (section 197C of *A New Tax System (Family Assistance) (Administration) Act 1999*).

Note b: Conditions can also be imposed at the application stage; these are not considered here.

Note c: Proportionality has not been considered for debts raised, as there is an obligation to recover Commonwealth debts.

Source: ANAO analysis of Education documents and Family Assistance Law, especially *New Tax System (Family Assistance) (Administration) Act 1999* (the *Administration Act*), available from: <https://www.legislation.gov.au/C2004A00491/latest/text>.

## Gaps in enforcement

### *Debt management*

3.69 From 2022–23 to 2023–24, Education identified but did not investigate 970 potential overpayments with a total value of \$106,375. Potential overpayment amounts range between \$1.20 and \$731.25, with 558 of these (totalling \$98,729) being at or above \$50.<sup>70</sup> Random Sample Parent Check (RSPC) information provided to Education for the purposes of payment accuracy monitoring (paragraphs 2.53 to 2.61) includes the full details of providers and accurate and inaccurate payments for all parents surveyed. CCIS includes an option for RSPC follow-up, but this is not utilised. On 20 November 2024, Education advised the ANAO that an RSPC record was last created in CCIS on 2 July 2019, and last updated on 11 May 2021.

3.70 Under the FAL, a person incurs a debt if they are paid an amount to which they were not entitled, or that is more than the amount of assistance that should have been paid.<sup>71</sup> Education is required to pursue the recovery of each debt, unless:

- (a) the Secretary considers that it is not economical to pursue recovery of the debt; or
- (b) the Secretary is satisfied that the debt is not legally recoverable; or
- (c) the debt has been written off as authorised by an Act.<sup>72</sup>

3.71 An assessment is not completed where a possible overpayment is identified using the RSPC. On 28 April 2025, Education advised the ANAO that it 'is satisfied that it has appropriate processes in place that deal with the RSPC responses'.

70 *A New Tax System (Family Assistance) (Administration) Act 1999*, section 99 provides that if a debt is, or is likely to be, less than \$200 and it is not cost effective for the Commonwealth to take recovery action, then it must be waived, unless it is at least \$50 and could be recovered by deduction or offsetting against other payments under the FAL, including CCS payments to providers.

71 *A New Tax System (Family Assistance) (Administration) Act 1999*, sections 71B, 71C and 71D. The debt may be incurred by the provider or individual, depending on who is at fault under sections 71E or 71F.

72 Public Governance, Performance and Accountability Rule 2014, section 11. Section 159C of the *A New Tax System (Family Assistance) (Administration) Act 1999* provides that information collected under the Family Assistance Law may be used in an inquiry or investigation or criminal proceedings, subject to certain limitations relating to criminal proceedings against an individual, as specified in section 159B.

## Interjurisdictional engagement

3.72 Under the FAL, Education is required to suspend or cancel CCS approval if National Law approval is suspended or cancelled.<sup>73</sup> The date of effect is to be the same day as the National Law suspension or cancellation.<sup>74</sup> Education's process to action these cancellations and suspensions is inefficient. Monitoring National Law approvals and cancellations relies on notifications from the state and territory SRAs, and data extracted by Education from Services Australia. Once identified, an Education officer must process the suspension or cancellation to remove the provider's access to CCS. In February 2025, Education was 'catching up' with required cancellations where it had not received notification from the provider's SRA. Data extracted from Services Australia for this purpose was noted as potentially incorrect due to a 'known current [system] issue'.

### Recommendation no. 6

3.73 The Department of Education seek independent legal advice from the Australian Government Solicitor regarding its obligations (under the Family Assistance Law and other relevant legislation such as the *Privacy Act 1988*) in respect to possible Child Care Subsidy provider overpayments identified while monitoring payment accuracy using the Random Sample Parent Check.

**Department of Education response: Agreed.**

3.74 See paragraphs 2.23 to 2.25.

## Accountability and review

3.75 Regulators should foster public trust, continuous improvement, and fair, impartial, and consistent decision-making by holding themselves to account for decisions through internal and external accountability and review processes.<sup>75</sup>

3.76 A formal review of a CCS decision made under the FAL can be initiated by the person affected by the decision (an individual CCS recipient, or a CCS provider or service) or the Education Secretary.<sup>76</sup> Education's Internal Review Team manages requests for internal review via the *Guide to Child Care Internal Reviews*. The Authorised Review Officers (AROs) act independently from the original decision-maker to consider the merits of the original decision, and make an independent, fresh decision. From 2022–23 to 2023–24, AROs received 79 requests for reviews of decisions in

73 A *New Tax System (Family Assistance) (Administration) Act 1999*, section 197AB relates to National Law suspension, section 197L relates to National Law cancellation.

74 A *New Tax System (Family Assistance) (Administration) Act 1999*, subsections 197AB(1) and 197AB(3) relate to timing of CCS suspension in the event of National Law suspension, and subsections 197L(1) and 197L(3) relate to timing of CCS cancellation in the event of National Law cancellation.

75 Department of Finance (Finance), *Regulator Performance Guide* (RMG 128), Finance, available from <https://www.finance.gov.au/government/managing-commonwealth-resources/regulator-performance-rmg-128> [accessed 17 January 2025]. The Australian Government regulator stocktake identifies both Services Australia and Education as regulators. See Finance, *Australian Government regulator stocktake*, available from <https://www.regulatoryreform.gov.au/priorities/regulator-best-practice-and-performance/regulator-stocktake> [accessed 17 January 2025].

76 Part 5, Division 1 of the *A New Tax System (Family Assistance) (Administration) Act 1999* provides for internal review of CCS decisions made under the Administration Act, under sections 105 (Secretary initiated) and 109A (the person affected by the decision).

2022–23 and 2023–24 (Table 3.15). ANAO assessment of nine reviews found no deficiencies in the management of Education’s internal review process.

**Table 3.15: Education reviews of decisions under the *A New Tax System (Family Assistance) (Administration) Act 1999*<sup>a</sup>, 2022–23 to 2023–24**

	Total	Affirmed	Varied	Set aside	Top reason for review
2022–23	38 <sup>b</sup>	23	1	5	Declined CCS approval (24 of 38 reviews)
2023–24	41 <sup>c</sup>	20	12	6	Debt-related (30 of 41 reviews)
<b>Total</b>	<b>79</b>	<b>43</b>	<b>13</b>	<b>11</b>	<b>Debt-related (54 of 79 reviews)</b>

Note a: Part 5, Division 1 of the *A New Tax System (Family Assistance) (Administration) Act 1999* provides for internal review of CCS decisions made under the Administration Act, under sections 105 and 109A.

Note b: Total includes six requests for review that were withdrawn, two requests made after the statutory timeframe in section 109DA of the Administration Act and one review remains pending.

Note c: Total includes two requests for review that were withdrawn and one request made after the statutory timeframe in section 109DA of the Administration Act.

Source: ANAO based on Education documents.

3.77 A decision to issue an infringement notice is made under the Regulatory Powers Act and cannot be reviewed under the Administration Act.<sup>77</sup> Instead, it is open to the recipient to request a withdrawal of the infringement notice.<sup>78</sup> ANAO assessment of a selection of withdrawal requests and responses found no deficiencies in the documentation or delegate approval of withdrawal decisions according to Education policy. Documentation included an assessment of the risks associated with withdrawing the notice in two of the five instances tested.

3.78 External review and complaint mechanisms are available via the Administrative Review Tribunal (ART, formerly Administrative Appeals Tribunal) and Commonwealth Ombudsman. Complaints and appeals received in 2022–23 and 2023–24 related predominantly to Services Australia’s handling of CCS claims, reconciliations, and debts. During this time, Education recorded seven ART appeals of its regulatory decisions, five of which related to refusal of approval. As of March 2025, six of these matters were still in progress, and in one case the applicant had withdrawn.

<sup>77</sup> Review provisions 105 and 109A of the *A New Tax System (Family Assistance) (Administration) Act 1999* apply only to decisions made under the Family Assistance Law.

<sup>78</sup> It is a requirement under paragraph 106(3)(a) of the Regulatory Powers Act, that the delegate consider written representations from the provider seeking a withdrawal of the infringement notice.

### Recommendation no. 7

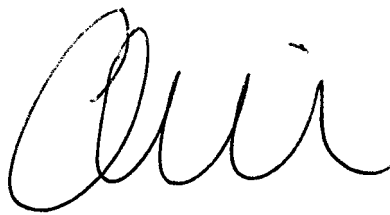
3.79 The Department of Education update operational policies and procedures to:

- (a) improve compliance related record keeping;
- (b) ensure quality assurance and review arrangements are in place across relevant teams; and
- (c) establish program-level investigations and enforcement policies to support fair, well documented, consistent, and proportional decision-making, and conflict-of-interest management.

**Department of Education response:** *Agreed.*

3.80 *See paragraphs 2.23 to 2.25.*

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Dr Caralee McLiesh PSM  
Auditor-General

Canberra ACT  
3 June 2025

# Appendices

## Appendix 1 Entity responses

### Department of Education



Australian Government  
Department of Education

Our Ref: EC25-001433

Secretary  
Tony Cook PSM

Dr Caralee McLiesh PSM  
Auditor-General  
Australian National Audit Office  
GPO Box 707  
Canberra ACT 2601

Dear Dr McLiesh

#### Management and oversight of compliance activities within the Child Care Subsidy program

Thank you for the opportunity to review the proposed report on the *Management and oversight of compliance activities within the Child Care Subsidy (CCS) program* performance audit. I note this audit was identified as a priority by the Parliament's Joint Committee of Public Accounts and Audit and I appreciate the ANAO's efforts in delivering this audit in support of public sector accountability and transparency.

The management and oversight of compliance activities plays an important role in ensuring the proper use of CCS and the achievement of program outcomes. In the 2023–24 financial year, the department's integrity activities resulted in the highest accuracy rates in provider claims for CCS on record, exceeding the program target.

As highlighted in the report, the department is progressing work to further strengthen the delivery of its CCS compliance activities under the *CCS Financial Integrity Strategy 2023–2027*. The department agrees with the seven recommendations and will address them as part of our existing work program.

I enclose my department's summary response and responses to the recommendations for inclusion in the final report. Should you require further information on this response, please do not hesitate to contact Brendan Moon, First Assistant Secretary, Child Care Division on (02) 6121 3734 or [Brendan.Moon@education.gov.au](mailto:Brendan.Moon@education.gov.au).

Yours sincerely

Tony Cook

12 May 2025

Encl: (2)

50 Marcus Clarke Street, Canberra ACT 2601  
GPO Box 9880, Canberra ACT 2601 | Phone 1300 556 046

## Services Australia



Australian Government

Services Australia

Our Ref: EC25-001488

Chief Executive Officer  
David HazlehurstDr Caralee McLiesh PSM  
Auditor-General for Australia  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601Dear ~~Dr~~ <sup>Caralee</sup> McLiesh**Services Australia's response to the Australian National Audit Office's performance audit  
*Management and oversight of compliance activities within the Child Care Subsidy Program***

Thank you for providing Services Australia (the Agency) with the opportunity to comment on the Australian National Audit Office's (ANAO's) performance audit, *Management and oversight of compliance activities within the Child Care Subsidy Program*.

The Agency welcomes the report and notes the report findings, including that management and oversight of compliance activities within the Child Care Subsidy Program are partly effective. The Agency's focus is on efficiently and effectively delivering payments and services to the Australian community, and compliance and program integrity are important aspects of this work.

The Agency is committed to continually improving its internal and external governance arrangements, performance monitoring and reporting, compliance activities, and guidance and support to staff to ensure the integrity of the Child Care Subsidy Program.

I would like to thank the ANAO for its cooperative and professional approach throughout the audit process.

Yours sincerely

David Hazlehurst

7 May 2025

PO Box 7788, Canberra Business Centre ACT 2610 | [www.servicesaustralia.gov.au](http://www.servicesaustralia.gov.au)



## Appendix 2 Improvements observed by the ANAO

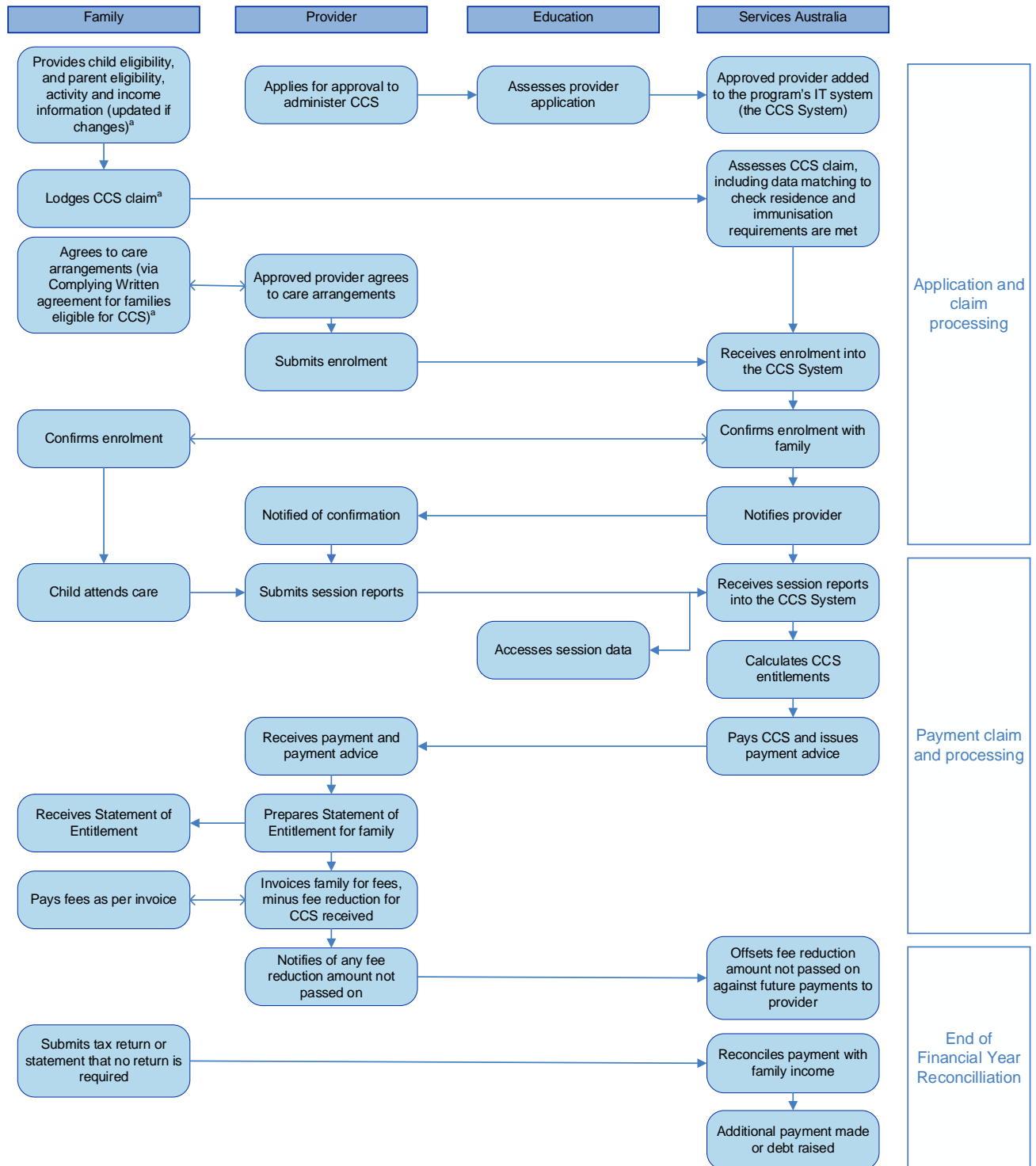
1. The existence of independent external audit, and the accompanying potential for scrutiny improves performance. Improvements in administrative and management practices usually occur: in anticipation of ANAO audit activity; during an audit engagement; as interim findings are made; and/or after the audit has been completed and formal findings are communicated.
2. The Joint Committee of Public Accounts and Audit (JCPAA) has encouraged the ANAO to consider ways in which the ANAO could capture and describe some of these impacts. The ANAO's corporate plan states that the ANAO's annual performance statements will provide a narrative that will consider, amongst other matters, analysis of key improvements made by entities during a performance audit process based on information included in tabled performance audit reports.
3. Performance audits involve close engagement between the ANAO and the audited entity as well as other stakeholders involved in the program or activity being audited. Throughout the audit engagement, the ANAO outlines to the entity the preliminary audit findings, conclusions and potential audit recommendations. This ensures that final recommendations are appropriately targeted and encourages entities to take early remedial action on any identified matters during the course of an audit. Remedial actions entities may take during the audit include:
  - strengthening governance arrangements;
  - introducing or revising policies, strategies, guidelines or administrative processes; and
  - initiating reviews or investigations.
4. In this context, the below actions were observed by the ANAO during the course of the audit. It is not clear whether these actions and/or the timing of these actions were planned in response to proposed or actual audit activity. The ANAO has not sought to obtain assurance over the source of these actions or whether they have been appropriately implemented.
  - Work to review and update protocols under the *Statement of Intent* between Education and Services Australia, to address the two agencies joint role in CCS compliance (paragraphs 2.3 to 2.20). Protocols under consideration are a Communications and media protocol, New work and Changed Business protocol, Shared Risk protocol, and Joint Data protocol.
  - Revised governance arrangements, which include Services Australia, including a Joint Child Care Subsidy Program Board, at the SES Band 2 level (paragraphs 2.8 to 2.10).
  - Meetings to discuss and manage shared risks, including through the development of a shared risk management plan and protocols, commenced in September 2024 (paragraphs 2.13 to 2.18).
  - A review of Education's Integrity Strategy to develop a program-level approach to CCS non-compliance (paragraphs 2.32 to 2.49).
  - Education's Fraud and Corruption Risk Assessment was updated to properly identify risk owners (paragraph 2.49).
  - Education commenced the evaluation of intervention measurements in September 2024; this includes the introduction of the 'new and mature services' strata via the Random Sample Parent Check (RSPC). Education advised the ANAO on 10 December 2024 that this will provide measurement of one of the medium-term outcomes for Provider Approvals



(from the Performance Framework) of 'Payment accuracy of recent provider entrants v older entrants' (paragraphs 2.55 to 2.59).

- New arrangements within Education to oversee mandatory training requirements within teams (paragraph 3.10).
- A review of, and early actions to address, data associated with compliance activities within Education's Child Care Intelligence System (CCIS), and work to replace CCIS with an Integrity Management Solution that would provide case management workflow to create, modify, and track audits, compliance and investigation activities (as well as other functionality) (paragraphs 3.58 and 3.60).
- Additional guidance for Education staff on record keeping (paragraph 3.60).
- A move to change shared network drives to read only from August 2025 (paragraph 3.60).

## Appendix 3 Child Care Subsidy approval and payment process



Note: This figure does not capture ACCS applications and approvals.

Note a: Care arrangements can be entered into before or after the CCS application is lodged.

Source: ANAO based on Education and Services Australia documents.

## Appendix 4 Key program changes, 2022–23 to 2024–25

Date	Milestone
July 2023	National Law and Family Assistance Law applications for new providers and services are made through a single interface: the Australian Children's Education and Care Quality Authority's (ACECQA) National Quality Agenda IT System (NQA ITS). This enables more streamlined application processing, including checking CCS applicants' adherence to the requirement that they be approved under National Law prior to approval for CCS.
July 2023	<i>Child Care Subsidy Financial Integrity Strategy 2023-2027</i> endorsed by Financial Integrity Governance Board (FIGB).
July 2023	Announced in October 2022 as part of the 'Cheaper Child Care' changes commencing in July 2023 which increased CCS subsidy rates and eligibility, the <i>Child Care Subsidy Reform Integrity Package</i> was estimated to achieve savings of \$173 million over four years from 2022–23 via: <ul style="list-style-type: none"> <li>• new requirements to ensure providers have in place arrangements to ensure those with management and control of the provider comply with the FAL;</li> <li>• requirements to ensure the electronic payment of gap fees; and</li> <li>• requirements to provide information in the weekly session reports as specified in the Secretary's Rules (these requirements were previously specified administratively).</li> </ul>
July 2023	The <i>Child Care Subsidy Reform – additional integrity</i> measure commenced, including additional funding of \$13.3 million from 2023–24 to 2026–27 for the Department of Education to further reduce fraudulent CCS claims, and \$5.3 million for Services Australia's digital forensics capability.
August 2024	Education updated its <i>Child Care Subsidy Governance Statement</i> template for Family Day Care (FDC) provider applications, to clarify the providers arrangements to ensure that gap fees are made to a bank account under the provider's control, rather than being paid to the educator's bank account. Under measures announced in the 2024–2025 Budget, from 1 July 2025, FDC and In Home Care providers must collect gap fees directly from families.
April 2025	Under the <i>Child Care Subsidy Reform – further measures for strong and sustainable foundations</i> , announced in the 2024–2025 Budget, from 1 April 2025, providers applying for CCS approval will need to provide a satisfactory statement of tax record (STR), and some existing providers may be asked to show a STR on request from the department.

Source: ANAO analysis of Education documents.

## Appendix 5 Entity responsibilities under the *Program Delivery Services Schedule for Child Care Subsidy Program*

Department of Education	Services Australia	Joint responsibilities
<ul style="list-style-type: none"> <li>• Provide all information, data and documentation such as guidelines necessary for Services Australia to perform the services</li> <li>• Provide policy advice, legal advice or guidance following a request from Services Australia</li> <li>• Develop any instruments or delegated legislation required for the implementation or performance of the program</li> <li>• Obtain all <i>Public Governance, Performance and Accountability Act 2013</i> (PGPA Act) approvals, authorisations, and other financial delegations and requirements that Education is required to obtain in order for Services Australia and its employees to perform the services</li> <li>• Be responsible for all stakeholder engagement activities in relation to their portfolio or program responsibilities</li> <li>• Complaints relating to: <ul style="list-style-type: none"> <li>– CCS policy settings;</li> <li>– the operations of a child care provider; and/or</li> <li>– tip-off or fraud allegation against a child care provider, child care personnel or educator</li> </ul> </li> <li>• Administrative review of decisions made by Education</li> </ul>	<ul style="list-style-type: none"> <li>• Manage the Child Care Subsidy System (CCSS)</li> <li>• Payment delivery</li> <li>• Provide access to Service Australia's systems in line with agreed service levels</li> <li>• Provide all attachments, policy, procedures, information, data and/or system access necessary for Education to manage the services</li> <li>• Provide technical support for third party software providers</li> <li>• Provide specified performance reporting data</li> <li>• Business process design to support service delivery to customers and families</li> <li>• Complaints relating to: <ul style="list-style-type: none"> <li>– service delivery to third party software vendors;</li> <li>– service delivery or child care payments; and/or</li> <li>– the identify of CCS recipients</li> </ul> </li> <li>• Administrative review of decisions made by Services Australia</li> </ul>	<ul style="list-style-type: none"> <li>• Quality and timely information about matters that impact the others' accountabilities</li> <li>• Work together to meet either entities' statutory requirements</li> <li>• Develop Key Performance Indicators</li> </ul>

Note: Information relating to the Department of Education, Skills and Employment from original documents has been summarised as relating to the Department of Education, the current party to the agreement.

Source: ANAO based on Education and Services Australia documents.