

**Market Report
on
Accounting
Services in
Australia**



Introduction

With a trillion dollar economy, Australia punches well above its weight (population < 25 million) in the world economic ring. It has also managed to avoid the worst of the global financial crisis, without ever descending into an economic recession. Australia's close business ties with Asian economies like China, Japan, South Korea, and India have provided the economic cushion that Australia needed to avoid a recession.

With a modern democratic system of governance, and sound legal and regulatory systems, Australia is a country where Indian businesses should feel comfortable in operating. However, even as Indians now form the second largest migrating community in Australia after the British, and several Indian companies – Adani, GVK, Aditya Birla, Sterlite, Infosys, TCS, to name just a few – have considerable business interests in various sectors in Australia, the full potential of India-Australia business ties has not yet been achieved.

The Australian economy offers a range of opportunities in the services and resources sectors. The market intelligence reports prepared by the High Commission and Consulates in Australia highlight the opportunities in the identified sectors of promise for Indian companies to look at the possibilities for joint ventures, acquisitions, or import-export relationships with the Australian market.

OVERVIEW

Key Statistics

Revenue

\$14.3bn

Profit

\$2.8bn

Exports

\$62.0m

Businesses

9,659

Annual Growth 06 – 11

1.8%

Annual Growth 11 – 16

5.7%

While many accounting services are non-discretionary for their clients and are therefore somewhat recession-proof, the industry has been hit by declining demand for additional advisory-type services. Demand for advice on pro-cyclical activities such as expansion, acquisitions and initial public offerings of shares (IPOs), has fallen as a weaker sharemarket, more restricted access to financing and uncertainty over the future of the economy leads to decreased activity in these areas. Clients are also cutting costs, with services seen as non-essential getting the chop. Offsetting this to some extent is demand for insolvency related services, with 25.0% more insolvency appointments in the first five months of 2009 than in the corresponding period in 2008. The net effect is an expected drop in industry revenue of 0.9% in 2010-11, to \$14.3 billion. This follows declines in the previous two years. However, these declines were offset by strong growth pre-global financial crisis, resulting in an average increase in industry revenue of 1.8% per annum over the five years through 2010-11.

The recent industry revenue falls may be a case of short-term pain for long-term gain, as increased regulation stemming from the global financial crisis will lead to more

demand for accounting services to ensure compliance with new reporting rules. Industry revenue is forecast to rebound by a strong 5.6% to \$15.2 billion in 2011-12. Other regulatory changes that are expected to provide a boost to the industry over the next five years include the anti-money laundering and counter-terrorism reporting requirements, which have been rolled out over the past two years, and additional reporting required as a result of a carbon tax or carbon reduction scheme, which is likely to be introduced in the next one to two years. Overall, industry revenue is expected to grow by an average 5.7% per annum over the next five years, to \$18.9 billion in 2015-16.

The global financial crisis and economic downturn will ease shortages of experienced accountants as many expatriates return home from hard hit areas such as Europe and the United States. This will provide a boost to productivity and will contribute to a post-downturn recovery in profit margins.

KEY EXTERNAL DRIVERS

Number of businesses

The rate of growth in the formation of new businesses provides on-going fee revenue to accountancy firms.

Policy and legislation for accounting services

Changes to tax and other legislation have an effect on the demand for accountancy services with the introduction of the GST and various business tax changes that occurred in 2000-01 having the largest single effect over the demand in recent times.

Pervasive outsourcing of accounting services

Outsourcing of accounting, IT, human resources, back-of-office functions consultancy and advisory services by businesses and government have had an effect on the demand for the services of this industry.

Real GDP growth

Changes in economic activity have an effect on the demand for services of accountants in areas such as public floats, mergers, acquisitions, takeovers and re-financing deals. When the rate of economic growth declines, then it is also likely that bankruptcy and liquidations increase.

Competition from legal services

Accountants are increasingly facing competition from merged legal and accountancy firms, which are expected to become more prevalent in the future.

VALUE ADDED SERVICES

A significant factor in the revenue growth of the larger firms over the past few years was the large variety of services they offered. The big four and mid-tier firms developed new areas of business not directly related to traditional accounting services. These included personnel matters, including the Work Choices changes towards individual contracts, and superannuation changes and advice, including private superannuation funds and their auditing requirements.

Associated with private superannuation funds are individual wealth management and advisory services. Growth occurred in corporate advisory work traditionally performed by merchant banks, stockbrokers and management consultants.

Many of these additional services are pro-cyclical, and prior to the economic downturn they helped to fuel strong growth in the industry as expansion, acquisition, IPO and

private equity activity boomed. As the global financial crisis hit, business expansion and capital market activity slowed and clients went into cost-cutting mode. A boost to revenue from counter-cyclical areas such as insolvency work and advice on cost cutting and restructuring is not expected to be enough to offset the declines in pro-cyclical service areas in 2010-11. The overall effect the additional value added services have on the industry is increased revenue but greater volatility.

PRODUCTS & SERVICES

Service segmentation in the Accounting Services industry differs depending on firm size. Among the big four, auditing tends to be the largest revenue generating segment due to their dominance of the listed company external audit market. Larger firms also tend to generate a larger proportion of their revenue from advisory services. Outside the big four, business taxation services are a larger segment, particularly among small firms.

Auditing

Audit services provided by accounting firms can be used by organisations for both internal and external purposes. Internally, audits are to gain an independent evaluation of operations and performance. The goal is often to improve internal controls to manage risk, particularly related to compliance with regulation, and to boost the accuracy of accounting and internal information used by management in decision making. Externally, financial audits are used to give credibility to a company's financial statements.

Larger organisations are more prominent users of audit services as they have a wider range of stakeholders and internal controls become more difficult to maintain as size increases. While shareholders tend to be the most prominent stakeholders, lenders, employees, customers, suppliers, regulators and tax authorities can also have an interest in audit results.

The majority of listed Australian companies are audited by a big four firm. While the need for large numbers of staff and resources tends to put the external audit responsibilities for the majority of the top 50 to 100 listed companies out of reach for all but the big four accounting firms, larger mid-tier firms are increasingly attempting to compete for small to mid-cap listed audit clients.

Business tax

Accounting firms assist businesses and other organisations in preparing their financial records for submission to the Australian Tax Office. Organisations use the services of accounting firms in tax preparation to meet their compliance responsibilities, minimise tax and plan for future tax payments. This is a particularly important segment for smaller firms, for which the preparation of tax submissions for small to medium-sized businesses tends to be the largest revenue segment. This segment is a relatively stable source of revenue due to the essential nature of these services, and this contributes to the industry's low volatility level.

Advisory

Accounting firms provide advice to organisations on a wide range of operational and financial issues. This can range from advising on the re-organisation of operations to reduce costs and risks, to advice on major transactions such as mergers and acquisitions. In corporate advisory services, accounting firms compete with investment banks and management consultants. One of the major selling points for accounting firms compared with investment banks is their independence; investment banks tend to provide both the advice and the financing or underwriting, giving them a vested interest in having the transaction proceed.

Also included in this segment is the provision of insolvency administration services to troubled businesses and their stakeholders, in particular creditors. The global financial crisis has seen re-structuring and insolvency services boom as businesses scramble to avoid bankruptcy. This has offset some of the decline in demand for the more pro-cyclical advisory services that occurred due to the global financial crisis.

Personal tax

Accountants provide personal taxation preparation to individuals for much the same reasons as to businesses: to ensure compliance, minimise tax liabilities and maximise returns. High net worth individuals are the most prominent users of these services as their finances tend to be more complicated and income sources more varied. Many firms, for example, provide personal taxation services to the owners of client businesses. This can extend to the management and administration of high net worth families' finances, from bill paying and cash-flow management to investment and estate planning.

Bookkeeping

Bookkeeping involves maintaining records of financial transactions for client businesses. It differs from accounting in that it does not involve the preparation of financial statements. Bookkeeping is an outsourced service and is particularly popular among very small businesses such as sole proprietors and small partnerships. In many cases the operators of these businesses are specialists in their business' area of expertise, rather than in the administrative side of running a business. They outsource the bookkeeping duties in order to focus on core business activities and avoid the need to dedicate in-house resources to the role.

The demand for accounting services is derived from the government, businesses and individuals requiring a variety of services including compliance with statutory, tax and internal information requirements. This includes financial information regarding their own affairs, such as corporate structure, taxation planning, cash-flow projections, budgeting, business plans, general accounting services, and bookkeeping.

Changes to legislation can boost demand for compliance related services. In general, changes to reporting requirements of small businesses tend to result in more outsourcing of accounting and bookkeeping functions, which benefits the industry. The move to International Accounting Standards and International Financial Reporting Standards has also seen accounting fees rise for large clients that are required to comply, due to the increased time taken in reporting and auditing particularly in the transition period.

The different services provided by accountancy firms have varying relationships with the overall business cycle. Demand for the traditional general accounting, tax and auditing services is less sensitive to changes in the business cycle. Demand for insolvency and receivership services tends to be more highly sensitive, growing as the economy moves into recession and declining during periods of stronger economic activity. Demand for many advisory services such as advice on acquisitions and expansion is also quite sensitive to the economic cycle, moving pro-cyclically.

INTERNATIONAL TRADE

The industry largely services the domestic market, but many major operators have international links and associations. For trade, estimates for 2010-11 are exports of \$62.0 million and imports valued at \$2.8 million.

The export of accounting and advice services, particularly to the Asian region, is seen as having significant growth potential, but in the short-term from selective countries only. Free Trade Agreements with Singapore, China, the United States, and Thailand will affect this industry, particularly in terms of providing clients with investment and trade related services.

The linkages with international companies among the big four and the second tier are a significant aspect of this industry. This is of growing importance due to the growing international perspective of Australian and overseas companies and the recently introduced international accounting standards.

The tighter auditing and operational guidelines issued in the United States following the Enron and Worldcom financial disasters have also had significant ramifications on the Australian industry and regulations, some of which have been included in the Australian CLERP 9 regulations.

On the other hand, some Australian accounting services operators are considering outsourcing some routine accounting processes to highly-skilled, low labour-cost countries such as India, to lower costs to clients, without compromising quality.

BARRIERS TO ENTRY

Barriers to entry relating to economies of scale illustrate the level of dominance by the key industry players. The Accounting Services industry generally has a low level of concentration with the top four players estimated to account for over 30% of the available market share.

The industry is skill and knowledge intensive. The main requirement is to keep up to date with tax laws and changes to these from legislation and ATO and court rulings. There are no licences required to operate.

Overall, there are few barriers to entry at the lower end of this industry, apart from obtaining formal qualifications. Basic bookkeeping, however, requires no formal training. Many qualified people do work part-time or on a casual basis and from a home office during the peak reporting season doing accounting and tax work for individuals and small businesses.

The big four firms, along with some mid-tier firms such as Grant Thornton, are each part of international collections of member firms. Ownership of the firm tends to remain with local partners, with the global structure largely used to serve global clients, share knowledge and develop strategies on a global basis. Each global collection of firms tends to work like a democracy, with each region participating in decision making at the global level.

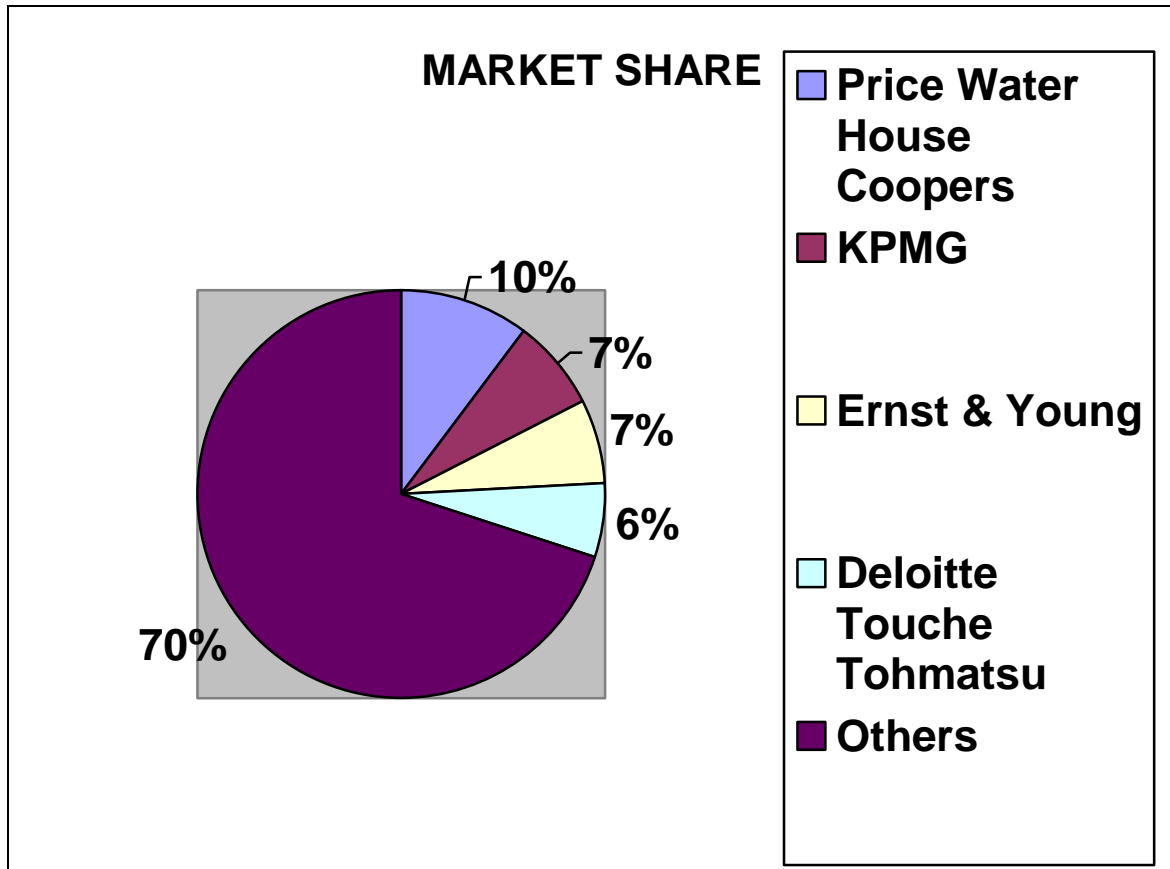
Due to ownership of firms largely remaining local, globalisation is considered to be low. This is increasing however, with some firms such as PricewaterhouseCoopers beginning to reorganise into a smaller number of multinational geographic clusters, rather than a large number of nationally based member firms.

IBISWorld expects the continuing adoption of international accounting standards to drive further globalisation, with specific local knowledge becoming less important for some accounting functions. The international standardisation will also further enable the outsourcing of routine, labour intensive processes to low cost but increasingly skilled labour nations such as India. Exports of services by Australian firms to developing

economies in the Asia Pacific region are also expected to continue to grow over the next five years.

MARKET SHARE

Price Waterhouse Coopers 10.2%
KPMG 7.2%
Ernst & Young 6.7%
Deloitte Touche Tohmatsu 6%
Others 69.9%



HOW TO DO BUSINESS IN AUSTRALIA?

Australia is an open economy with a liberal foreign investment outlook. The country has many international companies holding assets in the country and operating without much of a hindrance from the government. The regulatory body overseeing foreign investments in Australia is the Foreign Investment Review Board (FIRB). The monetary thresholds set out by the FIRB are as outlined below:

Non-US investors (as at 1 January 2011)	
\$5 million	developed non-residential commercial real estate, where the property is subject to heritage listing
\$50 million	developed non-residential commercial real estate, where the property is not subject to heritage listing
\$231 million*	an interest in an Australian business; or an interest in an offshore company that holds Australian assets or conducts a business in Australia, and the Australian assets or businesses of the target company are valued above the threshold

* The threshold is indexed annually on 1 January.

The following acquisitions must be notified, irrespective of the value or the nationality of the investor:

- all vacant non-residential land;
- all residential real estate (some exemptions apply);
- all shares or units in Australian urban land corporations or trust estates; and
- all direct investments by foreign governments and their related entities, and proposals by them to establish new businesses in Australia or acquire interests in Australian urban land.

All other acquisitions (including shares or assets of an Australian business) should be notified if the target is valued at or above the applicable monetary threshold set by the Australia's Foreign Investment Policy or the *Foreign Acquisitions and Takeovers Act 1975*.

More detailed information on foreign investments can be accessed at FIRB:
www.firb.gov.au

Company Registration:

A company can apply with the Australian Business Registrar to obtain the Australian Business Number (ABN) and all companies which are to be registered with ASIC (Australian Securities and Investment Commission) would get a Australian Company Number (ACN).

Further information about ABN can be obtained from: <https://abr.gov.au/>

Further information about ACN can be obtained from:

<http://www.asic.gov.au/asic/asic.nsf/byheadline/Australian+Company+Numbers?opendocument>

Further information on doing business in Australia is available at:

Claton Utz - http://www.claytonutz.com/docs/DBIA_English.pdf

Grant Thornton -

http://www.grantthornton.com.au/files/doing_business_in_australia.pdf

Government of Australia - www.business.gov.au

SCOPE FOR INDIAN COMPANIES

Indian companies have been able to execute some bookkeeping related work for some Australian accounting companies who have outsourced low end and non-confidential work to lower the costs to their clients. Australian economy similar to that of India is driven significantly by its services sector. A look at the market share provides us insights that the market is driven predominantly by medium and smaller sized firms. The requirement for Australian businesses to file their Business Activity Statements for the purpose of GST and the sector of Self Managed Superannuation schemes and the family trusts which are established by small and medium scale enterprises provide a whole range of revenue streams for accounting companies. The strict compliance to rules and taxes by Australian companies enforced by regular audits conducted by Australian Taxation Office on the returns filed by the companies randomly also ensure the compliance by businesses.

Australia being a liberalised economy and welcome to foreign investments also opens up vistas for Indian companies to look at acquiring Australian accounting services companies and bringing in value addition to their portfolio and also enable them to go global. The negotiations on Comprehensive Economic Cooperation Agreement between the two countries would open new vistas to the services sector between the two countries. This report acts as a catalyst for Indian companies to gain an understanding of the market in Australia and to look at Australia to expand their business services in terms of acquisitions, joint ventures or establishing new business in Australia and make their practices more global. There are many Australian companies operating in India and Indian companies operating in Australia, it would be useful for them to engage the services of companies who have knowledge and expertise in the accounting practices of both the countries and to be able to provide information and services to them for establishing businesses and the processes involved in each of the countries.

INDIA – AUSTRALIA MUTUAL RECOGNITION AGREEMENTS

- Institute of Chartered Accountants Australia (ICAA) has mutual recognition agreement with Institute of Chartered Accountants India (ICAI)

More information at:

<http://www.charteredaccountants.com.au/Members/Membership/Recognised-overseas-accounting-bodies/Recognition-Policy-for-ICA-India-members>

- Institute of Public Accountants (previously called National Institute of Accountants (NIA)) and the Institute of Cost and Works Accountants of India (ICWAI) have signed a Memorandum of Understanding to recognize the qualifications offered by each of the institutes and to allow for movement of professionals to work according to the local laws applicable.

More information at: <http://www.icwai.org/icwai/institute-mou-NIA.asp>

TARGET AUDIENCE:

Institute of Chartered Accountants India (ICAI) – www.icai.org

Institute of Cost and Works Accountants of India (ICWAI) – www.icwai.org

Accounting Research Foundation (ARF) - www.icaiarf.org

Chartered Accountants Networking Portal - www.canet.co.in

Some Useful Links:

Price Waterhouse Coopers Australia
www.pwc.com.au

KPMG Australia
<http://www.kpmg.com/au/en/pages/default.aspx>

Ernst & Young Australia
<http://www.ey.com/AU/en/home>

Deloitte Touche Tohamatsu
http://www.deloitte.com/view/en_AU/au/index.htm

CPA Australia
www.cpaaustralia.com.au

Institute of Chartered Accountants Australia
www.charteredaccountants.com.au

Institute of Public Accountants
www.publicaccountants.org.au

Prepared from: IBIS World Market Reports.