

Tuesday 8 December 2009

News release

SME see-saw: reporting red tape removed, only to be reinstated just hours later

Proposed new accounting standards will increase complexity and compliance costs for SMEs

The Australian Accounting Standards Board (AASB) has defied recent Federal Government efforts to remove red tape for SMEs, by issuing draft guidelines which would ramp up reporting complexity for many Australian businesses, says Grant Thornton Australia.

The Australian Government's Corporate Reporting Reform Bill, issued last week, promised a new era for Australia's corporate reporting requirements by lifting the regulatory burden on many companies.*

Under the reforms, businesses are set to benefit from a range of new measures, including relaxed reporting regimes, increased flexibility around dividend payments and a simplified approach to adjusting year-end dates.

However, these improvements could now be eroded by the AASB's proposals on differential financial reporting. Despite strong business support, the AASB has ignored calls to introduce a simplified IFRS for SMEs, and has also slugged smaller non-reporting entities with a new set of complicated financial statements.

Matt Adam-Smith, National Head of Audit & Assurance Services at Grant Thornton Australia, commented:

“We have been campaigning vigorously on the issue of corporate reporting, but our satisfaction with the Corporate Reporting Reform Bill has been replaced by disappointment at the proposals made by the AASB.

“Although an attempt has been made to reduce the disclosure requirements for non-listed reporting entities, the proposals still require SMEs to fulfil cumbersome and complicated IFRS measurement and recognition rules, which simply do not suit the scale of their business operations. Simultaneously, previous non-reporting entities are now being required to ‘step up’ from current Corporations Act financial statements to full IFRS-style reporting with significant additional disclosure requirements, which is nonsensical. An accounting system which is already too complicated for smaller companies is not right for Mum and Dad businesses and charities.”

Grant Thornton Australia has long championed the International Accounting Standards Board's IFRS for SMEs accounting standard, highlighting the significant cost savings available to businesses if they escaped the burden of full IFRS disclosure, measurement and recognition. This new Standard has been specifically designed for the non-listed market, and

has strong majority support from the Australian business community (84% backing according to a recent Grant Thornton survey**).

“Within accounting circles this feels like Groundhog Day: there’s a clear, Federally-led mandate for simplicity, there’s an International Standard designed to deliver it, but the AASB still isn’t budging. The Corporate Reform Bill acknowledged the need for tailored reporting requirements, and yet both smaller companies and non-reporting entities are being hit by this inflexible approach.” said Matt Adam-Smith.

Grant Thornton Australia will be responding to the AASB consultation with a clear call to adopt IFRS for SMEs, and to maintain the status quo for non-reporting entities under existing AASB simplified accounting rules, until the relaxed IFRS for SMEs regime can be assessed and potentially extended down the market.

- Ends –

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Notes to Editors

Further details on Differential Reporting and Grant Thornton’s views on the adoption of IFRS for SMEs can be found at: www.grantthornton.com.au

***About the Corporations Amendment (Corporate Reporting Reform) Bill**

Following extensive consultation by the Treasury, including sustained dialogue with Grant Thornton Australia, the Corporate Reporting Reform Bill proposes reforms in 4 key areas:

- Significantly reducing the regulatory burden on companies limited by guarantee (which typically have a not-for-profit purpose), by introducing a tiered differential reporting framework. This would mean that companies with revenues of less than \$250,000 no longer have to produce Corporations Act audited financial statements, and companies that have revenues between \$250,000 and under \$1,000,000 will be able to have an audit review rather than a full audit.
- Abolition of parent-entity financial statements;
- Providing greater flexibility for companies to pay dividends, by replacing the profits test with a solvency-type test;
- Allowing companies to more easily change their year-end date to minimise the burden on companies and their auditors during peak reporting periods – this move made following a Grant Thornton survey which demonstrated that a majority of companies wanted legislative changes to allow them to choose their year-end dates.

Other reforms will also implement refinements to the regulatory framework, including:

- improving disclosure of non-financial information in the directors' report;
- protecting solicitors' representation letters from disclosure to enable auditors to properly verify a company's contingent liabilities;

- refining the statement of compliance with International Financial Reporting Standards contained in the directors' declaration; and
- clarifying the circumstances in which a company can cancel its share capital.

Grant Thornton supports the Government in having changes to the Corporations Act occur by 30 June 2010 so that the not-for-profit industry can enjoy reduced compliance costs straight away.

However, it also has some remaining concerns around certain areas in the draft reforms, and will consider these issues in its submission to the Treasury.

- Grant Thornton does not believe that allowing non-Registered Company Auditors to do an audit review is sensible given the specific audit expertise that is required to undertake an audit review. The danger is that this could allow someone not at all familiar with auditing techniques to conduct an audit review – with the resultant risks to integrity of the process.
- Grant Thornton also believes that non-listed public companies that are not limited by guarantee should also have relief from Corporations Act reporting requirements. It does not make sense for smaller non-listed public companies (say revenues of less than \$1,000,000) to have to produce Corporations Act audited financial statements when limited by guarantee companies that have revenues under \$250,000 are exempted, and proprietary combines that have revenues under \$25,000, 000 are also exempted.
- Grant Thornton also has concerns that the abolition of the profits test for dividends and the change in year-end dates will require specific tax legislative changes before they are able to be implemented.

****About the Grant Thornton IFRS Survey 2009**

Access the Grant Thornton 2009 IFRS Survey at
http://www.grantthornton.com.au/files/gt_ifrs_survey_0509-final.pdf

More than 200 individuals responded to the inaugural Grant Thornton Australia IFRS survey – from CFOs, Directors and Audit Chairs in ASX-listed companies, to not-for-profits, SMEs, advisors from accountancy firms and industry analysts/professional bodies. The survey was conducted online during January and February 2009 and was open to all those working in Australia with an interest in or role pertaining to IFRS compliance and financial reporting more broadly.

About Grant Thornton Australia

From market-leading services for the owners of private businesses, to audit, insolvency and capital markets services for corporations, and to innovative taxation and wealth management services for individuals, Grant Thornton in Australia helps business owners achieve success and realise their ambitions.