



The Institute of Public Accountants

**Submission to ASIC:
KPI metrics**



IPA INSTITUTE OF PUBLIC
ACCOUNTANTS

Partnership beyond numbers

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Dear Andrew

Changes to ASIC's evidence metrics under the Regulator Performance Framework (RPF)

The Institute of Public Accountants (IPA) welcomes the opportunity to comment on the changes to ASIC's evidence metrics under the RPF.

The IPA is one of the three professional accounting bodies in Australia, with over 35,000 members across Australia and in over 90 countries. In 2015 we merged with the Institute of Financial Accountants of the UK to form the largest small business/SME focused accounting body in the world.

Since approximately 75 per cent of our members operate in or are advisers to small business/SMEs, our comments are taken from this perspective.

The IPA has established the IPA Deakin University SME Research Centre which informs our policy development with academic research; and has resulted in the Small Business White Paper (2015) and other publications. We are currently developing the next version of the White Paper to be released in November 2017.

In drafting this submission, we are heavily indebted to the Productivity Commission 2013, *Regulator Engagement with Small Business*, Research Report, which remains relevant and insightful. The Report was requested by the Australian Government (at the time) and COAG. The IPA was extensively involved in consultation for the Report. It preceded and we believe contributed to the innovation and competitiveness agenda of the government of the day; and also to the RPF and the "Cutting Red Tape" initiative.

We are also guided in our comments by the Government's intention in the "Cutting Red Tape" initiative that "you should see a reduction in the time, cost and effort it takes you to comply with these obligations". Whilst we appreciate that ASIC's KPI metrics are far broader than this intention, we believe it to be a useful guiding principle in assessing the appropriateness of the metrics and especially insofar as they apply to small business and SMEs.

Our comments:

1. Overall:

The IPA agrees with the proposals to group related KPIs together; rationalise the evidence metrics so that each metric is only listed once and is placed under the most relevant KPI; and amend those metrics which reflect specific ASIC processes which have since changed. We have no objections to the changes to the metrics, which in many cases involve a change in how the metrics are worded rather than a substantive change in meaning.

2. Specific metrics:

New evidence metric 1.2.4: We note the removal of quantitative measures (70 per cent and 21 days). Our general preference is to retain quantitative measures which we believe provide a more targeted metric and are useful on a day-to-day basis for staff to apply and strive to achieve. Alternatively, we appreciate the new metric states “ASIC publishes service standards” and submit that these should contain quantitative metrics which provide a measure of aspiration. We note the Productivity Commission’s Report recommendation 14 refers to committing publicly to target timeframes for key processes and so on.

Our comments also apply to all service standards being published by ASIC, including in metrics 2.1.1; 2.1.2; and with respect to the service charter generally.

3. Overlay:

We submit that the recommendations of the Productivity Commission’s Report should be overlaid on ASIC’s KPIs and metrics to ensure they are incorporated, as much as practicable. For the purposes of this submission, we have not undertaken a full analysis to determine if this is the case, though we refer to a few examples below. If this exercise would be of benefit to ASIC, whether for the KPI assessment at some later stage, or otherwise, then we would be pleased to undertake this work with the assistance of the IPA Deakin University SME Research Centre. There would also be broader application to other regulators, both domestically and abroad.

4. Culture:

We are uncertain as to whether organizational culture is part of the KPI process, though we note that ASIC has focused to some extent on the culture of the entities being regulated. We also note that culture was mentioned in the ASIC Capability Review and we acknowledge ASIC’s ‘Values and Behaviour’ program with a 2016 diagnostic.

The IPA totally agrees that organizational culture, individually and collectively, is a critical component for any well-functioning market. The IPA has undertaken its own similar culture and behavior program; and the accounting profession is seeking to create a more ethical and transparent organizational and business culture by applying a new ethical standard known as NOCLAR (responding to non-compliance

with laws and regulations) which requires all accountants, managers, directors etc to report all potential and actual breaches of regulation and legislation. How NOCLAR is to be interpreted, applied, monitored and enforced is yet to be decided by the international body (IESBA – International Ethics Board for Accountants) and by most of the 130 countries where it applies.

We note that some of ASIC’s metrics include elements of the Productivity Commission’s Report recommendation 1 that “Governments should recognize the fundamental importance of regulator culture in influencing engagement practices”. It then refers to the culture being “...reflected in the actual engagement practices of all staff – that: promotes a facilitative and educative posture towards business which seeks to achieve regulatory objectives without unnecessarily constraining business activity and growth.”

5. Example:

One example where an educative and facilitative approach for small firms and sole practitioners would have been helpful was around the implementation of the limited licence regime under the FoFA reforms. IPA assisted numerous members in applying for and obtaining their licence. The experience of members and the IPA was that some staff were more helpful than others and the approach was on various occasions not facilitative and inconsistent, or it took a large number of exchanges and time for facilitation to occur. Given the limited resources of small practitioners (and the IPA) we believe that a more facilitative approach could have been taken. We only mention this insofar as this approach of being ‘educative and facilitative’ to smaller entities should be explicitly reflected in the metrics.

6. Compliance:

It appears that none of the KPIs directly relate to ASIC assisting regulated entities in or helping to facilitate compliance, though there is a measure of this in the metrics. The IPA believes that the “Cutting Red Tape” initiative should be refocused on “Making Compliance Easier” and especially for small business/SMEs. A 2016 survey by the International Federation of Accountants found that 43 per cent of SME clients rated compliance with regulation as a high challenge or very high challenge. In addition, 41 per cent of small to medium accounting practices found that keeping up with new regulations and standards is either a high challenge or a very high challenge.

Whilst it is the role of the IPA to provide members with education, training and ongoing CPD, it is also helpful to take a holistic approach where all players in our co-regulatory environment play a part in enabling compliance by professional practices, their clients and other regulated entities. In this regard, it would be vital to ensure that metrics are themselves tailored to the size of the business being regulated. We appreciate that ASIC takes a proportionate risk based approach to regulation, which we fully support. It is unfortunate that in general, legislation and regulation, is not

usually successfully designed to take into consideration the different entity sizes and the disproportionate compliance burden which falls on small business/SMEs.

7. Compliance cont:

We specifically point to recommendation 9 of the Productivity Commission's Report which states that "Regulators should, as far as possible, enable small businesses to more effectively and easily manage their own compliance". It goes on to state "...regulators should, where possible:

- Remove any unnecessary complexity in regulatory requirements and associated guidance material
- Set outcome based regulatory requirements, but also offer detailed guidance about acceptable solutions including, where feasible, offering a compliance pathway which, if fully implemented, would deem business compliant with requirements.

8. Technology:

The IPA's view is that technological solutions need to be embraced as much as possible in enabling compliance. We have placed a huge importance on using technology to achieve this and continue to work with our members and their small business clients/employers/businesses in finding solutions which are already available in the market. The growing abundance of fintech, regtech, edutech etc solutions is very welcome, and we continue to assess these with all of our stakeholders in choosing appropriate solutions for our members and others, including for the IPA in our co-regulatory role.

ASIC's metrics must continue to include and reflect the changing environment, especially advances in technology. We note the use of FAST 2, the sandbox, SBR, behavioural economics, digital first and other government initiatives to make government and its agencies as agile and future leaning as the entities it regulates. We would encourage ASIC to put a technology and forward looking lens on its metrics and indeed on all of its operations, which we appreciate it is striving to do.

9. Resourcing:

The IPA has been a long standing advocate of adequate resourcing for ASIC. For all of us, KPIs and metrics must always be subject to resourcing levels (human, financial, technological etc). This is why prioritization is important. We assume that all of ASIC's metrics receive equal priority in terms of funding and resource allocation. However, if there is a more optimal mix or approach then this should be considered and communicated.

If you wish to discuss any of the above further, including our invitation for further research, or if you have any queries then please don't hesitate to contact Vicki Stylianou (mob. 0419 942 733 or vicki.stylianou@publicaccountants.org.au).

Yours sincerely



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