



28 February 2019

Department of Jobs and Small Business
10/14 Mort St
Canberra
ACT 2601
Via email: Paymenttimes@jobs.gov.au

Dear Sir/Madam

Payment Times Reporting Framework

Chartered Accountants Australia and New Zealand welcomes the opportunity to provide feedback to the Department of Jobs and Small Business on the Payment Times Reporting Framework Discussion Paper (Discussion Paper). We have focused our feedback on key areas where we consider we can add the most value. Appendix A provides our detailed submission and Appendix B provides more information about Chartered Accountants Australia and New Zealand.

Key points

- As Australian businesses are already subject to a wide range of reporting requirements, we consider it critical for this new reporting requirement to be simple and align as much as possible with existing reporting requirements. We strongly recommend that the Department of Jobs and Small Business coordinate their approach to the reporting with other relevant government departments to ensure alignment and consistency.
- We recommend that reporting requirements be kept as simple as possible and linked to the objectives of the Reporting Framework.
- We consider a mechanism to compel all entities covered by the framework to report to be critical to the effectiveness of the reporting framework.
- Independent assurance is an important factor for users in determining the reliability of information disclosed by entities. Whilst we don't consider mandatory pre-lodgement assurance to be appropriate at this stage, we note that there may be demand for independent assurance over the Payment Times information on a targeted risk-based approach by the regulator.

Should you have any queries concerning the matters discussed above or wish to discuss them in further detail, please contact Karen McWilliams via email at karen.mcwilliams@charteredaccountantsanz.com or phone (612) 8078 5451.

Yours sincerely,

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Appendix A

General Comments

We note that the discussion paper appears to have only been released on 13 February and the consultation period has been very short. Therefore we have not had sufficient time to obtain feedback from our membership on the design issues it raises.

We support the overall goal 'to improve payment outcomes for Australian small businesses.' However, we note that Australian businesses are subject to a wide range of existing reporting requirements. We consider it critical for this new reporting requirement to be simple and align as much as possible with existing reporting requirements including the method of reporting, scope and threshold definitions. For example, there are a number of similarities between the *Modern Slavery Act 2018* and the Payment Times Reporting Framework, including the focus on suppliers and the size and type of entities captured by it. We strongly recommend that the Department of Jobs and Small Business coordinate their approach to the reporting with other relevant government departments to ensure alignment and consistency.

1. Scope of the Payment Times Reporting Framework

We note a key objective is to 'improve the collection of information about the payment practices of large businesses towards small business'. However, we consider in practice currently it is likely to be a significant burden to require businesses to only report on small business payment times. We recommend that the scope is to report is for all suppliers. We suggest that businesses who can currently easily separate payment times for small business, should be able to also report this information voluntarily.

Defining small business:

We recommend a consistent definition of small business is applied. At the stakeholder workshop attended by Chartered Accountants Australia and New Zealand, there was clear support from business for the ATO definition aligned with turnover. Additionally, we note there may be a role for government in identifying small businesses to reduce the burden for reporting entities under this framework.

We also note specific consideration needs to be given to the classification of entities with small business status, which are subsidiaries of larger domestic or international companies.

Reporting on international suppliers:

We support the Reporting Framework being targeted towards payment of Australian suppliers. We would expect that accounts payable systems would be able to distinguish between Australian and overseas suppliers.

2. Which entities will be obligated to report?

Defining the type of entity required to report

We recommend applying the framework to both incorporated and unincorporated entities in the same way as *the Modern Slavery Act 2018*. We note if there are standard thresholds and definitions, the Department of Jobs could liaise with the Department of Home Affairs regarding identification and notification of entities covered.

We consider it appropriate for an organisation to be required to report their Payment Times if it meets the threshold at individual entity or group level. We also recommend the requirements provide flexibility to enable organisations to choose whether it is more appropriate for them to publish the Statement for the whole group or at a sub-group level depending on the ease of accessing the data from their accounting systems. However, we understand that within corporate groups, there may be different standard payment terms for suppliers with the different entities. We suggest that reporting at a consolidated level may only be appropriate when the standard payment terms are the same.

Regulating foreign businesses

We consider it appropriate to apply the reporting framework to foreign entities carrying on business in Australia. However, we note the importance of the threshold test being applied at entity and international group level to determine those captured under the framework.

Defining the financial threshold

As noted earlier, we encourage the Government to align the Payment Times reporting threshold with existing reporting requirements, for example, *the Modern Slavery 2018*. We recommend that the definition of revenue should be consistent with *the Corporations Act 2001* and in accordance with accounting standards. This is consistent with *the Modern Slavery 2018*.

3. What information should be reported

Overall, we consider it important for the reporting requirements be kept as simple as possible and linked to the objectives of the Reporting Framework.

Descriptive information

We support the inclusion of basic entity-level data to enable the reporting entity to be easily identified by potential small business suppliers and other users of the information.

Standard terms

We support the disclosure of standard payment terms and where relevant if this is end of month or net. We consider other information around discounting or loan financing is likely to be commercially sensitive information. We also note that discounting for on-time payment of invoices tends to be determined by the supplier, with the customer choosing whether to take advantage of the discount.

Performance data

We support reporting common payment performance data including the proportion and value of invoices paid within designated time brackets. We also consider it appropriate for an entity to report on the proportion of invoices paid within their standard terms.

Other terms

We consider other terms such as code signatories or e-invoicing to be relevant and could be included on a voluntary opt-in basis.

Definitional questions

We consider it appropriate to exclude disputed invoices or incorrect invoices from the performance data.

In determining how reportable days are calculated, it may be simpler at this stage for the regulations to enable entities to specify how their payment time is calculated. This would minimise the burden for reporting entities whilst enabling smaller businesses to make informed decisions.

4. How should entities report

Reporting mechanism

We support a centralised reporting mechanism but recommend that it be aligned to an existing government reporting portal to minimise the cost to government and the complexity to business.

We recommend that the reporting period be linked to the entity's financial year end but allowing sufficient time for the data to be collated, checked and reported.

Reporting format

We consider the reporting format to be closely aligned to the reporting mechanism. We recommend, when designing the reporting format, that the government keep in mind the intended use and audience of the reporting output.

5. How should the framework be administered

Legislative basis

We consider that the first option, fully legislated, will not provide the necessary flexibility to address changing practices. In our opinion, the second option, a mixture of legislation and regulations, would be

most appropriate and provide flexibility as well as adequate consultation. We recommend the framework be technology neutral.

Powers and functions of the framework

The right to compel information

We note the similarities to the *Modern Slavery Act 2018* in the framework requiring entities to report their Payment Times and through comparability with peers, improve their performance. This 'race to the top' works when a level playing field is created with all entities covered by the framework being compelled to report.

The power to monitor and assure data collected

We consider independent assurance to be an important factor for users in determining the reliability of information disclosed by entities. At this stage, we don't consider mandatory pre-lodgement assurance to be appropriate for Payment Times information as there is not enough evidence to suggest the costs would outweigh benefits. However, we note that it will be important to monitor this as the reporting develops and therefore we recommend this be considered as part of a post implementation review. Further, we consider that there may be demand for independent assurance over the Payment Times information on a targeted risk-based approach by the regulator.

Further, we note that the discussion paper states 'it could require company directors to assure the information'. We are concerned that this statement mis-represents the role of assurance. We understand the intention was to suggest that the Payment Times information reported by an entity was signed off by the Board, in the same way as in the *Modern Slavery Act 2018*.

The power to enforce compliance with the framework

As noted earlier, we consider a mechanism to compel all entities covered by the framework to report to be critical to the effectiveness of the reporting framework.

6. Government obligations

We support the government agencies reporting their Payment Times information. Clearly there are benefits of government agencies reporting alongside business and this would demonstrate their leadership and provide a level playing field. If separate government reporting is maintained, we recommend the survey results are published in a similar location to the Payment Times information.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation professional accountants across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.