ANSWERS TO QUESTIONS ISSUED BY PARLIAMENTARY JOINT COMMITTEE 11 OCTOBER 2023

1. **Thank you for your recommendations and suggestions on whistleblower protections. Would you please comment on the recommendations and suggestions on whistleblower protections made in other written submissions to this inquiry? (See submissions 12.1, 15, 18, 22, 25, 30, 34 and 37.)**

   Our submission makes two substantive recommendations: first, to extend Part 9.4AAA of the *Corporations Act 2001* to partnerships; and secondly, to amend existing section 1317AAC(1)(b) and section 1317AAB to better support members of audit teams who receive qualifying disclosures.

   Extension of Part 9.4AAA
   Partnership is a common form of business association in Australia and represents a significant proportion of all businesses, with recent ABS data indicating there are more than 223,000 partnerships and just over 1 million companies in Australia[1].

   Whistleblowing reporting is often an element of an enterprise compliance management system. An effective compliance management system is one which identifies and maps an organisation's (and key officers') legal, regulatory and ethical obligations, defines controls (policies and processes designed to ensure compliance) and provides assurance that controls are designed and operating effectively. Whistleblowing via the use of internal reporting channels, is one mechanism for identifying gaps in controls or the circumvention of controls and promoting a culture of compliance and ethical and sustainable businesses that create value for themselves, employees, clients, consumers and other stakeholders.

   Many firms (in and outside the accounting profession) have adopted whistleblowing policies on a voluntary basis and encourage and/or require their people to report wrongdoing within the firm. In many cases, the policies apply to a wider range of disclosures than is contemplated by Part 9.4AAA.

   However, whilst partnerships may have voluntary whistleblowing policies and systems in place to support whistleblowers who make a qualifying disclosure about the firm or individual partners/employees, partnerships are not *regulated entities* for the purposes of Part 9.4AAA. Accordingly, the statutory protections against reprisal and victimisation for whistleblowers under Part 9.4AAA are not available to individuals who do raise concerns about a partnership or firm. Individuals entitled to equivalent protections provided under the firm's whistleblowing policy may lack clear mechanisms to enforce their rights, which may be subject to the terms of the partnership deed, employment contract or supplier contract as applicable.

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[1] https://www.abs.gov.au/statistics/economy/business-indicators/counts-australian-businesses-including-entries-and-exits/latest-release

We note that our recommendation to extend whistleblowing protection is largely supported by the submitters referenced in the Committee's question on notice. Submission 12.1 (EY) suggests that Large Registered Partnerships be required to comply with Part 9.4AAA. Submission 25 (KPMG) suggests extension of Part 9.4AAA to all professional services firms. Submissions 15 (IPA), 22 (Governance Institute of Australia), 34 (Transparency International) and 37 (Inspector-General of Taxation) to varying degrees support an extension of protections for whistleblowers and the establishment of a standalone whistleblower protection agency and/or legislation.

Submission 18 (CPA Australia) makes the point that APES110 provides a frame of reference for any partner or employee who is a member of one of the three Australian professional accounting organisations (**PAOs**) to consider what steps, including reporting to the firm's leadership, they might take upon becoming aware of the firm's non-compliance with laws and regulations (**NoCLAR**). NoCLAR assessments and reporting may offer a useful framework for ethical decision-making for PAOs' members in practice, and may be binding on firms, but individuals who raise issues internally do not have the same statutory protection as applies under legislation. We also observe that APES110, unlike Codes of Ethics in other jurisdictions such as New Zealand and the rules administered by ICAEW (the Institute of Chartered Accountants in England and Wales), does not include a positive duty on PAOs' members to report misconduct by other members to the membership body. A recommendation arising from CA ANZ's recent Professional Conduct Framework Review, is to enact such a provision in the Australian context. We have written to the Chair and CEO of APESB to request consideration of inclusion of a provision to create a positive duty in APES110.

Our first recommendation, to extend the existing protections in Part 9.4AAA of the Corporations Act to partnerships across all sectors, with appropriate exemptions and support for small partnerships, would resolve a significant gap in the existing regulatory framework, further support the policy objectives of whistleblowing regimes and enhance legal, regulatory and ethical compliance across the Australian economy. Consideration should be given to whether section 1317AAB of the Corporations Act allows ASIC to prescribe partnerships (whether general, limited liability or other partnerships) as *regulated entities* for the purposes of Part 9.4AAA. Further consideration could be given to whether sections 115(1) and (2) of the Corporations Act, which effectively cap the size of partnerships[2], may provide a basis for bringing partnerships within the ambit of Part 9.4AAA. Other legislative mechanisms may be required.

As noted in our evidence to the Inquiry on 6 October 2023, CA ANZ would support a recommendation to establish a standalone whistleblower protection agency to assist individuals and organisations to understand their whistleblower protection rights and obligations, and to oversee the performance of agencies with responsibility for upholding whistleblower laws. We do not consider that a single national whistleblower law is required, although harmonisation and alignment across the various laws is appropriate. We support the further strengthening of existing whistleblower

[2] Corporations Regulation 2A.1.01 relevantly caps accounting partnerships 1000 partners. Partnerships operating in other sectors are capped at various levels (20, 50, 100 and 400).

protections in taxation laws proposed by the Commonwealth government which are subject of recent consultation[3].

Clarification of implications of disclosure to a member of the audit team

As noted in our submission, section 1317AAC(1)(b) of the Corporations Act provides that a member of an audit team conducting an audit of a regulated entity is an *eligible recipient*. Section 1317AAE provides that an eligible recipient contravenes the Act if they disclose the identity of a whistleblower or information which would tend to identify the whistleblower without their consent. The nature of the wrongdoing subject of a report may in and of itself tend to identify the discloser. Audit firms are expected to have effective systems and training in place to ensure members of the audit team comply with their obligations. Where an identified whistleblower makes a qualifying disclosure to a member of the audit team but does not consent to the disclosure of their identity, or other identifying details, to the lead audit partner, the proper examination of the disclosure may be compromised.

We consider that amendments to sections 1317AAC(1)(b) and / or 1317AAE to make it clear that a qualifying disclosure made to a member of an audit team is deemed to be a disclosure to the audit partner and/or to make it clear that a disclosure to a member of the audit team may be shared by that team member with the audit partner, would promote the objective of including auditors and audit team members as eligible recipients for the purposes of Part 9.4AAA, enable firms to better support their teams and minimise impacts on members of audit teams, particularly junior members, who may require considerable support to comply with their obligations.

2. **In Submission 15, the Institute of Public Accountants suggested the establishment of the Financial Reporting Council as the single regulatory clearing-house for the accounting profession, with compulsory information gathering and information sharing powers and power to sanction non-compliance with information gathering.**
   a. **Would you please provide your thoughts on that proposal?**
   b. **Related proposals are also made in submissions 15, 17, 20, 28, 31 and 51. The committee would welcome your thoughts on these further proposals.**

Answers

a. The submission by the Institute of Public Accountants (**IPA**) does not explain what is meant by the term '*single regulatory clearing-house*' for the profession, however the references in the IPA submission to the FRC delegating *complaint handling to each of the professional accounting bodies, to be undertaken either in compliance with their individual by-laws or a joint approach or joint framework could be considered* and to *requiring all accountants to be licensed* is instructive.

   The IPA appears to be recommending that the Financial Reporting Council in Australia (**FRC AU**) be granted powers similar to those of the UK Financial Reporting Council (**FRC UK**) but with a significantly expanded remit across the accounting profession generally.

[3] https://treasury.gov.au/consultation/c2023-444750

The FRC UK is the primary regulator of statutory auditors in the United Kingdom, with broad responsibilities under the *Statutory Audit and Third Country Auditor Regulations 2016* for licensing and registration of auditors and audit firms authorised to conduct audits of public interest entities, as well as a range of responsibilities under other legislation, for:

- the oversight of the regulation by recognised supervisory bodies (being the UK-based professional accounting organisations (**PAOs**)) of auditors of local public bodies;
- monitoring audit quality and imposition of sanctions;
- independent supervision of auditors-general and their discipline;
- issuing accounting standards and resolving issues of standards interpretation;
- ensuring that the provision of financial information, including directors' reports, by public and large private companies complies with UK corporations legislation Act requirements;
- monitoring compliance with accounting requirements of listing rules by issuers of listed securities;
- by private arrangement with PAOs, providing an independent investigation and discipline scheme for matters relating to accountancy firms or members of the accountancy professional bodies which raise or appear to raise important issues affecting the public interest. The by-laws of the PAOs provide that their members are subject to the accountancy scheme;
- independent oversight of the regulation of the accountancy profession by the professional accountancy bodies;
- setting actuarial standards; and
- by private arrangement with the Institute and Faculty of Actuaries (**IFoA**), providing an independent investigation and discipline scheme for matters relating to members of the actuarial profession which raise or appear to raise important issues affecting the public interest. The by-laws of the IFoA provide that their members are subject to the FRC's actuarial scheme; and
- monitoring and maintaining the UK Corporate Governance Code.[4]

The FRC UK currently has an annual budget of around GBP60m and headcount of around 500. Budgets and headcount are set to increase as a result of transitioning the FRC into the Audit, Regulation and Governance Authority (**ARGA**) once legislation is passed, although timing of the passage of legislation remains uncertain.[5]

The FRC AU is a statutory body under Part 12 of the Australian Securities and Investments Commission Act 2001, with the objectives of overseeing the effectiveness of the financial reporting framework established by the Corporations Act. It is functionally independent of the accounting and audit standards setters (AASB and AUASB) but does appoint members of those

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4 https://media.frc.org.uk/documents/FRC_Roles_and_Responsibilities_Schedule_of_Functions_and_Powers.pdf

5 https://media.frc.org.uk/documents/Financial%20Reporting%20Council%3A%203%20Year%20Plan%202023%20/26.pdf

bodies[6], oversees the standard-setting process and provides strategic advice to the Minister on the quality of audits and other matters relevant to financial reporting in Australia.

The FRC AU relies on secretariat and funding support from Treasury. The FRC Annual Report 2022-2023 notes that *the Australian Government provided funding for the FRC through the Treasury to support the FRC. The FRC's Secretariat is provided by staff of Treasury's Markets Group. Expenditure and performance of its functions are included in Treasury's annual financial statements*[7]. However, it is not clear from Treasury's Annual Report 2022-2023 what specific level of funding and resource support Treasury provides to the FRC.

The IPA proposal would require significant legislative amendment, a significant increase in funding and resources for the FRC, the transfer of specific functional regulatory responsibilities from existing regulators (such as ASIC's regulatory powers and responsibilities for licensing of registered company auditors, and of the ATO's powers and responsibilities for SMSF auditors, and the Tax Practitioners Board's responsibilities for tax agents) and would result in concentration in a single agency, exacerbating the very risks which the inquiry is directed to addressing. Submissions 17 (ARITA) and 31 (Associate Professor Cortese) elaborate these risks.

CA ANZ does not support the proposal. Instead, as suggested in our submission, we suggest that the recommendations of the PJCCFS 2020 inquiry into the *Regulation of Auditing in Australia* be fully implemented and we support the strengthening of powers of existing regulators and potentially a clarification of ASIC's role in respect of oversight of registered company auditors to explicitly ensure audit and related standards are enforceable at a firm-wide level. Our suggestion is based on the observation that effective regulation of audit firms including firm-wide systems of quality management and oversight of compliance with firm governance/leadership standards offers the collateral benefit to the public and corporate sectors, that corresponding standards are also met in the context of non-audit service provision by multidisciplinary firms. We support the Company Auditors Disciplinary Board having the power to act on referrals from parties other than ASIC and APRA, as suggested by Submission 51 (CADB) and suggest that PAOs should be specifically empowered to make referrals. We also support use of existing reporting mechanisms, such as for example transparency reporting under the Corporations Act, to prescribe additional reporting requirements for audit firms that may be important to the Australian economy because of their role in the audit of listed entities. We support effective oversight by the ANAO of procurement by Commonwealth public sector agencies (and state-based equivalents) and the public and corporate sectors' inclusion of professional body membership and adherence to ethical codes as selection criteria in procurement frameworks. Finally, we support any steps that might be taken to facilitate secure actionable information sharing between PAOs and regulatory agencies, including the initial reforms announced by the government on 6 August 2023. These enhancements are constructive, proportionate and targeted, addressing gaps in the regulatory framework without creating additional layers of regulation.

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[6] https://frc.gov.au/general/frc-nominations-committee-charter

[7] https://frc.gov.au/sites/frc.gov.au/files/2023-10/frc-annual-report-2022-23.pdf

Further, we observe that PAOs, as professional membership bodies, will always require mechanisms to monitor and discipline their own members, and to terminate membership in the case of egregious misconduct. All partners in the Big 4 are members of CA ANZ and are bound to comply with the professional conduct rules set out in the CA ANZ By-Laws[8]. CA ANZ's disciplinary bodies are structurally and functionally independent of the CA ANZ board and management. Disciplinary panels comprise senior members of the profession with deep technical expertise, as well as lay members who may be lawyers, ethicists, social workers or other professionals, to bring further independent perspectives and views on community expectations.

CA ANZ's Professional Conduct Framework Review identified opportunities to strengthen the conduct By-Laws, enhance members' awareness of self-disclosure obligations and to make disciplinary processes more transparent. Of the 37 recommendations arising from the Review, many require changes to the CA ANZ By-Laws for their implementation. Changes to By-Laws require member approval. A Member Vote was held in September/October 2023 to seek members' approval of resolutions to amend the By-Laws to:

- modernise them, clarify drafting and include procedural and efficiency enhancements, and harmonise them with the NZICA Rules which apply to CA ANZ members resident or practising in New Zealand;
- add two new offences - *Professional Misconduct* and *Conduct Unbecoming of a Member;*
- strengthen the investigation powers of the Professional Conduct Committee by enabling it to require the production of information relevant to an investigation from any member;
- allow the disciplinary bodies to take action in respect of *former* members in relation to serious misconduct occurring whilst in membership;
- substantially increase fines for Firm Events (levied on the members who are partners in the firm which experiences the relevant event) and for Practice Entity Members, from $25,000 at the PCC level to $100,000 and from $50,000 at the Disciplinary Tribunal level to $250,000;
- add a new sanction to align with the New Zealand Institute of Chartered Accountants (a controlled entity of CA ANZ) and other PAOs in other jurisdictions; and
- give the Board of CA ANZ power to terminate the membership of a member who has failed to comply with sanctions imposed by the disciplinary bodies (without good reason).

The Member Vote closed on 20 October 2023 and more than 6,400 CA ANZ members voted overwhelmingly in favour of the changes, sending a very clear message in support of CA ANZ's commitment to best practice and a strong, fair and efficient disciplinary framework. The amended By-Laws will come into effect following assent in accordance with CA ANZ's Supplemental Royal Charter.

Other initiatives, including publication of an annual Professional Standards Report, Members' Self-Disclosure Guides, and the elaboration of fit and proper standards for admission to the membership, are in progress to give effect to the Review's finding that more transparency and

[8] In this regard, CA ANZ already operates a *partners' disciplinary panel* (refer Submission 12.1).

guidance is conducive to greater understanding and confidence in the professional disciplinary process.

Finally, CA ANZ is fully supportive of continued engagement with regulators to which we formally report annually and meet with periodically including the Professional Standards Councils, the FRC, the Tax Practitioners Board and of engaging constructively with any regulator of our members and to sharing information as permitted by law to enable effective coordination and collaboration on aligned objectives and assurance that disciplinary frameworks operate as designed.

b. We have considered the related proposals referred to in the Committee's question on notice and respond thematically to key proposals.

APESB functions to be assumed by FRC

The Australian PAOs - CA ANZ, IPA and CPA Australia – established the Accounting Professional and Ethics Standards Board (**APESB**) in 2006 to provide a mechanism for the adoption domestically of international ethics standards and pronouncements by the International Ethics Standards Board for Accountants (**IESBA**). Each of the PAOs is entitled to appoint up to two members to the board of the APESB. CA ANZ has appointed two directors. The PAOs fund APESB operations (with each PAO liable for an equal share).

The domestic standard-setting process replicates the international process insofar as exposure drafts of new or changed standards are issued and subject to a rigorous public consultation process. The APESB CEO is involved in the development of international ethics standards as a member of the IESBA board. The PAOs' views are taken into account along with individual submissions made by other stakeholders on relevant exposure drafts, however the PAOs views by themselves are not determinative. The independence and rigour of the process of standard-setting is unrelated to the ownership and funding of the APESB.

Submission 15 (IPA) suggests the functions of the APESB should be moved to the FRC. We understand that a more nuanced interpretation of the IPA submission is that the APESB itself may not be necessary and that its functions could be subsumed within the FRC or the existing standard-setting boards. Submission 20 (APESB) suggests moving the board to the FRC and having APES110 apply to wider category of consultants.

The proposals are very high-level and we would need to have more information about how these proposals would be operationalised to properly comment. Our preliminary view is that there are considerable incongruities in the recommendations made in both submissions (in addition to the general proposal considered at part (a) above). To the extent the IPA suggests the FRC become the standard-setter, it currently has no responsibility as a standard-setter and has a supervisory role over AASB and AUASB. We do not consider that giving a supervisory body power to set ethical standards is consistent with best practice. Nor do we see how APES110 in its current form could be considered fit for application to professionals other than members of the PAOs or other professional associations which are eligible to become members of APESB under its constitution. We do agree that the need for domestic standards and pronouncements could be

reconsidered, and that the PAOs' direct adoption of international ethics standards could be an option, obviating the need for a local professional ethics standard-setter.

Make APES110 statutorily binding

Submissions 15 and 20 make a related suggestion that APES110 be made statutorily binding. Again, it is not clear from the submissions how this would be done and whether it would apply to existing regulated cohorts (auditors and audit firms) or to regulated entities (such as companies) or to an as yet unregulated cohort (accountants who are not members of PAOs or consultants generally). CA ANZ does not support making APES110, in its current form, generally statutorily binding. The code is already binding on registered company auditors in the context of specific audits, and is contractually binding on members of the Australian PAOs whose by-laws provide an avenue for any person who wants to make a complaint about a member.

Establish a standalone regulator for all accountants/consultants

Submissions 15, 20 and 28 (Tax Justice Network) suggest the establishment of an additional standalone regulator for accountants and/or consultants. CA ANZ does not support the proposal for the reasons set out at (a) above. It is not clear how a single super-regulator for accountants / consultants operating across sectors, in multidisciplinary firms, in mid-sized and small practices and companies, to administer the full range of legislative frameworks that apply to professional activities (and activities outside professional activities which go to an individual's fitness to practice) is an advance on the current framework. Strengthening and extending the existing framework, as outlined in our submission, is a practical step.

Review composition of the FRC

Submission 31 recommends review of the composition of the FRC, on the basis that more than 40% of the current council has ties to the Big 4 firms, and the introduction of a requirement that the board be comprised of no more than 25% of members with such ties.

CA ANZ considers it imperative that all appointments to government boards and bodies be merit-based. Expertise in financial reporting, audit and assurance should be the key criteria for appointment to the FRC.

The phrase 'ties to the Big four' would capture individuals whose formative work experiences were in big Four firms, but who have many years' experience outside the firm. In our view, this restriction would unduly limit the pool of candidates who might otherwise be exceptional appointees.

We support capping appointments of members of the FRC who are Big Four partners, or who have been Big four partners in the last two years, at 25% and a establishing a minimum proportion of members from smaller firms with appropriate experience and expertise. This refinement would allow appointments of suitably qualified individuals whose technical expertise current, in support of the FRC's objectives.

3. **On pages 22-24 of Submission 50, Treasury sets out principles for evaluating whether to intervene in the regulation of the audit, accounting and consulting industry. Would you please comment on how the Treasury principles might be applied to your recommendations or suggestions?**

The Treasury submission provides a useful summary of best practice regulatory reform principles and the approach that government should take to ensure that reforms are proportionate, targeted and competitively neutral. The public interest in effective regulation of companies, fundraising, audit services, tax services and insolvency is undeniable: the safety and integrity of capital markets and the tax system depend on these services being regulated. Our recommendations relate to incremental reforms which better secure the objectives of the existing regulatory framework and address regulatory gaps which cannot be addressed by the public or corporate sectors or consumers in their commercial negotiations with providers. In this regard they are consistent with Treasury's principles.

4. **On page 25 of its submission, Treasury suggested that the committee seek information on, firm structure, partnership frameworks in theory and practice, firm governance processes, how firms operationalise their obligations, data on firm performance, and why the regulatory environment is deficient. Would you please provide your views on these matters?**

Specific information about firms' structures, governance processes, compliance management systems and performance should be sourced from the firms themselves.

Our perspective is that partnership is a lawful and legitimate form of business association which is permitted under the laws of the Australian states, territories and the Commonwealth and that partnerships contribute significantly to the Australian economy. The existing regulatory framework for partnerships is not materially different to that which applies to companies, and whilst aspects such as transparency for large firms could and should be strengthened through targeted reforms, is effective in our view.

Like companies, firms contribute to the tax base. The Committee should take advice on the issue of company tax versus income tax on partners' share of firm profits – the claim that has been made that partnerships do not pay corporate taxes is misleading.

Like companies, firms have 'investors'. However, unlike companies, equity interests in firms are limited to and held by partners whose interests are protected in accordance with partnership law and the partnership deed.

Like companies, firms can incur liabilities including statutory liabilities for contravention of applicable laws, for example work health and safety legislation, privacy laws. However, unlike companies, partners in firms are jointly and severally liable for the debts of the partnership. To the extent that the partnership's assets are insufficient to discharge the firm's debts and liabilities, partners are personally liable for the shortfall.

Like large companies, large firms are significant employers, providing training opportunities for graduates across various service lines, but critically provide opportunities for large numbers of graduates in audit and assurance, and training in portable skills for their people across a range of service lines, contribute payroll tax and are bound by employment relations laws.

However, CA ANZ does consider that additional regulation for firms is appropriate in relation to whistleblowing and transparency. Specifically, enhanced transparency for large firms, which because of their size and role in audit of listed entities are important to the Australian economy – such as the requirement to lodge audited financial statements and other firm governance and performance data is appropriate. We note that some firms have publicly stated an intention to adopt the ASX Corporate Governance Principles and/or make voluntary disclosures of information about their governance and performance. However, in the absence of a regulatory requirement to report and reporting standards, disclosures may vary and be difficult to compare.

5. **In Submission 6, Professor Elise Bant describes an approach called systems intentionality for seeking to understand the intentions of an organisation. Would you please comment on how that approach could be applied in this inquiry?**

Professor Bant's work provides a model for attributing corporate/firm liability for offences that require evidence of intent. It relies on ipso facto logic: if wrongdoing occurs within an organisation or system, it is because the system has been designed for that purpose or because the organisation condones or encourages it or conversely does not meaningfully discourage it.

There are obvious merits to liability attribution in situations where the company/firm is not statutorily or vicariously liable for the action of its agents/people and where sanctioning the company/firm is necessary to deter other offenders. CA ANZ's Professional Conduct Framework Review was directed, in part, to operationalising the powers of the CA ANZ disciplinary bodies to hold firms (via the members who are partners) accountable for certain adverse findings involving the firm that may have been caused by individuals' actions. Those powers enable CA ANZ's disciplinary bodies to address firm issues. However, regardless of the scope that systems intentionality as a theory provides to attribute liability to an organisation for an individual's misconduct, accounting professionals who are members of PAOs and bound to a code of ethics have a duty to be responsible and accountable for their own actions. CA ANZ Regulations require the disciplinary bodies to take evidence of firm context and culture into account when considering appropriate sanctions for individual members' conduct.

6. **The Australian Shareholders' Association has suggested that the government legislate to make digital financial reporting standard practice in Australia. In its 2020 Interim report on Auditing, this committee recommended that the Australian government take appropriate action to make digital financial reporting standard practice in Australia. What is your view and what are the benefits of and barriers to making digital financial reporting standard practice in Australia.**

CA ANZ has for several years advocated for legislation that would mandate digital financial reporting for listed companies and other equivalent public interest entities in Australia. We have formed this position based on extensive outreach to understand the views of investors, professionals, regulators, businesses, and focused research and analysis encapsulated in the papers linked below. While voluntary digital reporting to ASIC has been possible for around ten years, no voluntary submissions have been made. This is predictable given legislation and standards are needed for

there to be consistency and fairness from the perspective of both companies reporting and financial report users (as is the case more broadly with respect to financial reporting standards).

Benefits and barriers to the mandatory adoption of digital financial reporting are most clear in the listed company and capital markets space. Australia has fallen behind other major markets around the world, most of which have required tagged, machine readable digital reporting for several years. In a complex global context where financial analysis and investment decisions increasingly rely on artificial intelligence and other technology driven approaches, Australia's capital market is rendered effectively invisible or at best inaccurately viewed through continued use of paper and online pdf financial reporting. As detailed below, retail investors are demanding digital reporting to make financial reports more accessible and customised to their needs. Reporting is set to become even more complex and voluminous in the near future with the adoption of mandatory climate and sustainability disclosures.

The barriers to adoption in the listed company space have decreased significantly over the past five years, with the introduction of software solutions, integration into existing systems and teething issues having been addressed in overseas markets now meaning the costs and challenges are marginal and far outweighed by the opportunity cost of falling behind the rest of the world and leaving Australian shareholders poorly served.

The benefits, barriers and cost considerations are less clear when it comes to privately owned companies and other types of entities such as not-for-profits and charities. Digital reporting in other major markets has been led by the needs of capital markets investors, mostly those separate from owners, although there are regulatory benefits in having machine readable financial reporting for the wider population of entities. The investment in systems and other costs of digital reporting are highly synergistic with existing financial reporting processes in larger, listed entities, however this may be a much larger step up for smaller, private companies, not-for-profits and charities. We recommend that further work would be needed to justify and appropriately scope a digital reporting mandate for these entities, with suitable transition and phasing arrangements being critical components.

Please refer also to:

- CA ANZ's 2023 Retail Investor Confidence Survey of more than 1,000 Mum and Dad investors showed that 66% find current financial reports somewhat to very difficult to understand, 87% believe digital financial reporting would help make reporting more accessible, and 70% support or strongly support a legislated mandate.
- CA ANZ's 2021 Chartered Accountant's IFRS Survey, of 776 Chartered Accountants found that supporting digital reporting and improving accessibility were the two areas on which increased focus by the International Accounting Standards Board were desirable.
- The 2023 B20 Taskforce on Financing for Global Economic Recovery recognises "the harmonised adoption of up-to-date digital financial reporting technology is essential to transparency and providing a truly global investment language."

Further supporting evidence and analysis of benefits and barriers to adoption are explored in the following papers:

- Can digital reporting tame the corporate reporting beast?
- The Future of Financial Reporting: What size do you want?