

8 June 2021

Mr Paul Hubbard
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Department of the Prime Minister and Cabinet
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By email paul.hubbard@pmc.gov.au

Dear Paul,

Reducing Financial Reporting Red tape

Thank you for the opportunity to meet recently, and for your invitation to provide further input to the work of the Deregulation Taskforce regarding Australia's financial reporting and audit regulations. There are many examples of unnecessary complexity and inconsistency in these regulations which result in a significant compliance burden that is both inefficient and costly. This issue is of critical importance not only to all members of the accounting profession but also Australians who own or are working in businesses across all sectors, particularly in the small and medium enterprise (SME) space.

High quality financial reporting (including appropriate audit oversight) is essential for transparency and accountability. Therefore, the three professional accountancy bodies are strong supporter of regulatory financial reporting requirements that meet the information needs of the regulators, and other primary users of this information. However, Australia's current legislative financial reporting framework is characterised by a myriad of different, and often unclear, reporting requirements (often containing inconsistent and outdated associated terminology) imposed by different regulators both within and across the federal, state and territory spheres. All of these different requirements make the process of financial reporting (and associated audit obligations) a more complex compliance burden than is necessary for Australian businesses. They undermine the ability of these reports to effectively communicate necessary and important information in a meaningful way and present challenges to the various regulators as they try to enforce these requirements. They also pose challenges to the limited resources of the Australian accounting profession, especially when these requirements are not consistent with the accounting, auditing standards and other professional standards that are imposed on our members.

The scale of the issue

As evidence of the scale and complexity of the financial reporting reform issue, in 2019 the Australian Accounting Standards Board (AASB) issued [Legislative and Regulatory Financial Reporting requirements \(Research Report R10\)](#). This report is a comprehensive review of legislative and regulatory requirements affecting financial reporting requirements of for-profit and not-for-profit private and public sector entities under Federal, State and Territory legislation. It identified 11 different categories of requirements, which served to highlight the complexity and lack of uniformity that exists. However, as the report notes, "an entity may be subject to multiple legislative requirements under a number of different pieces of legislation".

In a similar vein a study by CA ANZ and the University of Adelaide identified 136 unique terms to describe the information subject to audit, and 101 unique descriptions of the auditor and his or her qualification in Australian legislation.

The resulting complexity makes it very difficult for financial reporting processes to cost effectively serve the needs of its myriad of users. The AASB is currently working on this challenge, via its financial reporting framework projects in the [for profit](#), [not-for-profit](#) and [public sectors](#). However, its ability to achieve widespread and beneficial reform is constrained not only by the complex legislative requirements that the AASB needs to deal with but the lack of national agreement regarding appropriate levels of accountability and how this accountability should be discharged.

The current default use of our internationally based accounting standards framework, designed primarily for the reporting needs of listed and other publicly accountable entities, can place a significant compliance burden on other much smaller entities who lack both the skills to implement the resulting form of reporting, and users who need, and understand, its level of complexity and detail. Concerns in this regard have been a feature of the feedback to both the AASB's for profit and not-for-profit reform project consultations. In response they have developed a new [simplified disclosure regime](#) for a Tier 2 general purpose financial report which comes into force in 2022. They have also begun work on Tier 3 general purpose report for not-for-profits with simplified recognition and measurement requirements, proposals for which are currently under development for consultation later in 2021.

Similarly the legislative default to a "registered company auditor" (RCA's) when an audit provision has been inserted into law fails to acknowledge that there are a range of professional assurance services, and adequately qualified personnel (such as the 'Qualified accountant' designation in section 88B of the Corporations Act 2001) that could provide the accountability being sought without placing undue burden on the country's limited supply of the necessarily highly qualified and experienced RCA designation.

The complexity, inconsistency and overlaps in Australia's reporting and audit frameworks are not only a legacy issue that needs to be addressed, but an ongoing challenge as new reporting or audit requirements are constantly devised by different levels of government or regulators. For example, the [recent CA ANZ /CPA Australia joint submission to the Aged Care Royal Commission's final recommendations](#) expressed concern that, in developing reporting requirements for the sector, there was no reference to the need to involve the AASB and other key stakeholders in this work. Only then would the outcome produce legislative wording that is clear, consistent, understandable and enforceable. It was very encouraging to see that our recommendation was included in the Commission's Final report (on page 903).

Extent of progress

Progress in addressing these issues in the **for-profit** sector has been slow and piecemeal. Key steps that have been, or will be, of ongoing benefit of benefit have included

- Development of the [Cooperatives National Law](#), a consistent national, legal framework for cooperatives. However, while this reform was initially planned for implementation nationwide by the "Year of the Cooperative" in 2012, it only became law in Queensland in late 2020, despite having been law in NSW and Victoria since 2014, South Australia, Tasmania and Northern Territory since 2015 and Western Australia and the ACT since 2017.
- 2019 [increase to the large proprietary company thresholds](#) in section 45A of the Corporations Act 2001 to ensure existing reporting requirements do not impose an unreasonable burden on smaller entities. These thresholds had remained unchanged since 2007, despite being determined on a concept of "economic significance"
- AASB's framework reform projects in the [for profit](#), [not-for-profit](#) and [public sectors](#), seeking to standardise the content of financial reports on the public record
- The AUASB's recent [Guide for Prescribing Assurance and Related Services](#) which assists legislators, grantors, regulators and others draft assurance requirements which are clear and effective. It builds on the work of the Department of Finance and Deregulation's 2011 circular which first tried to provide such support.

However, the necessarily limited scope of these individual reforms still leaves a large number of entities of all types and sizes, governed by a variety of pieces of legislation in need of comprehensive reform. CA ANZ and CPA Australia raised this need with Treasury in our 2018 [submission](#) on the large proprietary company thresholds reform referred to above, given that the limited scope of those changes would create further inconsistencies.

More progress has been made in the **not-for-profit** sector. With the inclusion of [red tape reduction](#) as a key objective of the Australian Charities and Not-for-Profits Commission (ACNC), it has made significant strides in standardising reporting requirements for not-for-profits who are also charities. One significant achievement is that a number of state regulators now accept reports lodged with the ACNC in satisfaction of their individual reporting requirements.

However, these reforms only benefit NFPs who are also charities in the states and territories for which agreements have been reached and to date not all states and territories are included. In addition, despite the ACNC's name, not-for-profits who are not also charities remain outside the reach of the ACNC's reforms and can still be subject to a variety of inconsistent and complex state-based regulation. The most common types of these entities can include incorporated associations and companies limited by guarantee, with [Research Report 10](#) providing more detail.

The impact of the ongoing legislative complexity remains a current issue and was most recently raised by us in a [joint submission](#) with CPA Australia to the Thresholds Working group charged with implementing recommendations from the ACNC legislative review. Similar calls have also been included in a variety of different enquiries, most recently in relation to fundraising reform.

Toward future reform

We appreciate that reform in our current federal structure is challenging, given the different regulatory structures in each state and competing legislative priorities that exist at all levels of government. However, as noted in our introduction, a fit for purpose financial reporting framework is of critical importance to the effective operation of Australian businesses and the complexities of the current system present those businesses and the accounting profession that serves them, with significant resource challenges that do not effectively balance preparer and auditor costs with necessary accountability to regulators, investors and the general public.

We therefore call for the development of a roadmap that has as its objective a simpler national legislative financial reporting and auditing framework for both the for profit and not-for-profit sector. This framework needs to clear up inconsistent reporting obligations and be easy to understand while still ensuring appropriate levels of accountability are applied. Such a roadmap would require all levels of government, legislators, regulators and standard setters, to collaborate and agree to move together.

We are willing to engage with you to explore possible options and assist with any deliberations. To this end we are already working closely with the AASB on standard setting framework reform in both the for-profit and not-for-profit sectors.

Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact the authors.

Yours sincerely

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