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Ms Kate O'Rourke
Principal Adviser
Corporations Policy Unit
Consumer and Corporations Division
Level 5, 100 Market Street
Sydney NSW 2000

Email: reportingthresholds@treasury.gov.au

Dear Ms O'Rourke

Reducing the financial reporting burden by increasing the thresholds for large proprietary companies

We wish to advise that we strongly oppose the proposed draft regulations which will increase the financial reporting thresholds for large proprietary companies under the Corporations Act 2001.

As auditors we work with a lot of companies that could potentially be affected by this change and don't believe that it would be in the best interests of the company's stakeholders or the general public for the thresholds to be increased.

In our opinion the current audit and financial reporting requirements for large proprietary companies provide confidence to users of financial reports that the financial reports are accurate and have been subject to sufficient independent oversight and review. Many businesses with turnover in excess of $25 million would are substantial businesses with large debt, creditors and employees. The audit process provides comfort and protection to these stakeholders that the financial report is reliable, and has been subject to the rigour of an audit. Many businesses of this size have external debt or arm's-length shareholders. Even if the reporting thresholds for large proprietary companies were increased some of these companies would still be required to have their financial reports audited upon request by their financier or external shareholders regardless of the change in thresholds. If financial institutions still require the financial report of a company with turnover in excess of $25 million to be audited (based on their assessed risk to the bank) then may be this is an indicator that businesses of this size should continue to be subject to audit under the Corporations Act.

Often businesses with turnover between $25 million and $50 million have grown rapidly and have not implemented satisfactory internal control systems to adequately govern their rapidly growing business. We feel as auditors that part of our role is to provide feedback on internal control systems and processes so that these companies can improve their systems to handle larger and more complex operations. This way the company receives value from the audit process rather than the audit just being seen as a compliance burden.

We don't believe that the current financial reporting obligations for large proprietary companies are onerous as companies that qualify for the current large proprietary thresholds should be producing financial reports in accordance with relevant accounting standards anyway. Large proprietary companies can choose to produce special purpose financial reports or financial reports in accordance with the reduced disclosure requirements to reduce their financial reporting burden.

We also believe that it is good corporate governance for companies with turnover in excess of $25 million (i.e. substantial businesses in our opinion) to have their financial report independently audited to ensure that it complies with relevant reporting requirements and is an accurate basis upon which decisions can be made. From a risk management perspective, having an audit of your financial report also reduces the risk of error in the financial report.

If you would like to discuss our submission, please contact me on (03) 9551 2822.

Kind regards

Ryan H. Dummett