# Chapter 5
# Transparency

5.1 A key focus throughout the inquiry was the transparency of the financial and tax practices of for-profit aged care providers and whether the accountability and probity mechanisms currently in place for the expenditure of government subsidies are adequate.

## Recommendations of the Tax Justice Network-Australia

5.2 As noted in Chapter 3, the Tax Justice Network-Australia (TJN-Aus) highlighted in its recent report—*Tax avoidance by for-profit aged care companies: Profit shifting of public funds* (TJN-Aus Report)—the need for greater transparency around the financial and tax practices of for-profit aged care providers (paragraphs 3.9–3.10).

5.3 TJN-Aus expressed the view that regulation is not currently strong enough to ensure that the financial records and accounting practices of for-profit aged care providers are publicly available and fully transparent.[1] Indeed, TJN-Aus argued that 'companies that receive millions of government subsidies must be held to a higher standard of transparency and must be publicly accountable'.[2]

5.4 TJN-Aus recommended two reform measures to 'restore integrity to the tax system and ensure public accountability' on government subsidies paid to for-profit aged care providers:

- Any company that received Commonwealth funds over $10 million in any year must file complete audited annual financial statements with the Australian Securities and Investments Commission (ASIC) in full compliance with all Australian Accounting Standards and not be eligible for Reduced Disclosure Requirements.[3]
- Public and private companies must fully disclose all transactions between trusts or similar parties that are part of stapled structures or similar corporate structures where most or all income is earned from a related party and where

---

1 Tax Justice Network-Australia, *Tax avoidance by for-profit aged care companies: Profit shifting of public funds*, May 2018, p. 6.

2 Tax Justice Network-Australia, *Tax avoidance by for-profit aged care companies: Profit shifting of public funds*, May 2018, p. 41.

3 Australian Accounting Standards allow entities that do not classify themselves as 'reporting entities' to utilise reduced disclosure requirements, namely through the preparation of Special Purpose Financial Statements (SPFS). These SPFS can still be lodged with ASIC in satisfaction of legislative lodgement requirements.

operating income is substantially reduced by lease and/or finance payments to related parties with beneficial tax treatment.[4]

5.5 Mr Jason Ward, Spokesperson for TJN-Aus and author of the TJN-Aus Report, contended that these measures would add to recent tax avoidance reforms proposed by the Australian Government:

> This proposal adds transparency measures to the recent reforms proposed by the government and the concerns around tax avoidance addressed by both the ATO and Treasury. If, as for-profit companies suggest, there is nothing of concern about tax practices or corporate structures in the sector, then what is the harm in increasing transparency on the use of public funding?[5]

5.6 Stakeholders broadly agreed with the principle that aged care providers, as companies in receipt of significant government subsidies, should be held to a high standard of transparency and accountability. However, stakeholders differed in their views with respect to the adequacy of current accountability and probity mechanisms.

***Support for increased transparency***

5.7 The Combined Pensioners and Superannuants Association (CPSA) expressed concern at the apparent difficulty in obtaining a complete picture of the tax practices of for-profit aged care providers, as demonstrated by the TJN-Aus Report. CPSA asserted that:

> For-profit companies that receive Australian Government subsidies must be held to a higher standard of transparency and public accountability to ensure that they fulfil their tax obligations and provide quality care to residents.[6]

5.8 Professor Richard Eccelston and Mr Lachlan Johnson concurred with the recommendations of TJN-Aus, submitting that inaction on financial disclosure will be detrimental to the public's perceptions of Australia's tax system and the sustainability of the aged care industry:

> The role of government should centre largely on promoting transparency and disclosure of transactions between related parties. Allowing the current level of opacity around such disclosure regimes to persist in for-profit aged care provision will be injurious to both the public's perception of the integrity of the tax system and the long-term sustainability of the aged care sector.[7]

---

4 Tax Justice Network-Australia, *Tax avoidance by for-profit aged care companies: Profit shifting of public funds*, May 2018, pp. 6 and 43.

5 Mr Jason Ward, Spokesperson, Tax Justice Network-Australia, *Committee Hansard*, 17 July 2018, p. 1.

6 Combined Pensioners and Superannuants Association, *Submission 1*, p. 8.

7 Professor Richard Eccelston and Mr Lachlan Johnson, *Submission 8*, [p. 4].

5.9 The Australian Council of Trade Unions (ACTU) also supported the reform measures proposed by TJN-Aus:

> Companies which receive significant Commonwealth funds should be required to fully disclose their tax practices through the filing of annual financial statements. It is a matter of principle that large companies which receive government subsidies should be held to the highest standard of transparency and accountability.[8]

5.10 Likewise, COTA Australia (COTA) expressed the view that any organisation receiving government subsidies must be held to standards of transparency in financial reporting and be publicly accountable. COTA acknowledged that, while aged care providers are presently required to report to government, the quality of the information reported 'has often been less than perfect'.[9]

5.11 The committee heard from representatives of the Australian Nursing and Midwifery Federation (ANMF) that, when taxpayers fund something, they should be able to see very clearly how that money is being used. Elaborating on this point, Ms Annie Butler, Federal Secretary of the ANMF, took the stance that aged care providers:

> …ought to be showing that the taxpayers' money is going to its intended use. And they [taxpayers] should be able to see the path the money travels; if it is not getting to the resident, where actually in that complicated path is it travelling?[10]

5.12 Highlighting the vulnerability of aged care consumers, Adjunct Associate Professor Michael West took the view that a high level of financial transparency and regulatory oversight is particularly important in aged care as compared to other sectors:

> I think you're [aged care providers] in a cherished position. Also, you're dealing with people and families in times of turmoil, when they're putting their loved ones into homes. How many people are financially literate anyway, let alone if they're 75 years of age and they may be suffering failing health and so on? I think there is there is a duty of care. I don't think we can expect corporations particularly—that's not their job. Their job is to maximize their profits, so it needs the stewardship of the department and the regulators, and of course transparency I think is the best.[11]

---

8 Australian Council of Trade Unions, *Submission 10*, pp. 1–2.

9 COTA Australia, *Submission 23*, p. 7.

10 Ms Annie Butler, Federal Secretary, Australian Nursing and Midwifery Federation, *Committee Hansard*, 4 September 2018, p. 7.

11 Adjunct Associate Professor Michael West, Private Capacity, *Committee Hansard*, 17 July 2018, p. 13.

### *Scope of transparency measures*

5.13 While supportive of calls for increased transparency, Mr Ian Yates, Chief Executive at COTA, asserted that financial accountability and probity mechanisms should apply to all aged care providers:

> [COTA] would support calls for increased transparency, while respecting that there is a degree of commercial confidentiality about the finances of any aged-care provider. But that degree of transparency should apply across the sector. It should apply to all for-profits and to not-for-profits and government providers as well. I have to say that there's quite a bit that we don't really know about the detailed operations—the drill-down operations—of some of the providers in the sector.[12]

5.14 Adjunct Associate Professor Michael West echoed this view, but argued that increased financial transparency measures should not be restricted to aged care providers, and ought to apply to any company in receipt of government subsidies:

> Absolutely. I think there should be far more transparency—I've been battling on about this for ages—of all public companies receiving government assistance of any kind. This is corporate welfare we're talking about here, and if you want to get taxpayers' money you should be accountable and transparent. I think it should apply to everybody, not just in aged care.[13]

5.15 Mr Matthew Richter, Chief Executive Officer of the Aged Care Guild, expressed support for any transparency mechanisms that improve the ability of aged care consumers to make informed choices about their care. However, Mr Richter also cautioned against the introduction of unnecessary regulatory burden for the sake of both aged care providers and consumers:

> Just to clarify, what we want to be careful of is unnecessary additional red tape and regulatory burden in this space because there's a high level of it already. Whether you're an industry operator or, particularly, a consumer—the consumers probably feel the burden of the regulatory red tape that's in place most of all—it's a very difficult system to navigate. We would just caution against anything which complicates it even further.[14]

---

12 Mr Ian Yates, Chief Executive, COTA Australia, *Committee Hansard*, 17 July 2018, p. 51.

13 Adjunct Associate Professor Michael West, Private Capacity, *Committee Hansard*, 17 July 2018, p. 16.

14 Mr Matthew Richter, Chief Executive Officer, Aged Care Guild, *Committee Hansard*, 17 July 2018, p. 41.

### *Comments from aged care providers*

5.16 While aged care providers adamantly disputed the assertions of tax avoidance made by TJN-Aus, some industry representatives noted merit in the recommendations in the TJN-Aus Report. Indeed, some aged care providers advised that they already comply with the financial transparency measures proposed.[15]

5.17 For example, Ms Norah Barlow, Chief Executive Officer and Managing Director, Estia Health, told the committee that:

> We agree that accounts should be filed with ASIC and that the ability to have reduced disclosure for organisations receiving public funding should be removed. As a principle, this should apply, in my opinion, to all such entities, not simply the for-profit sector and not simply in aged care. It is clear that the revenues Estia receives from the government are directed to the provision of residential aged care. That is what we do. It is not so clear how others, including the very large and the small not-for-profit providers, utilise the subsidies they receive.
>
> We also agree that related-party transactions must be fully disclosed. This is not foreign to us, because as a listed provider we provide publicly available and very detailed financial reports, including the remuneration of our senior executives.[16]

5.18 Similarly, Japara noted that, as a publicly listed company on the Australian Securities Exchange (ASX), it is already subject to disclosure requirements for related party transactions. Japara also commented that:

> The audited financial statements of Japara Healthcare Limited and its Consolidated Entities are already lodged with ASIC and the ASX in full compliance with all Australian Accounting Standards (and International Financial Reporting Standards) and are not eligible for Reduced Disclosure Requirements. The audited financial statements include the results of all the entities within the Japara Healthcare group which includes those entities that are classed as Approved Providers (and receive Commonwealth subsidies and supplements) and full disclosure of all related party transactions.[17]

5.19 Japara agreed with the recommendation that the eligibility for Reduced Disclosure Requirements should be removed, but considered this measure should apply to all aged care providers, not just those receiving funds over a certain amount (i.e. $10 million).[18]

---

15 See, for example, Bupa, *Submission 21*, p. 6; Japara Healthcare Limited, answers to questions on notice, 4 September 2018 (received 19 September 2018), [p. 2].

16 Ms Norah Barlow, Chief Executive Officer and Managing Director, Estia Health Ltd, *Committee Hansard*, 4 September 2018, p. 25.

17 Japara Healthcare Limited, answers to questions on notice, 4 September 2018 (received 19 September 2018), [p. 2].

18 Japara Healthcare Limited, answers to questions on notice, 4 September 2018 (received 19 September 2018), [p. 2].

## Adequacy of current regulation

5.20 The *Aged Care Act 1997* (the Act) and associated principles mandate the financial accountability and reporting requirements of approved aged care providers. Under the Act, aged care providers are required to lodge annual financial returns with the Department of Health (the Department).

5.21 As explained by the Department:

> These [annual returns] provide information on the provider's revenue and expenditure and balance sheet. The Department undertakes a risk analysis of the financial information submitted by residential aged care providers to determine if there are any issues of financial concern with the provider which may affect their ability to continue to operate and repay accommodation deposits. This information is also used in a de-identified form by the Aged Care Financing Authority in preparation of its annual reports on the sector.[19]

5.22 The Aged Care Guild summarised the existing financial reporting requirements that residential aged care providers are subject to under the Act, including:

- Audited General Purpose Financial Reports (GPFR), which are prepared by all provides, lodged with the Department of Health and furnished to prospective and existing residents who request them.
- Aged Care Financial Reports [ACFR], which must be lodged with the Department of Health.
- Annual Prudential Compliance Statements [APCS], which must be lodged annually with the Department of Health and extracts furnished to residents that have paid a refundable deposit and prospective residents should they request it.[20]

5.23 The ACFR[21] became mandatory for all residential aged care providers in 2016–17. The Aged Care Financing Authority (ACFA) recommended the introduction of the ACFR in its September 2014 report—*Improving the Collection of Financial Data from Aged Care Providers*—with the aim of improving the consistency, quality and usability of financial data being received.[22]

---

19 Department of Health, *Submission 26*, p. 3.

20 Aged Care Guild, *Submission 17*, pp. 8–9.

21 The ACFR involves a single template which consolidates the Annual Prudential Compliance Statement (APCS), Survey of Aged Care Homes, Home Care Financial Report, and Short Term Restorative Care Financial Report. Aged care providers must submit their stand-alone audited General Purpose Financial Report (GPFR) and audited opinion of their APCS at the same time as their ACFR. See Department of Health, *Changes to financial reporting arrangements for residential and home care providers*, https://agedcare.health.gov.au/programs/residential-care/changes-to-financial-reporting-arrangements-for-residential-and-home-care-providers (accessed 9 November 2018).

22 Aged Care Financing Authority, *Sixth report on the Funding and Financing of the Aged Care Sector*, July 2018, p. 93.

5.24 In addition to the mandated financial reporting regime under the Act, aged care providers have additional statutory reporting obligations relating to their company structures. Specifically, for-profit providers who satisfy the definition of a 'public company' or a 'large proprietary company' under the *Corporations Act 2001* must lodge their GPFR with ASIC. Conversely, not-for-profit providers must lodge their GPFR with the Australian Charities and Not-for-profits Commission (ACNC). Aged care providers publicly listed on ASX are also bound by the Australian Stock Exchange reporting requirements.

### *Stakeholder views*

5.25 A number of industry stakeholders expressed the view that the current regulatory requirements of aged care providers relating to financial accountability and reporting are appropriate and adequate.[23]

5.26 Allity, for example, submitted that:

> Allity and other for-profit aged care providers are subject to a comprehensive and rigorous set of regulatory requirements for accountability and reporting of relevant financial and non-financial information…[24]

5.27 StewartBrown commented that it would not support the proposal of TJN-Aus requiring the lodgement of audited annual financial statements with ASIC for 'any company that receives Commonwealth funds over $10 million in any financial year' given that there are already two existing reporting regimes (that is, to ASIC in the case of for-profit aged care providers, and to the ACNC for not-for-profit providers).[25]

5.28 The Aged Care Industry Association (ACIA) noted that, in addition to ASIC regulation and the accountability regime administered by the Department, aged care providers are subject to oversight by the Australian Taxation Office (ATO). ACIA asserted that:

> Given these layers of oversight regarding adherence to taxation obligations—ACIA believes that existing accountability and probity mechanisms applying to aged care providers are more than adequate.[26]

5.29 Similarly, Leading Aged Services Australia (LASA) argued:

> Overall, the ATO, the Australian Competition and Consumer Commission (ACCC) and the Australian Securities and Investment Commission (ASIC) provide a suitable regulatory framework to deal with business practices in the for-profit sector. As noted, for the aged care sector, there is also the

---

23 See, for example, Allity, *Submission 20*; StewartBrown, *Submission 3*; Aged Care Industry Association, *Submission 9*; Leading Aged Services Australia, *Submission 15*.

24 Allity, *Submission 20*, p. 6.

25 StewartBrown, *Submission 3*, p. 12.

26 Aged Care Industry Association, *Submission 9*, pp. 5–6.

> reporting to the Department of Health and ACFA is the appropriate body to review and advise on the financing of aged care.[27]

5.30 LASA described existing financial reporting requirements as being 'already onerous', and contended that any additional financial reporting 'should not be considered outside the context of a review of the overall reporting requirements for the residential aged care sector'.[28] LASA further submitted that:

> Inefficient and onerous reporting, only adds to the administrative costs of aged care, whereas some of these costs could be better directed to funding direct care.[29]

5.31 ACIA cautioned that increased financial reporting obligations could impact the willingness of aged care providers to invest and operate in the industry, with potential flow on consequences for competition and value for money:

> Aged care subsidies are not grants, subject to repayment or reporting. Similar activities occur in many areas of the economy. Should all suppliers to government be subject to increased financial reporting obligations, government is likely to find that fewer organisations are willing to act as suppliers. This reduction in competition, in turn, may well lead to increased pricing—and reduced value for taxpayer money.[30]

*Availability and usability of data*

5.32 Submitters and witnesses also reflected on the financial data already provided by aged care providers to the Department. Some inquiry participants contended that the transparency of providers' financial and tax practices could be improved through greater public availability and better use of existing data.

5.33 For instance, Dr Richard Cumpston noted that, under the Act, the Secretary of the Department has the discretion to publicly disclose information in relation to an aged care provider if it is deemed as necessary in the public interest to do so.[31] Dr Cumpston continued that:

> This discretion has apparently been used since 2003 to publish electronic lists of aged care services, showing their locations, providers, approved places and Commonwealth subsidies. Publication of the general purpose accounts spreadsheet summaries would allow comparative analyses, a better informed market and better advice to individuals seeking care.[32]

5.34 Adjunct Associate Professor Michael West also expressed the view that there is a need for greater public availability of financial information, arguing that annual

---

27 Leading Aged Services Australia, *Submission 15*, p. 14.

28 Leading Aged Services Australia, *Submission 15*, p. 14.

29 Leading Aged Services Australia, *Submission 15*, p. 14.

30 Aged Care Industry Association, *Submission 9*, p. 5.

31 See *Aged Care Act 1997*, s. 86-3.

32 Dr Richard Cumpston, *Submission 24*, [p. 2].

financial statements of aged care providers should be accessible free-of-charge through the Department:

> All companies over a certain revenue threshold should report to the department. Instead of having to go to ASIC—you have to pay 38 bucks a pop to look around, search around for the correct entity. Some of these may have had 10 or 20 entities. It could be 380 bucks before you've even found the right company—if you know what you're looking for. People can't be expected to do this. These players are in this cherished position of looking after Australia's elderly. If they [aged care providers] want government money, they should be transparent…They're on the department website—perhaps the businesses should have it on their own websites too, but it should be free.[33]

5.35 Mr Jeremy Hirschhorn, Deputy Commissioner, Public Groups and International, ATO, drew the committee's attention to the fact that the transparency of aged care providers' financial data differs between regulators and the public:

> I'd say it's very important around transparency to distinguish between transparency to the tax office and transparency to the public, which might be through financial statements. These companies have full transparency to us. We can require them to lodge tax returns and supporting schedules, and we can ask for any information that we would require.[34]

5.36 In the same vein, Mr Sean Rooney, Chief Executive Officer at LASA, suggested that sufficient financial information is already reported, but that perhaps 'it's just not being pulled together or shared to the degree that might meet the needs of others'.[35] Mr Rooney observed that:

> …this is an industry that's data rich and information and knowledge poor, I'd suggest, because there is any number of data that is collected and reported. I think, at times, that seems to be the end in itself, rather than actually using that data and applying that in ways that help us understand the system, the dynamics and the demands, and the emerging needs in order to then allocate resources or interventions into that system to respond to what that data and information is telling us. And that's across the system, whether it be information regarding the compliance with the quality standards, whether it be validations through the Aged Care Funding Instrument, whether it be the ACFA reporting or whether it be any other of the compliance requirements that are required by providers.[36]

---

33 Adjunct Associate Professor Michael West, Private Capacity, *Committee Hansard*, 17 July 2018, p. 12.

34 Mr Jeremy Hirschhorn, Deputy Commissioner, Public Groups and International, Australian Taxation Office, *Committee Hansard*, 4 September 2018, p. 31.

35 Mr Sean Rooney, Chief Executive Officer, Leading Age Services Australia, *Committee Hansard*, 17 July 2018, p. 27.

36 Mr Sean Rooney, Chief Executive Officer, Leading Age Services Australia, *Committee Hansard*, 17 July 2018, p. 25.

5.37 Mr Yates from COTA acknowledged the recent work by ACFA to improve the utility of financial reporting relating to aged care; however, considered that there is still room for improvement with regard to the comparability of financial information between providers:

> …in the financial area it would be useful if we had a stricter set of controls about comparable finances. You may not be aware, but in its relatively brief life the Aged Care Financing Authority [ACFA]…has put a lot of work into trying to get better financial reporting out of the sector that was more useful, so we know that we're looking at apples to apples, but there still could be a way to go in that.[37]

## Voluntary Tax Transparency Code

5.38 The Tax Transparency Code (TTC) is a set of principles and minimum standards to guide medium and large businesses on public disclosure of tax information. Adoption of the TTC is voluntary. The TTC is intended to complement Australia's existing tax transparency measures and enhance public understanding of the corporate sector's compliance with tax laws.[38]

5.39 As previously noted (paragraph 4.5), the ATO encourages greater transparency by entities in the aged care industry—in particular, those with multiple entry-point consolidated (MEC) group structures—through adoption of the TTC.[39]

5.40 The committee questioned representatives from the ATO as to the take-up of the TTC by the broader corporate sector. Mr Hirschhorn advised that:

> …because our tax base is so concentrated, with 1,100 companies paying two-thirds of all corporate tax and 100 paying a half and 10 paying a third, you don't need many taxpayers to sign up to have a huge amount of our corporate activity and tax in that code. There has been very significant sign-up by Australian listeds [sic] and there is increasing sign-up by foreign owned companies.[40]

5.41 However, the committee heard from some industry representatives that they do not presently implement the TTC. For instance, Mr Ben Feek, Chief Financial Officer of Opal Aged Care, advised the committee that:

---

37 Mr Ian Yates, Chief Executive, COTA Australia, *Committee Hansard*, 17 July 2018, p. 53. See also COTA Australia, *Submission 23*, p. 7.

38 Australian Taxation Office, *Voluntary Tax Transparency Code*, https://www.ato.gov.au/Business/Large-business/In-detail/Tax-transparency/Voluntary-Tax-Transparency-Code/ (accessed 8 November 2018).

39 See Australian Taxation Office, *Submission 14*, p. 8.

40 Mr Jeremy Hirschhorn, Deputy Commissioner, Public Groups and International, Australian Taxation Office, *Committee Hansard*, 4 September 2018, p. 38.

> We are looking at and reviewing the voluntary outlines that the Australian tax office has prepared, but we don't currently comply with those requirements.[41]

5.42 Mr Feek further advised that Opal sees merit in what the TTC seeks to do, and expects the company's deliberations of the TTC's implications to conclude within the next nine months.[42]

5.43 Japara also noted that it has not formally implemented the TTC; however, it reported that it effectively complies with most of the relevant disclosures suggested by the code:

> For Japara Healthcare Limited, as a medium business, the TTC suggests that Part A should be adopted, which requires disclosure of, for example, a reconciliation of accounting profit to tax expense and to income tax paid or payable. Whilst Japara has not formally implemented the voluntary TTC, it effectively already complies with most of the suggested disclosures of Part A of the voluntary TTC, as disclosed in its financial statements. Nevertheless, it is presently reviewing the minimal additional disclosure requirements.[43]

## Committee view

5.44 A consistent theme throughout this inquiry has been the transparency of aged care providers' financial practices; in particular, the lack of public information regarding the tax affairs of large for-profit providers.

5.45 The committee considers that recent corporate tax reforms are a good start, but contends that the evidence received during this inquiry strongly suggests that more needs to be done with regard to the transparency of company tax affairs. The committee reiterates its position highlighted in its previous inquiry into corporate tax avoidance—that greater transparency in tax affairs is integral for both addressing tax avoidance and minimisation practices and maintaining public confidence in the integrity of the tax system.

5.46 While the focus of this inquiry was on large for-profit aged care providers, the committee acknowledges that all providers in the aged care sector currently operate under broadly the same funding and regulatory environment. Accordingly, the committee agrees with stakeholders that any company in receipt of government subsidies should be held to a high standard of transparency and accountability. That said, the committee considers it important that regulation acknowledge and appropriately account for the varying motivations of different provider types.

---

41 Mr Ben Feek, Chief Financial Officer, Opal Aged Care, *Committee Hansard*, 4 September 2018, p. 15.

42 Mr Ben Feek, Chief Financial Officer, Opal Aged Care, *Committee Hansard*, 4 September 2018, p. 15.

43 Japara Healthcare Limited, answers to questions on notice, 4 September 2018 (received 19 September 2018), [p. 3].

5.47 Publicly lodged financial statements form the cornerstone of a transparent and accountable tax system. The committee is concerned that some for-profit aged care providers are able to use current accounting standards to obscure public scrutiny of their financial activities. Private for-profit entities are not required to provide the same level of disclosure through financial statements as their publicly listed counterparts. The committee believes that it is in the public interest that all companies in receipt of government subsidies, including aged care providers, should be required to lodge General Purpose Financial Statements (GPFS) with ASIC.

5.48 The committee notes that the Australian Accounting Standards Board (AASB) is currently exploring how to improve the consistency, comparability and transparency of financial reports prepared in accordance with Australian Accounting Standards (AAS). The AASB has initiated this process in response to the International Accounting Standards Board's (IASB) revised *Conceptual Framework for Financial Reporting,* which was issued in March 2018.

5.49 In order to apply the IASB's revised Conceptual Framework in Australia, the committee notes that the AASB has recognised that it has to address the 'Australian reporting entity concept'—whereby for-profit entities are able to self-assess as a non-reporting entity and, in doing so, elect to utilise reduced disclosure requirements. Removing the reporting entity concept as it is currently defined in the AAS would remove the ability for entities to use reduced disclosure by preparing Special Purpose Financial Statements (SPFS). To maintain consistency with international standards, the AASB has noted its preference for a two-phased approach to applying the IASB's revised Conceptual Framework; including removing the Australian reporting entity concept and SPFS from the AAS in the medium-term (Phase 2—from 2021 onwards).[44]

5.50 The committee supports the intent of the AASB to align Australian Accounting Standards with international reporting standards, and fully endorses the proposed removal of the Australian reporting entity concept and ability for companies to utilise reduced disclosure requirements. The committee encourages the AASB in its deliberation to ensure that there are no other means by which companies who are in receipt of government subsidies are able to unnecessarily reduce the financial information disclosed in their financial statements.

### Recommendation 3

**5.51 The committee recommends that the Australian Accounting Standards Board implement the necessary changes to apply the International Accounting Standards Board's revised Conceptual Framework as soon as practicable.**

---

44 See AASB, *Consultation Paper—Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems*, May 2018, https://www.aasb.gov.au/admin/file/content105/c9/ITC39_05_18.pdf (accessed 13 November 2018).

5.52 The committee acknowledges the views of some industry representatives that the current regulatory requirements relating to financial accountability and reporting are adequate, and that an increase in reporting requirements would add to administrative costs for aged care providers. However, the committee considers that such costs should be outweighed by the benefits of increased access to, and comparability of, providers' financial information for consumers and other stakeholders in the sector.

5.53 Nonetheless, the committee recognises that aged care providers are currently required to provide a considerable volume of financial information to regulators, particularly to the Department of Health. The committee also notes comments from the ATO that it has transparent access to the financial information it requires of providers. Therefore, the committee shares the view of some stakeholders that more can be done—and indeed, that it is in the public interest—to enhance the availability and usability of financial information supplied by aged care providers.

**Recommendation 4**

**5.54 The committee recommends that the Australian Government investigate options to increase the public transparency of aged care providers' financial information held by the Department of Health.**

5.55 Notwithstanding that the recommendations above will increase transparency of aged care providers' financial and tax practices over time, the committee is of the opinion that existing mechanisms can be better utilised.

5.56 The committee is disappointed that, despite being introduced for large and medium businesses from the 2015–16 financial year, participation by for-profit aged care providers in the Tax Transparency Code (TTC) is underwhelming. While some providers noted that they are presently considering implementation of the TTC, the committee considers this delay an indication that providers are not wholly committed to the voluntary disclosure of their tax affairs. To bolster community confidence and demonstrate compliance with Australia's corporate tax laws, the committee argues—as it has in its previous inquiry into corporate tax avoidance—that the TTC be converted to a mandatory code for all large and medium corporations operating in Australia.

**Recommendation 5**

**5.57 The committee recommends that the Australian Government convert the existing voluntary Tax Transparency Code to a mandatory code for all large and medium corporations operating in Australia, or adopt other strong transparency measures like the publication of data from country-by-country reporting.**

**Senator Chris Ketter**
**Chair**

**Senator Jenny McAllister**
**Senator for New South Wales**