

11. RESOURCE IMPLICATIONS

1101. This chapter provides an overview of the resources (mainly in terms of funding) that are currently required for performing the functions of registration of company auditors and their post-registration supervision and for undertaking the disciplinary function. An estimate is also provided of the resources that would be required to implement the arrangements proposed by the Working Party.

CURRENT POSITION

1102. There are three main areas of expenditure at present:

- (a) the processing of various documents lodged with the ASC, including applications for registration as auditors, triennial statements and documents notifying changes in the personal particulars of RCAs and the conduct of hearing when required;
- (b) the surveillance programs of the ASC and the quality review programs of the ICAA and the ASCPA; and
- (c) disciplinary matters dealt with by the professional accounting bodies, along with matters brought by the ASC and the CALDB.

Registration and Supervision

1103. Payroll costs presently incurred by the ASC covering registration of auditors and the supervision functions described in paragraphs 402(a), (b) and (j) amount to approximately \$150,000-\$200,000 per annum.

1104. Additional significant costs are also incurred relating to the supervision functions described in paragraphs 402(e), (f) and (g). These can vary considerably from year to year. The approximate amount incurred by the ASC during the year ended 30 June 1994 was \$900,000, which included significant out-of-pocket costs for expert opinions etc. For the year ended 30 June 1995 the total cost of payroll for ASC staff and external out-of-pocket costs was approximately \$650,000.

1105. The Working Party notes that, in keeping with the Government's application of user-pays principles to company and occupational licensing matters dealt with under the Law, fees are payable on applications for registration as an RCA and on the lodgment of triennial statements. Applications for registration currently attract a fee of

\$280 while the fee for lodging a triennial statement is \$115. Further fees arise from late lodgment of documents, being \$55 within one month and \$230 after that.

1106. On the basis of activity levels in 1995/96, and assuming that one-third of RCAs lodge a triennial statement each year, fees revenue from auditors in 1996/97 is estimated to be \$470,000 — significantly less than the costs generally incurred by the ASC.

1107. It has also to be acknowledged that any self-regulatory functions undertaken by a professional body can only be undertaken at some cost. Therefore, in addition to the costs incurred by the ASC and the CALDB in the regulation of auditors, the ICAA and ASCPA and those members who hold public practice certificates incur substantial costs particularly in respect of the quality review program. The amounts are significant not only in terms of the costs directly met by the practitioner but also in terms of the costs borne by the accounting bodies. Costs borne by the ICAA and ASCPA in the development and initial administration of the program over the last five years are in the order of \$2 million. Costs borne by practitioners, who will be reviewed each five years, will amount to around \$2 million per annum, excluding the practitioners' own time. Ongoing costs borne by the ICAA and ASCPA for administering the program are between \$500,000 and \$1 million per annum, including the cost of further enhancements to the program. Such costings exclude the time the Committee members of the ICAA and ASCPA have spent and will continue to spend on the development and on ongoing maintenance of the program.

Disciplinary Functions

1108. According to the latest annual report of the CALDB, the expenditure of the CALDB over the last three years was as follows:

	1995-96	1994-95	1993-94
	\$	\$	\$
Administrative expenses	205,000	200,000	233,000
Salaries and sitting fees	107,000	118,000	147,000
	312,000	318,000	380,000

PROPOSALS

1109. The estimated costs of performing the registration and supervisory (including disciplinary) functions differ for each of the options set out in this Paper.

1110. The following paragraphs outline the estimated costs that the Working Party anticipates would be incurred in implementing the administrative arrangements proposed by the Working Party.

Registration and Supervision

1111. Information provided to the Working Party by the ICAA and ASCPA indicates that, on the basis of them being authorised accounting bodies and jointly performing the registration and supervisory functions, the cost of performing these functions would be approximately \$764,000 in the first year and \$617,000 in the second and subsequent years. While income from annual renewals and applications is currently expected to be about \$470,000 per annum, the ICAA and ASCPA estimate that fees revenue would be \$310,000 in the first year and \$293,000 in the second and subsequent years.

1112. The Working Party notes that the quantum of the costs associated with the performance of the registration function by authorised accounting bodies will largely depend on the way in which the function is performed by the accounting bodies. If, for example, the registration and supervisory functions can be performed as an adjunct to other functions, for example, the issue of public practice certificates, lower additional costs may be incurred by the authorised accounting bodies.

1113. If the authorised accounting bodies were to assume responsibility for the registration and aspects of the supervision of RCAs, the ASC would continue to incur some expenditure in performing an audit-type function on compliance by the authorised accounting bodies with either the terms of the MOU or the conditions under which statutory conferral is made.

1114. Fees for registration and submission of statements would be payable to the authorised accounting bodies. It is envisaged that the quantum of such fees would be a matter for the authorised accounting bodies to determine although the bodies have indicated a reluctance to see any substantial increase in fees beyond their present level arising out of a change in the institutional arrangements in view of the 'special' and public benefit nature of auditing and the current funding arrangements.

1115. The Working Party notes that the question of whether authorised accounting bodies should receive additional Government funding or a transfer of resources from Government for undertaking the registration and supervisory functions will be one for the Government and the authorised accounting bodies to negotiate. Nevertheless, both the ICAA and the ASCPA have indicated that they would be unwilling to bear an excess of costs over revenues for the provision of the delegated activities. The Working Party further notes that any submission for funding over and above that which is presently provided by Government under the existing regulatory requirements would have to demonstrate that additional costs incurred by the authorised accounting bodies in performing the functions were the result of increased and improved procedures for registration and supervision and that, in total, costs involved for the registration and

supervisory functions exceeded revenue that could be reasonably obtained through the imposition of fees.

Disciplinary Functions

1116. If the CALDB is to be responsible for hearing conduct-related disciplinary matters, annual costs no greater than the \$312,000 incurred in 1995/96 could be expected. In these circumstances, both the ASC and the accounting bodies could be expected to incur discipline-related costs similar to those currently being incurred.