
The Parliament of the Commonwealth of Australia

Report 398

**Review of Auditor-General's Reports 2002-2003
Fourth Quarter**

Joint Committee of Public Accounts and Audit

March 2004
Canberra

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ISBN [Click **here** and type ISBN Number]



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Foreword

The outcomes of the review by the Joint Committee of Public Accounts and Audit of the Auditor-General's audit reports tabled in the fourth quarter of 2002–2003 are presented in the Committee's **Report 398**. Of the 34 audit reports reviewed, the Committee selected three for further examination at public hearings, respectively Audit Report No. 42, 2002–2003, *Managing Residential Aged Care Accreditation*; Audit Report No. 51, 2002–2003, *Defence Housing and Relocation Services*; and Audit Report No. 55, 2002–2003, *Goods and Services Tax Fraud Prevention and Control*.

The Committee's interest in reviewing Audit Report No. 42, 2002–2003, *Managing Residential Aged Care Accreditation*, was triggered by observations by the Australian National Audit Office that the relatively recently introduced aged care accreditation process still showed significant levels of operational and financial volatility. Further, in reviewing this report, the Committee recognises the importance of a rigorous and efficient accreditation system in the future delivery of quality aged care to an ageing Australian population.

Although accreditation of residential aged care facilities was established in 1997, the Aged Care Standards and Accreditation Agency Ltd could not commence audits until the gazettal of principles in September 1999. This left the Agency with a severe time constraint which contributed to inefficiencies, and to inconsistencies in judgements and decisions during the first round of accreditations.

The Committee notes, however, that many of the early problems associated with maintaining accreditation standards deriving from the peaking of the Agency's workload around three-year accreditation cycles, are now being resolved. Whereas full-time staff could not cope with the workload when most first round accreditations were undertaken, the hiring and training of temporary employees and the distribution of guidance manuals to all assessors for second round work has alleviated many of the earlier problems. The Committee is satisfied that an acceptable level of consistency was achieved during the second cycle of accreditation which is now complete.

The Committee has concerns, however, that despite all the efforts put into setting up and running the accreditation process, witnesses at the public hearing were unable to give clear indications that the quality-of-life of residents of aged care facilities has actually improved. Monitoring the effectiveness of accreditation in delivering better quality aged care services appears to rest solely on clinical quality data rather than some combination that includes a broader set of quality-of-life measures. Accordingly, the Committee recommends that the Aged Care Standards and Accreditation Agency develop a better quality monitoring mechanism that includes a balance of objective clinical quality data and subjective quality-of-life measures. In making this recommendation, the Committee is adamant that the new mechanism must not impose additional compliance costs on the aged care facilities nor further complicate the accreditation system.

The Committee's review of Audit Report No. 51, 2002–2003, *Defence Housing and Relocation Services* addresses the efficiency and effectiveness of the agreement between the Department of Defence and the Defence Housing Authority in managing the provision of housing services to Australian Defence Force personnel. The Defence Housing Authority operates as an independent commercial entity providing services to the Department of Defence according to the provisions of the existing 10-year \$3.5 billion Service Agreement.

The Committee examined aspects of the Service Agreement, the relevance of the legal advice available during the writing of the Service Agreement, and the conflicting objectives of the two agencies. It finds that legal advice provided to the Department of Defence was not explicit enough for its Service Agreement obligations. Further, the Australian Defence Force's housing demand is unlikely to be met cost-effectively by market supply due to inflexibility in the housing classifications.

The Committee concludes that the requirement for the board of the Defence Housing Authority to include Australian Defence Force personnel connotes a potential conflict of interest and recommends that the *Defence Housing Authority Act 1987* be amended to remove the requirement to have three Australian Defence Force personnel on its board. There needs to be a complementary mechanism to ensure that Australian Defence Force personnel have a voice in strategic decisions affecting their housing. The Committee recommends therefore that the role of the existing Defence Domiciliary Group be expanded to include a formal consultation function with the Defence Housing Authority.

The Committee finds that the vacant housing issue has been tackled effectively by the Defence Housing Authority, cost-reductions have been achieved, and the quality maintenance fee is an effective mechanism to provide a superior service tailored to Australian Defence Force personnel needs.

A range of outstanding issues identified by the Australian National Audit Office including the establishment of continuous improvement programs, Key Performance Indicators, a property register and a review of deemed effective markets was not convincingly explained by the Department of Defence. The

Committee recommends that the Department of Defence report to the Australian National Audit Office and to the Committee on its progress in rectifying these matters.

Audit Report No. 55, 2002–2003, *Goods and Services Tax Fraud Prevention and Control* addresses a major tax revenue loss area. The Australian National Audit Office identified, and the Australian Taxation Office agreed, that controlling Goods and Service Tax fraud poses a significant challenge for the Australian Taxation Office.

The Committee is pleased to note that Australia's Goods and Services Tax system compares favourably with systems of similar type used overseas, in the main due to thorough preparatory research by the Australian Taxation Office of relevant international value added tax regimes.

The Committee is concerned with the prevalence and potentially destructive impact of cash economy Goods and Services Tax avoidance. Determining the magnitude of the cash economy has proved to be difficult. The Committee endorses, however, the efforts that the Australian Taxation Office has taken to capture tax owing on cash transactions using a variety of tools. Australian Business Number registration and monitoring has been particularly successful.

Australian Taxation Office has up-graded its non-compliance capability since the Australian National Audit Office audit, by merging three non-compliance functions. Similarly, the Australian Taxation Office is in the process of installing a new case management system that will record and report on Goods and Services Tax fraud. The Committee notes that testing the efficacy of the new system has still to be finalised and recommends that the Australian Taxation Office provide a report on its effectiveness to the Australian National Audit Office and to the Committee when installation is complete.

To date *major* fraud has been targeted for investigation and prosecution. The Committee is pleased that *minor* fraud is increasingly being captured cost-effectively using tools such as a tax evasion hot line.

The Committee feels that a rigorously derived estimate of the tax gap is required as an input to successful monitoring of prevention and control of Goods and Services Tax fraud.

The Australian Taxation Office's Risk Rating Engine and its tandem Registration Information Matching System appear to be assessing tax payer risk and registration compliance effectively.

The Committee is concerned that instances of "borderline fraud" are escaping prosecution. It concurs that a logical response to controlling this category of fraud is to tighten the appropriate statutes so that the ease of proof of fraud is enhanced, and it makes a recommendation accordingly.

In conclusion the Committee commends the three agencies that were the subject of these reviews, for their overall early and positive responses to the respective Australian National Audit Office audit outcomes.

Mr Bob Charles MP
Chairman



Membership of the Committee

Chairman Mr Bob Charles MP

Deputy Chair Ms Tanya Plibersek MP

Members

Senator John Hogg	Mr Steven Ciobo MP
Senator Gary Humphries	Mr John Cobb MP
Senator Kate Lundy	Mr Petro Georgiou MP
Senator Andrew Murray	Mr Alan Griffin MP
Senator Nigel Scullion	Ms Sharon Grierson MP
Senator John Watson	Ms Catherine King MP
	Mr Peter King MP
	The Hon Alex Somlyay MP

Membership of the Sectional Committee

Chairman Mr Bob Charles MP

Deputy Chair Ms Tanya Plibersek MP

Members Senator John Watson

Ms Catherine King MP

Ms Sharon Grierson MP

The Hon Alex Somlyay MP

Committee Secretariat

Secretary Mr James Catchpole

Inquiry Secretary Mr Frederick Cook

Research Officer Mr Alex Stock



List of abbreviations

ABN	Australian Business Number
ABS	Australian Bureau of Statistics
AC Act	<i>Aged Care Act 1997</i>
ACSA	Aged and Community Services Australia
ADF	Australian Defence Force
AFP	Australian Federal Police
AGD	Attorney-General's Department
the Agency	Aged Care Standards and Accreditation Agency Ltd
ANAO	Australian National Audit Office
ANHECA	Australian Nursing Homes and Extended Care Association
ATO	Australian Taxation Office
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CHA	Catholic Health Australia
DDG	Defence Domiciliary Group
Defence	Department of Defence
DHA	Defence Housing Authority
DHA Act	<i>Defence Housing Authority Act 1987</i>
DOC	Domiciliary Operations Committee
DPP	Commonwealth Director of Public Prosecutions

FIRM	Fraud Investigation Reporting and Management system
FMA Act	<i>Financial Management and Accountability Act 1997</i>
GBE	Government Business Enterprise
GST	Goods and Services Tax
Health	Department of Health and Ageing
JAS-ANZ	Joint Accreditation System of Australia & New Zealand
KPI	Key Performance Indicator
OECD	Organisation of Economic and Cultural Development
RIMS	Registration Information Matching System
RRE	Risk Rating Engine
VAT	Value Added Tax



List of recommendations

2 Managing Residential Aged Care Accreditation

Recommendation 1

The Aged Care Standards and Accreditation Agency Limited broaden the focus of the quality assessment data currently used for accreditation purposes, to include quality-of-life information experienced industry-wide by residents of aged care homes. Overall, the resultant data collection mechanism must not impose additional costs on the aged care facilities nor further complicate the accreditation system.

3 Defence Housing and Relocation Services

Recommendation 2

Section 12 (1) of the *Defence Housing Authority Act 1987* be amended to remove the provision that the Defence Housing Authority include three members of the Australian Defence Force.

The *Services Agreement for Housing and Related Requirements* be amended to allow for a formal consultative process, possibly including the Defence Domiciliary Group, to enable the Department of Defence to advise Defence Housing Authority of Australian Defence Force housing requirements.

Recommendation 3

The Department of Defence report within six months to the Joint Committee of Public Accounts and Audit on its progress towards addressing the outstanding issues listed in Paragraph 4.6 of the Australian National Audit Office Audit Report No. 51, 2002–03, *Defence Housing and Relocation Services*.

4 Goods and Services Tax Fraud Prevention and Control

Recommendation 4

The Attorney-General's Department, in liaison with the Australian Taxation Office and the Commonwealth Director of Public Prosecutions, draft amendments to legislation, for the Attorney-General's consideration, that enhance the ease of proof in the prosecution of suspected Goods and Services Tax fraud.

Recommendation 5

The Australian Taxation Office report to the Joint Committee of Public Accounts and Audit within six months, on a mechanism to estimate the tax gap, that would serve as the basis for reporting the overall efficacy of the range of measures being adopted to prevent and control Goods and Services Tax fraud.