

14 December 2018

Dear Sir/Madam,

Australian Treasury

Sent by email: reportingthresholds@treasury.gov.au

Proposal to increase thresholds for large proprietary companies

Thank you for the opportunity to provide my comments regarding the above. I am a Chartered Accountant (retiring in a few months) who has provided audit services to medium and large business for over 30 years.

The issue here is surely not something as superficial as “red tape”. This is an issue concerning integrity, accountability, reliability, comparability of like operations and Australia’s business reputation in the global economy.

Australia desperately needs more auditing. This is easily demonstrated throughout the business spectrum from the high end (the banks bad behavior and consequent community outrage) to the lower end (students being cheated of their fair pay and entitlements and the consequent community outrage). Not to mention phoenix companies.

There has been no demand to lessen the regulatory infrastructure in Australia and any such change would be met with considerable community disquiet. There is community expectation for improved monitoring and audit.

Company with revenues of \$8,000,000 to \$40,000,000 on one hand create a large “footprint” on the community particularly in relation to their staff and the predominantly small and medium business sector with whom they transact business and consequently can cause considerable damage to society if recklessly managed or when trade insolvently. On the other hand they are not large enough to employ a finance team adequately trained and experienced to keep up to date with all the corporate law, accounting standards, tax, payroll and best practice internal control and anti fraud systems. **This is a particularly vulnerable sector of business in Australia and requires the protection of annual auditing.**

This proposal will also serve to exempt significant numbers of foreign owned companies. Presently foreign owned companies are required to be audited but may apply for an exemption from the audit if they do not qualify as a large proprietary company.

This is a particularly vulnerable area. Understandably the overseas head office will wish to install management and accountants who they can communicate with. Often they are seconded from the

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overseas head office or if locally sourced, typically lack knowledge or experience of the Australian regulatory regime and have been chosen by virtue of their native language skills.

I can not overestimate the seriousness and vulnerability this state of affairs causes.

Registered ASIC auditors largely solve these issues with their annual audit – assessing internal control systems, fraud susceptibility, corporate, tax and accounting standard compliance. There is no substitute for this service.

The Australian regulatory system with the key participation of the audit sector has been extremely successful. Regulatory bodies like ASIC, APRA and the ATO working in conjunction with the audit profession have significantly aided the Australian economy. However the audit profession has the key role as its practitioners are in the “front line” to confront poor corporate behavior, ignorance of regulatory rules and accounting standards and tax law.

The auditor also requires directors to soberly face issues of insolvency, poor accounting systems, cyber security, and fraud exposures.

As above, this will all be lost with reduced auditing in a particularly susceptible part of the economy to the detriment of small and medium business and working people.

The audit fees are a “drop in the bucket” for companies with tens of millions of sales and the so called “red tape” is clearly negligible.

Reducing the audit coverage in Australia will greatly weaken the impact of ASIC (at a time of reduced resources and high criticism) and also the ATO’s revenue collections.

Auditors of the medium business sector in Australia are ASIC’s and the ATO’s “best friends” (along with many others) and I will set out the briefest of examples below:

ASIC

Auditors assist and/or report to ASIC in the following instances:

- Insolvent trading
- Inadequate systems of internal control and fraud prevention
- Ensure related party transactions are commercial and not detrimental to staff, members or business suppliers
- Ensure board of directors are properly constituted
- Review for money laundering and/or transfers of funds to dubious destinations (surely potentially assisting Australia’s national security)
- Ensure lodgement obligations are met and books and records are properly kept.

How on earth will ASIC be able to do their job without this assistance without hiring a “army” of inspectors. Please do not weaken ASIC ability to regulate business any further.

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The auditor forces the Directors to focus on solvency regularly (can't ignore or go into denial or dodge the issue until it is too late). This provides significant protection to staff and small businesses dealing with the company.

ATO

- Prevention of Directors charging or hiding their private expenditure into the company's ledgers.
- Ensure fringe benefits tax liabilities are understood and fully provided for.
- Ensure PAYG withholding is accurately calculated particularly for "contractors"
- Ensure staff superannuation is correctly withheld and paid.
- Ensure any transfer pricing and profit shifting overseas is carefully reviewed, commercial and within the ATO's policy guide-lines.
- Ensure lodgement obligations like BAS, GST and company tax instalments are being met.

State Taxes

- Ensure complete and accurate calculation of payroll tax obligations. Ensure contractors, inter-state workers and all "group" companies are considered in the calculation.

External auditors have an outstandingly positive influence on revenue collections in this business space as they are on hand to confront the Directors with any bad behaviors or omissions (innocent or otherwise).

The ATO would need a small army of inspectors to replace this service.

Staff benefits

- Ensure pay rates meet minimum standards
- Ensure superannuation obligations are properly calculated and paid
- Ensure all staff entitlements like annual leave and long service leave benefits are fully considered and accurately calculated
- Not to mention the benefits of preventing insolvent trading

Workcover (state jurisdictions)

- Ensure a current policy is maintained
- Ensure the full coverage of all staff including "contractors" and inter-state workers and Directors

Without this audit service, workers and, of course, the government may find themselves hopelessly under resourced.

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Conclusion

All in all the lessening of audit services:

- (i) will prove a significant drain on taxpayers funds through the substantial increase in Government inspectors (for ASIC, ATO and Workcover) required and the lessening of tax revenues
- (ii) will cause a deterioration in corporate behavior leading to workers and small business suffering and increasing community anger. All at a time when the community is demanding higher standards of business behavior. The “red tape” excuse is transparently not acceptable.

Auditing is a vital service in this sector.

Recommendation:

- **no need for 3 criteria to be considered, just 1**
- **all companies with revenues exceeding \$8,000,000 per annum need to be audited**

(# most medium companies are in the service sector and not capital intensive, so gross assets should no longer be applicable. Regarding staff numbers, any staff hurt financially is too many.)

Thanks again.

Yours faithfully,


Graeme Green (FCA)

14-12-2018