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Auditor-General for Australia



10 October 2025

Senator Maria Kovacic
Chair
Education and Employment References Committee
Parliament House
CANBERRA ACT 2600

By email: eec.sen@aph.gov.au

Dear Senator Kovacic

ANAO submission to the inquiry into the quality and safety of Australia's early childhood education and care system.

The Australian National Audit Office (ANAO) presented the following performance audit to the Parliament that you may find relevant to the above inquiry:

- Auditor-General Report No. 42 2024–25, [*Management and Oversight of Compliance Activities within the Child Care Subsidy Program*](#).

Information about what the audit assessed, concluded, and recommended is attached. The full audit report is available online at www.anao.gov.au.

Should the Committee require further information in relation to these matters, my office would be pleased to provide you with a briefing at a time convenient to you or appear as a witness at a hearing. To arrange a briefing, please contact our External Relations team at external.relations@anao.gov.au.

Yours sincerely

Dr Caralee McLiesh PSM
Auditor-General

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The Auditor-General
Auditor-General Report No.42 2024–25
Performance Audit

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

Department of Education

Services Australia



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

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.