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Dr Kathleen Dermody
Committee Secretary

Our ref 43840172_1 (00000002)

Senate Economics Reference Committee
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Parliament House
Canberra ACT 2600

Contact

By email

4 December 2015

Dear Dr Dermody

**Senate Economics References Committee - Inquiry into Corporate Tax Avoidance -
KPMG Response to Question on Notice**

KPMG is pleased to provide the following response to the Question on Notice from The Honourable Senator Dastyari at the Public Hearing held on 18 November 2015.

The Honourable Senator Dastyari asked, "Could you perhaps take on notice whether or not there are any clients of yours - not naming the firm - who have gone the other way? This would not include SERCO, because SERCO is the only one we know of".

[Given the discussion preceding this Question on Notice, the question and the term 'have gone the other way' is taken as a reference to any clients who have shifted from the use of special purpose accounts to the use of general purpose accounts].

Based on discussions with our Department of Professional Practice, a group within our firm that supports all financial reporting and audit services we have determined that the information requested in the Question on Notice is not a specific binary metric that is captured by any KPMG internal reporting tools with respect to completed audit engagements.

As such, KPMG is unable to easily provide an accurate and complete answer to the Question on Notice as it is currently tabled. To do so would require the extraction and analysis of annual individual audit files across many thousands of clients for a number of years, requiring significant additional time to complete such a resource intensive exercise.

Through various discussions held with audit partners across KPMG in attempting to provide a useful and indicative response to the Question on Notice, KPMG anecdotally, and consistent with the testimony provided by Ms Kris Peach of the Australian Accounting Standards Board (AASB) at the Public Hearing on 18 November 2015, we note that the incidence of entities shifting from the use of special purpose to general purpose financial accounts appears to be minimal.

An example of where this switch may occur would be in relation to an entity that has recently listed, or intends to list, on the Australian Stock Exchange (ASX). In this scenario, if the entity previously reported using special purpose financial accounts, in accordance with the relevant AASB standards, the entity would be required to shift to the preparation and lodgement of general purpose financial accounts. There may be other reasons, primarily relating to a change in structure or activity of the entity, which may result in a shift from special to general purpose financial accounts, however again KPMG does not readily have available data to substantiate evidence of any shift.

KPMG is aware of the research into the reporting entity concept conducted by the AASB, spanning the years 2008 – 2011. As highlighted by Ms Kris Peach in her testimony on 18 November 2015, the AASB research findings indicated:

- approximately 80% of large proprietary companies were preparing special purpose reports; and
- only a small number of entities changed from general purpose to special purpose reporting, or the other way round over the period of review.

Further, as indicated by Ms Kris Peach in respect of more updated data for 2011 to 2014, the AASB is “actually in the process of trying to obtain that information”.

Accordingly, given the AASB has already conducted substantial research into the issues raised by the Question on Notice, it may be that the AASB is best placed to more efficiently provide the Committee with the type of detailed empirical analysis requested by the Committee.

We regret that KPMG does not have the discrete and specific data sought by the Honourable Senator Dastyari but trust that this response fulfils the responsibilities required by the Committee.

KPMG remains available to consult further with and provide insights and assistance to the Committee.

Yours faithfully

KPMG