

Survey of Australia's financial reporting deadlines

March 2008

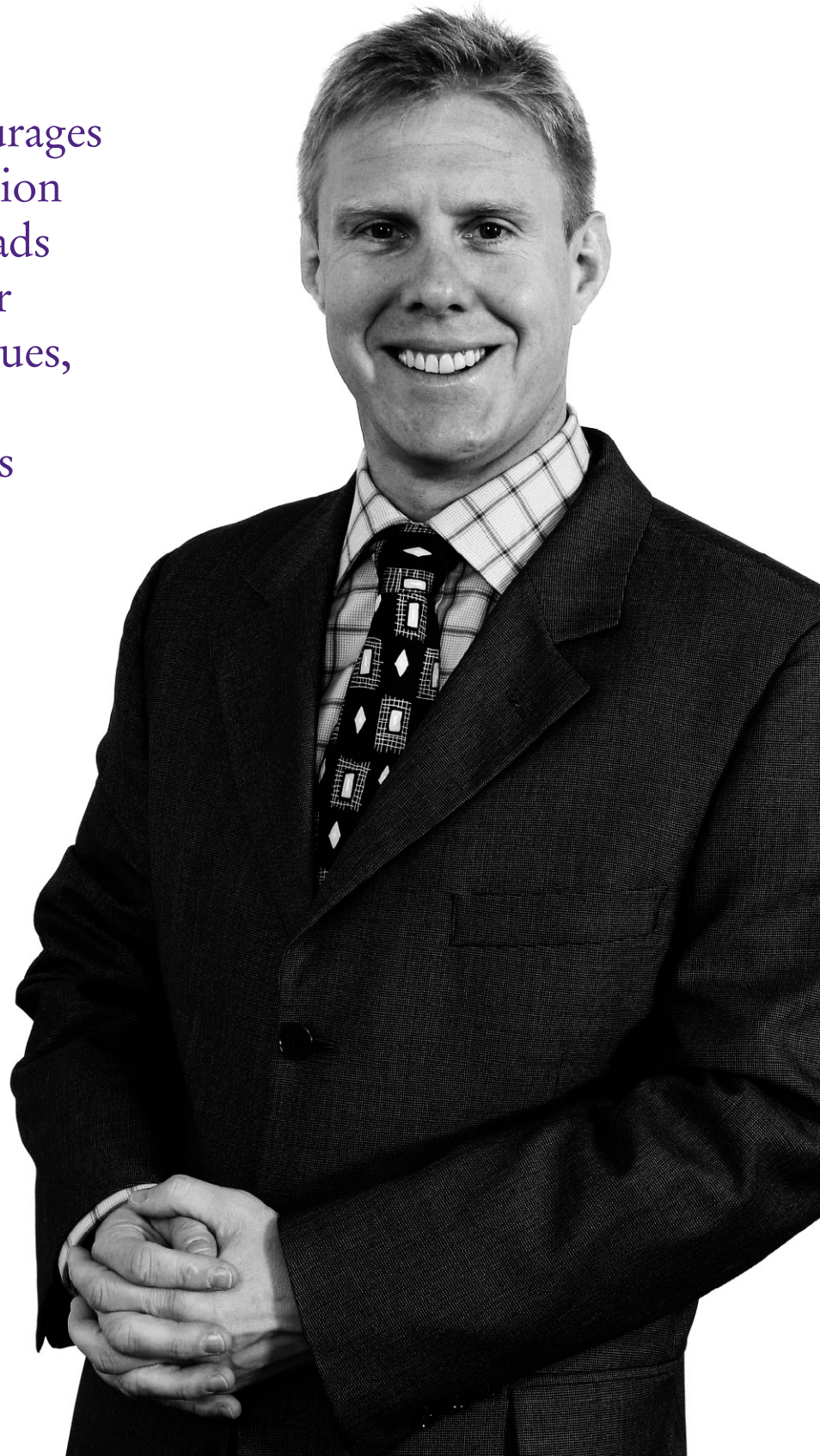


We hope that this encourages further industry discussion and that ultimately it leads to positive outcomes for those affected by the issues, particularly in light of the federal government's commitment to reduce red tape.

Matt Adam-Smith
National Head of Audit

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Foreword

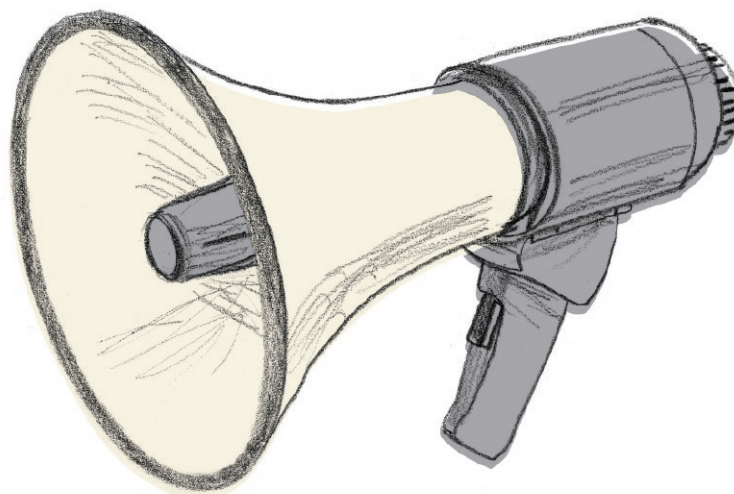
Welcome to Grant Thornton Australia's survey on financial reporting deadlines.

This research was conducted as part of our ongoing commitment to speaking out on the issues that matter to business.

In Australia, we have some of the tightest financial reporting deadlines in the world for both private and publicly listed companies. We also have a predominance of 30 June year-ends due to the tax and company legislation. The clustering of year end reporting creates a huge strain on the majority of those involved in the financial reporting process. This is particularly the case for CFOs, directors and auditors of the 2,000 or so listed companies outside the ASX Top 200, which have limited in-house resources.

The survey results, which consider the opinions of a broad cross-section of those involved in the financial reporting process, support the case for two changes to financial reporting requirements:

- Firstly, that the tax legislation and Corporations Act should be amended to allow companies to change their year ends more easily, which would help to spread the work for auditors, directors and analysts alike across the year; and
- Secondly, that ASX Listing Rules and the Corporations Act reporting deadlines should also be amended, using a tiered approach to allow smaller companies a short amount of extra time to acknowledge the fact that they do not have access to the level of resources of larger companies.



Context

The Australian Securities Exchange (“ASX”) has around 2,200 listed companies with 84% of these reporting their year end on 30 June. Preliminary results for these companies are then announced within two months at the end of August and final accounts come one month later on 30 September. Non-listed public companies and large proprietary companies have four months to lodge their annual financial reports.

Australia has tight corporate reporting deadlines for its listed and non-listed companies when compared to the US and UK. The UK deadline on the equivalent of the preliminary financial report lodged with the ASX (Appendix 4E) is voluntary with no deadline (compared to two months for Australian companies). Listed company annual reports are lodged within four months of year-end in the UK and within three months in Australia with the ASX and Australian Securities and Investments Commission.

In the US smaller listed companies have three months before they have to file financial information compared to Australian listeds who file their preliminary final reports within two months.

¹ Excluding exploration companies who have 75 days rather than two months to lodge their preliminary financial reports.



Overview of survey findings

84% of our listed companies report their financial information within the three month period from 30 June to 30 September each year. With this in mind, the survey has revealed that companies would welcome a choice of year-end reporting date.

There is also a call for extended lodgment periods for smaller listed and unlisted companies.

Not surprisingly, audit resources are stretched between the many companies reporting in the same period. Significant extra hours are worked by all those involved. Smaller companies will often leave more technical accounting issues for their auditors to address.

Stress is reported among people preparing company financial reports, those managing audit resources as well as those providing technical accounting services. Extra hours worked during the reporting season, estimated at up to twice that of a normal working week (an additional 40 hours), means attracting and retaining experienced staff is a challenge, particularly for smaller companies.

Many Australian companies do not have the luxury of an internal team of specialised accountants who are responsible for statutory reporting. One ASX 100 company expressed this “luxury”, saying “if staff shortages occur, then staff not dedicated to statutory reporting but reporting to the same manager are brought in to assist”.

Smaller companies do not have these types of resources. Responses from some of the smaller organisations reflect this including, “it is difficult to find the right staff at the right time”. Another commented that “they are unable to source suitably qualified staff”. Many small to medium sized respondents and a few larger sized organisations, mentioned that contractors had to be brought in when resources are not available.

Some of the other key findings included:

- There is often insufficient time to properly address complex technical accounting issues identified during the audit. This includes appropriate input and consideration from the audit committee and board prior to lodgment deadlines.
- Analysts and journalists cannot give the multitude of results released at one time the scrutiny that all deserve. Such details are required by many small investors who can rely heavily on this information.
- Non-executive directors increasingly sit on multiple boards, facing competing reporting timetables and a reduction of their time available for each company.

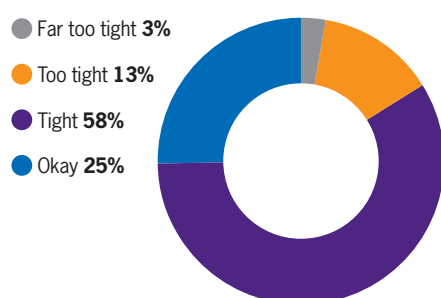


Detailed survey findings

Australia's tight reporting deadlines

Australia's year-end reporting dates, clustered around 30 June, are described as tight by nearly three-quarters (74.2%) of survey respondents.

Percentage who felt deadlines tight



This view was strongest held among listed companies of size below the ASX Top 200, accounting firms and non-listed companies.

Type of organisation	% said reporting is tight
ASX Top 200	36
ASX 201+	80
Non-listed entities	53
Accounting firms	72

Clustering of year end

Over half (56.4%) said legislation should be changed to allow Australian companies to choose their year end dates. The majority felt that both tax and financial year end should be moveable in this way.

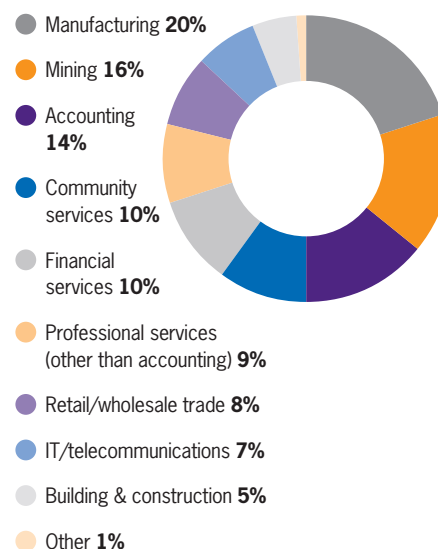
Most supportive were those working in subsidiaries of listed companies (64%), accounting firms (63%), companies ranked below the ASX Top 200 (52%), and non-listed entities (50%).

Just over a third (38%) of the ASX Top 200 supported having legislation to change to dates of choice.

Type of organisation	% total respondents supporting legislation to change tax or financial year-end, or both
ASX Top 200	38
ASX 201 and below	52
Accounting firms	63
Non-listed entities	50
Subsidiary of listed companies	64
Not for profit organisation	38

Responses to this question by industry show that half of the respondents work in manufacturing, mining and accounting sectors. The manufacturing sector is the single largest industry sector supporting legislation to allow Australian companies to easily change their financial and tax year end dates. The manufacturing sector alone accounted for 20% (over half of all manufacturing respondents in the survey) of those supporting the change. The details are provided in the chart below.

Industry breakdown: percentage in support of change to tax or financial year end or both

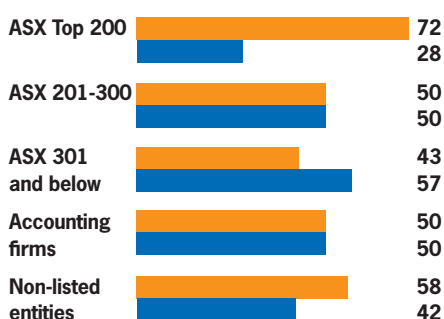


Tiered reporting – extending lodgment periods for smaller market capitalisation companies

Different reporting deadlines for listed companies based on their capitalisation is supported by nearly 50% of the companies in the survey. Smaller market capitalisation companies strongly support this tiered approach for reporting. The bar chart below shows how preference for this approach increases as the market capitalisation of the company decreases.

Different reporting deadlines based on market capitalisation

● % “no” or giving “no response”
● % “yes”



At least a third of Australian companies have called for a one month increase to the year end accounts lodgment deadline for listed companies, which is currently due three months after year end. The greatest support (43%) comes from the smaller listed companies ranked below ASX 500 and a significant proportion of these people are also recommending a one month extension for preliminary (34%) and half year (35%) results.

Respondents working in companies ranked in the ASX 301 and below, non-listed entities, and accounting firms, were the major supporters of extending year end accounts deadlines by one month. Support for this also increased as size of company diminished, 26% supported extension for the ASX Top 200 and 30% for companies ranked below the ASX Top 200.

Extending reporting deadlines for unlisted public companies was supported by over a third of the respondents, predominantly companies ranked ASX 301 and below, non-listed entities and accounting firms.

Percentage who believe deadlines should be extended by at least one month

	ASX Top 200	ASX 201-500	ASX 501+	Unlisted Public	Private /NFP	Government
Half year	25.4	29.5	35.3	N/A	N/A	N/A
Preliminary year-end	16.9	30.6	34.4	N/A	N/A	N/A
Year-end accounts	30.3	38.7	42.7	34.7	67.7	21.4
AGM	24.4	31.8	35.0	35.0	N/A	N/A

The strongest call (67%) for extending deadlines is for private and not-for-profit entities, requested by all respondents.

A mining exploration company in the ASX 301 and below category said about extending deadlines, “... it would ensure quality auditors were available for smaller companies such as ourselves which would assist in the completion and lodgment of accounts on time.”

While a significant proportion of respondents support extending the AGM deadline by at least one month, particularly for unlisted public companies and ASX 500 and below (35% each), caution about keeping it close to the other reporting dates was expressed:

“The AGM is retrospective already. Moving it further away from the action that is being reported will make it even less relevant. Already things like the vote on remuneration policy are made on policies that have been completed in the past and that are now locked into contracts; having the vote be even more retrospective would be a nonsense and having a retrospective vote that became binding would just prevent boards from forming contracts as and when it was best for the business.”

“While for many public companies AGMs are almost ‘non-events’ it is the public forum where investors can raise matters with their directors following the results of the reporting year - I fail to see why the AGMs should not occur promptly after year end numbers are finalised to enable shareholders to comment on the performance of the Board & Management.”

“Delaying holding the AGM delays the opportunities for shareholders to ‘have a say’ on relevant issues”

“Potentially. I think most shareholders want the AGM as close to the end of the financial year as possible - in that way the accounts and resolutions seem to have more relevance.”



Attracting and retaining staff can be a challenge

Stress is reported by most people (70%) involved in preparation of the reports. Those feeling the stress are CFOs, directors and auditors. An even larger portion indicated their staff (78%) experience stressful impacts from the tight deadlines.

This stress is felt and seen mainly by people working in ASX 301 and below companies, non-listed companies, accounting firms and subsidiaries. The following bar chart shows the type of organisation where this stress is being felt and seen.

People working in the ASX 301 and below reported the most stress for both themselves, when preparing for the financial reporting deadlines and their staff. 68% (59 in number) working in this size of company (ASX 301 and below) find it stressful preparing for these deadlines. 74% reported stressful impacts on their staff.

Attracting and retaining staff in internal accounting teams is a challenge for 44% of companies. Deadlines are tight and many accounting teams are working on average an additional 40 hours per week during financial reporting season. Over 50% (50.9%) said they actually experience staff shortages. The largest group feeling shortages are the smaller, below ASX 301, followed by non-listed entities and accounting firms.

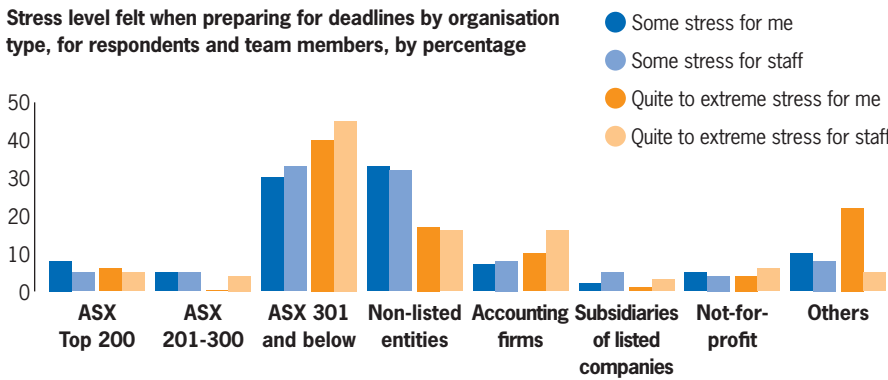
Comments from some of these groups reflect the difficulty:

A NSW Biotechnology company said, “We have suffered a lack of senior accounting staff but have been able to cover this through internal promotions and a little extra consulting - training and rewarding our accounting team is important to us. They are a key part of the operation and line management supports them in busy times by holding back non-essential analysis and by taking on more of the routine reporting themselves.”

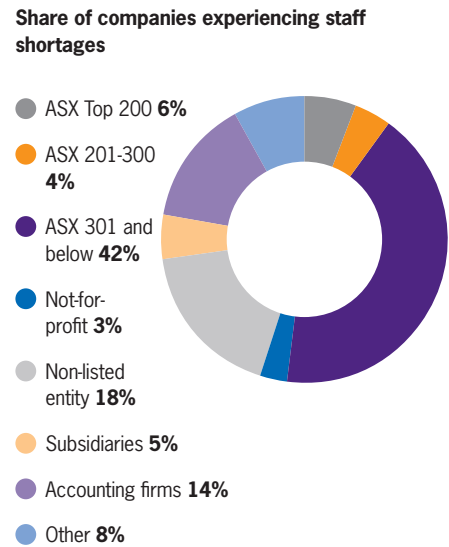
A small WA engineering services firm said “I have no staff - I do it all.”

A Queensland-based IT education company responded, “During reporting season we bring in contractors as required.”

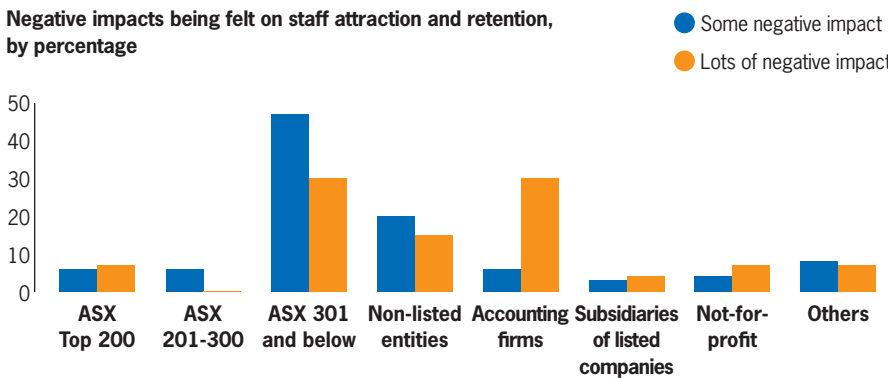
Stress level felt when preparing for deadlines by organisation type, for respondents and team members, by percentage



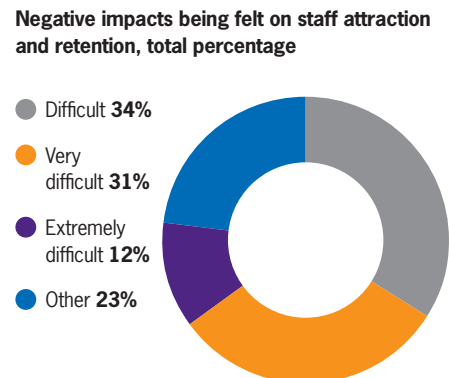
Share of companies experiencing staff shortages



Negative impacts being felt on staff attraction and retention, by percentage



Negative impacts being felt on staff attraction and retention, total percentage



Similarly a manufacturing firm said, “We are proactive in identifying and engaging technically skilled contractors to assist permanent staff during the reporting period. However staff shortages mean people are not readily available.”

Quality of reporting may be less robust due to time and staff pressures.

A NSW IT company (ASX 301 and below) noted a problem with quality of reporting, which extended deadlines may address, “there will still be some pressure, but extra time means less errors and more accurate reporting.”

A small accounting firm said, “...if all client end of year dates continue to fall on the same day then I believe this causes a quality problem as the rush to get everyone done at once can prevent you from being as thorough as you otherwise would be.”

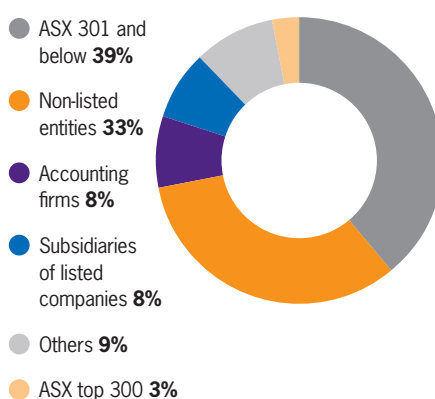
Another non-listed entity did provide a key benefit from the Australian situation: “having tight deadlines forces you to implement and maintain good systems.”

People working in the smaller companies (ASX 301 and below), accounting firms and non-listed entities, believe reporting deadlines do compromise the quality of accounting information gathered.

37% also working in these same types of organisations, just left technical and accounting issues to be dealt with by their auditor.

One in four (26%) said their team was not up-to-date with all financial reporting and relevant issues for preparation of financial information. The majority of these respondents were from non-listed entities and ASX 301 and below. The following pie chart shows percentage response share of total by type of organisation.

Percentage who didn't feel up-to-date



A Queensland Biotechnology firm commented that “Training needs is ongoing and it is always debatable whether enough has been given.”

A NSW IT firm suggested that training courses focusing on reporting requirements would be helpful.

Nearly a third (29%), mainly in the ASX 301 and below group said their tax team did not have sufficient time to calculate a tax provision figure for inclusion in the financial information.

One small company reflected on the challenge in providing these calculations saying, “The complexity of these calculations require serious thought time...”

However, if there is enough time to do them, not all are satisfied with the outcome. Three other small companies commented:

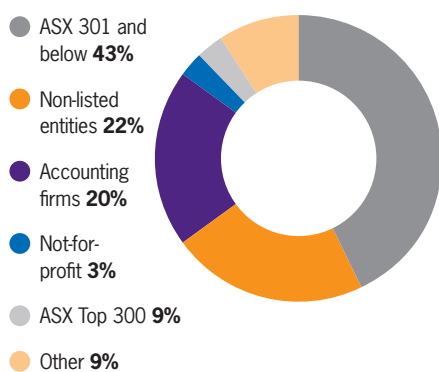
“Enough time for the calculation, but not much time is left for tax planning” and another said, “Although there is sufficient time, tax provision calculations remain tight, as it is required figures are finalised prior to tax calculations which sometimes occurs very close to deadlines.” A third respondent said, “There is no time for tax planning..... we do have enough time to prepare but not enough for quality control.”



Two added when asked about having enough time to include all major accruals and prepayments into financial information, “In most cases we try to complete this correctly, however we have come across some files where last year’s information needed to be looked at again before this year’s could be completed” and another, “We do sometimes miss creditors that should be accrued if they are slow invoicing us. This is then picked up in the audit at a later date.”

The pressure to deliver quality reporting is shared by the board and audit committees of many smaller listed companies (ASX 301 and below), non-listed entities and accounting firms. These three groups accounted for 85% of respondents saying there is not enough time.

Percentage saying not enough time for board and audit committee



“The clustering of reporting between 30 June and 30 September causes problems.”

Impact on the market

Over a third (34.2%) said tight reporting deadlines are impacting on the market and explain this as:

“The press is unable to report on all companies.”

“Last week rush could not help with compliance vigilance and adequate investor absorption of information.”

“Majors tend to get the headlines and reports, which affects the market for smaller caps...”

“Reports are bunched and investors cannot absorb this amount of information in such a short space of time”

“...what this means is that the media really only has time for the larger stocks but their reporting of the large companies results does affect the kind of market reception given to smaller companies.”

Problems also arise when AGM dates clash and directors and auditors are unable to attend more than one meeting on the same day and time. This concern was expressed by 31% of the respondents. One respondent explained, “We have to expect an increase in this occurrence with the increase in listed entities and holding of multiple directorships.” Another comment was, “this year we held an AGM on the same date as another company and the number of shareholders that came were significantly less than previous years.”

Several said 30 November is a particularly busy date and there is “an overload on suitable venues that will become increasingly detrimental to the comfort and more importantly the effectiveness of shareholders to listen and take an active part in discussing the company’s results.”

The primary role of those saying clashing AGMs cause problems were mainly in-house accountants (66%) followed by directors (21%) and auditors (13%).

Conclusion

Through this survey Grant Thornton Australia has highlighted an area for improved corporate governance in Australia. Previous submissions by the Institute of Chartered Accountants to the Australian Stock Exchange (April 2006) regarding negative impacts of tight reporting deadlines are now confirmed by this survey.

The clustering of reporting between 30 June and 30 September causes problems which include:

- Limited technical accounting resources to guarantee quality financial information.
- Less robust reporting because there is not time to attend to technicalities and check accuracy.
- Non-executive directors who sit on more than one board are faced with competing timetables and potentially forego some of the corporate governance on companies where they are unable to attend.
- Extra stress is impacting on staff, who are becoming harder to attract into audit positions and to maintain in these positions.

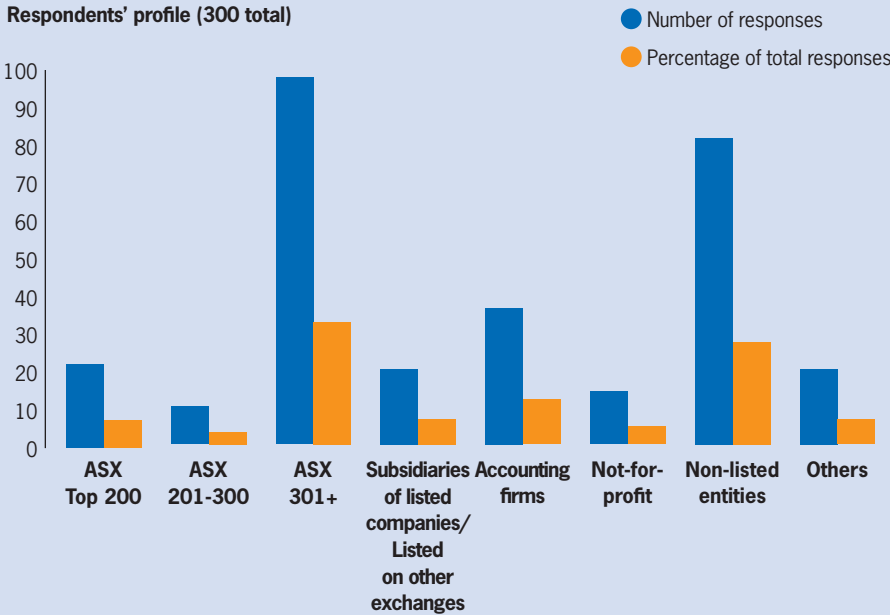
The majority of respondents in the survey suggested these problems be addressed by:

- Introducing legislation that allows companies to choose their own tax and financial reporting year-end; and
- Extending reporting deadlines by at least one month, particularly for smaller companies.

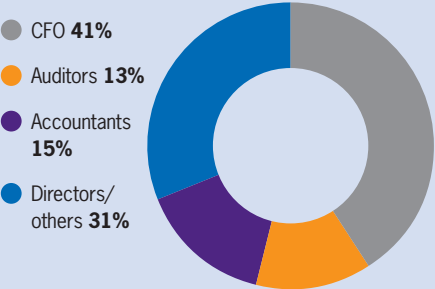
Survey design and methods

An online survey was circulated to the CFOs of all listed companies in Australia as well as others working in the financial reporting field and chartered accountants through the Institute of Chartered Accountants electronic newsletter. The survey was conducted during November and December 2007.

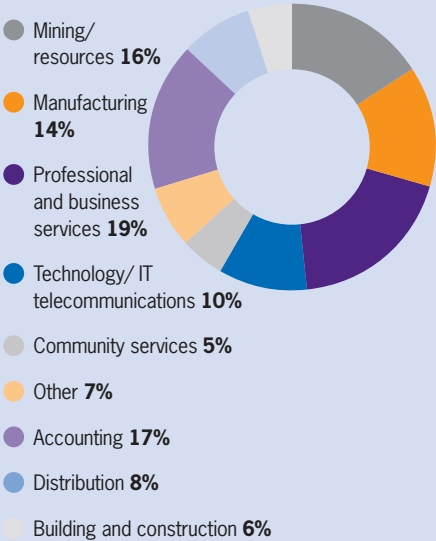
Respondents' profile (300 total)



Respondents' role/position



Respondents' industry categories



If you want to know more, please [contact us...](#)

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