



27 August 2019

Committee Secretary

Senate Legal and Constitutional Affairs Committee

PO Box 6100

Parliament House

Canberra ACT 2600

*via email: [legcon.sen@aph.gov.au](mailto:legcon.sen@aph.gov.au)*

Dear Sir/Madam

**The impact of changes to service delivery models on the administration and running of government programs**

The impact of outsourcing assessments of incorporated service providers under the National Disability Insurance Scheme (NDIS) has had a disproportionately negative impact on small business service providers. Companies are required to go through surveillance audits in the second and third year of their participation. The outsourced auditors apply the same processes for small providers delivering one service to 10 clients and large providers delivering 10 services to 100 clients.

In the case study at Appendix A, prior to the surveillance audit highlighted the practitioner had to complete a 10-page self-assessment checklist resulting in a 27-page report noting this provider had met all requirements. The Stage 2 audit requires the auditor to observe service delivery and hold interviews with staff and participants. In the case study the small business provider had to seek further clarification three times before they could even begin to address the auditors 'requirements'.

Having done so, the owner of the business, also the Principal Speech Pathologist spent 2 days coordinating families to be interviewed. Having submitted the list of 13 to the auditor they requested more detail on each family and that the list be increased to 15-20 from which they would take a sample. To populate the spreadsheet provided, at the NDIS therapy rate, it cost the practice \$1,360. Taking into account the time of the owner, also a practitioner, the cost to meet the audit requirements for companies reached \$12,000. This does not take into account the disruption to 20 families supporting a person living with a disability.

While the practitioner completed the process they consider there is a potential market implosion from small providers refusing to reregister as the scope of audit and resultant cost is untenable. There appears to be a lack of understanding of the impact these audits have on small business providers. Small business owners must divert resources away from delivering services to clients and spend time on audit assessment activities. While it is critical that providers are assessed, the requirements applied by auditors, such as the number of interviews with clients, should be flexible and tailored to the risk profile of the provider.

Of equal concern is the pool of auditors small business can access, particularly outside of metropolitan areas. Currently there are 13 entities approved to conduct all certification and verification audits for the NDIS. All but two are large global or Australian companies. The majority indicate that they provide services across Australia, or specific states, through their network of auditors, yet few have offices outside metropolitan areas. Only half appear to have a presence in Western Australia, even less in the Northern and Australian Capital territories, and none in Tasmania.

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These 13 entities are approved to meet the auditing obligations of close to 11,000 service providers. Such a small pool of approved auditors, based in metropolitan centres, raises three concerns:

1. Can only 13 providers be considered a competitive market for audit services?
2. Is the application process to become an approved auditor prohibitive to small businesses?
3. For providers outside metropolitan areas, what impact does this have on their choice of auditor and the cost of an assessment?

As outlined in our submission to the Department of Social Services, Appendix B, small and family businesses are struggling with the time and cost investment required to be a service provider under the NDIS, with audit costs to sustain accreditation being a major factor. The McKinsey&Company *Independent Pricing Review* in February 2018 cited an example of a large provider investing in 10 new staff just to manage sales and administration to remain operational, costing an additional \$750,000 per year. As small providers do not have a dedicated and separate administration team, the owner – often also a practitioner – undertakes hours of unpaid and time consuming work which inhibits their ability to grow.

We would reiterate our recommendations as they apply to the outsourcing of assessments:

- there should be the implementation of tiered reporting requirements that reflect the risks of the activity being reported;
- there should be the implementation of a tiered audit process that reflects the risk profile of a provider based on the number of its clients and the range of services offered;
- there should be clarity of what activities are mandatory, which can be scaled to reflect the practitioner's business, to meet NDIS standards; and
- there should be standardisation of costs for assessments.

Given the Government's stated goal to reduce red tape, these recommendations should be addressed as a matter of priority. This will assist in driving productivity gains across the economy, allowing small business providers to continue their focus on delivery of services.

Thank you for the opportunity to comment. If you would like to discuss this matter further, please contact Ada Klinkhamer

Yours sincerely

**Kate Carnell AO**

Australian Small Business and Family Enterprise Ombudsman

## **Appendix A: Case study**

A small business service provider recently contacted our office concerned about the cost and requirements of the auditing process under the NDIS. The company has 11 employees and provides services under two NDIS categories. The company is incorporated and are required to undergo a verification audit. This audit meant the small business owner had to address an extensive list of requirements including setting up 20 interviews from across its client base, all of which took a significant amount of time.

They sought quotes from approved auditors, the lowest quote offered being \$6,000. Adding the time away from the business by the owner, also a practitioner, the estimated cost to the business to complete just the Stage 2 audit was \$12,000. This is prohibitive in both cost, draining already stretched cash flows, and practitioner's time.

In this case, the auditors told the owner that they knew most of these checks were unnecessary for the services that this business was providing, but they were obliged to undertake the full audit because the business was incorporated.



Australian  
**Small Business and  
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Ombudsman

**COPY**

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Department of Social Services  
[NDISmarketoversight@dss.gov.au](mailto:NDISmarketoversight@dss.gov.au)

Dear Sir/Madam

### **NDIS Thin Markets Project**

As the Australian Small Business and Family Enterprise Ombudsman I am an independent advocate for small business owners and family enterprises. We have received requests from small and family providers in the NDIS to raise their concerns on the viability of their continuing to provide services under the current model.

Small and family businesses are struggling with the time and cost investment required by the NDIS for registration. If they cannot continue to hold registration and do not re-register, thin markets will emerge, not only in geographically isolated areas, but around Australia.

Of those not renewing their registration, the primary cause cited is the excessive administration costs and processes that place a drain on the primary practitioner, as they not only deliver services but run the business.

As the McKinsey&Company *Independent Pricing Review* in February 2018 found, providers were concerned whether they can achieve a sustainable operating model due to the additional overhead costs associated with operating in the NDIS. The review found profitable operators relied on effective investments in IT systems and the use of predominantly casual workers.

Significant investment in IT and a casual workforce are not viable options for small business providers:

- The review noted that one provider invested in 10 new staff just to manage sales and administration, costing an additional \$750,000 per year. No micro or small provider has the depth of resources to do this. Small providers therefore undertake hours of unpaid work which is time consuming and prohibitive to business growth.
- The implementation of software packages to streamline NDIS reporting requirements can cost \$1,600 per month. Then there is then the additional costs of transitioning existing data onto a new system and the training of staff to use the new system. For small providers where the 'administration staff' and practitioner is the same person, the cost is doubled, as services cannot be provided to clients while they are learning new tools.
- Relying on casual workers to reduce overheads is not sustainable for small providers. Small providers advise that their clients want to work with a specific person, someone they have grown to trust, not just a qualified person. With a small client base, this requires the provider to have permanent staff. Security of a job is also critical to attract and retain the best practitioners, attract trainees to the field, particularly in regional areas.

The auditing process exacerbates problems with overhead costs and provision of services for small businesses registered as companies. Companies are required to go through surveillance audits in the second and third year of their participation. The process reflects the assumption that companies, compared to sole operators, see multi-complex clients and provide a broad range of services. This

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assumption has resulted in the same processes for small providers delivering one service to 10 clients and large providers delivering 10 services to 100 clients.

A case recently brought to my office demonstrates the impact of the overheads on small providers in the NDIS. The company has 11 employees and provides services under two NDIS categories. The audits meant the small business owner had to address an extensive list of requirements including setting up 20 interviews from across its client base, all of which took a significant amount of time. They sought quotes from approved auditors, the lowest quote offered being \$6,000. Adding the time away from the business by the owner, also a practitioner, the estimated cost to the business to complete the two stage audit was \$12,000. This amount of money is prohibitive for many incorporated small businesses who wish to maintain their registration.

If small businesses continue to withdraw as providers because they cannot afford the time and cost investment required of them by the NDIS, the thin-market problem will only grow larger. While assessments of the scheme have so far focussed on the experience of participants, time must now be invested in understanding the experience, and differing needs, of providers.

We would recommend:

- That a targeted survey be undertaken of registered providers that are not active to identify their barriers to participating in the NDIS. Data collected on providers should be further broken down to identify trends in micro, small, medium and large companies and organisations. The findings can be used to inform the agency on areas that require change to secure and grow capacity and competition in providers;
- the implementation of tiered reporting requirements that reflect the risks of the activity being reported;
- the implementation of a tiered audit process that reflects the risk profile of a provider based on the number of its clients and the range of services offered;
- that consideration be given to the allocation of funding for non-essential, but critical, activities that enhance the quality of services provided. For example, time for different providers to collaborate and build a holistic delivery program for a client that requires services from a variety of providers.

Thank you for the opportunity to comment. If you would like to discuss this matter further, please contact Ada Klinkhamer on

Yours sincerely

**Kate Carnell AO**

Australian Small Business and Family Enterprise Ombudsman