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Dr Alex Robson
Deputy Chair
Productivity Commission
4 National Circuit
BARTON ACT 2600

Online submission: 5pillars@pc.gov.au

Dear Commissioners

CPA Australia response to "*Building a skilled and adaptable workforce*" interim report

As one of the world's largest professional accounting bodies, CPA Australia represents more than 175,000 members working in over 100 jurisdictions and regions around the world. We make this submission in response to the Productivity Commission's interim report, *Harnessing data and digital technology* on behalf of our members and in the broader public interest.

CPA Australia makes the following key observations on the interim report:

- We support introducing a new lower tier auditor licensing model for lower-risk assurance engagements
- We support targeted incentives to encourage more Australian small businesses to invest in work-related training for their employees and themselves.

Please find attached are our responses to selected draft recommendations and information requests from the interim report.

If you require further information, please contact [REDACTED].

Yours sincerely,

[REDACTED]

Gavan Ord
Business and Investment Lead

Encl.

ATTACHMENT

Please note, CPA Australia limits its responses to the following draft recommendations and information requests.

Building skills and qualifications for a more productive workforce

Draft recommendation 2.2: Better target incentives to lift work-related training rates in SMEs

Support

CPA Australia supports the introduction of targeted incentives to encourage more Australian small businesses to invest in work-related training for their employees and themselves. For such an incentive to be successful, it should:

- support training delivered in a variety of formats, including micro-credentials that accommodate the time constraints of small business owners and their staff
- address identified small business capability gaps, especially in technology, business management and financial management
- be accessible to the business owners and their employees.

Australia's small business sector is struggling to reach its full potential. Findings from CPA Australia's annual Asia-Pacific Small Business Survey consistently show that Australia's small businesses are characterised by:

- weak growth and low economic confidence
- poor levels of technology adoption and innovation
- rising costs, which squeeze margins
- a domestic focus
- defensive businesses strategies
- a high proportion of self-employed or micro-sized enterprises
- ageing business owners
- risk aversion.

Lifting small business productivity requires a sustained and coordinated effort across all levels of government. Progress will depend on bipartisanship and a long-term national strategy that transcends political cycles.

Australian small businesses lag their counterparts in Asia and larger domestic businesses in adopting technology. This gap is undermining the sector's performance and productivity. Targeted incentives to support small business digital capability building should be a policy priority. This includes training incentives targeted at enhancing the technology knowledge of small business owners.

Our survey data consistently shows that small business owners under 40 are more likely to run growing businesses that create jobs, adopt technologies, innovate and export. However, Australia has a disproportionately low number of young small business owners relative to its demographic profile.

To encourage greater business ownership among young Australians, CPA Australia recommends the introduction of targeted training incentives specifically designed to address common challenges faced by new business owners, including irregular income, cash flow, business uncertainty, and customer acquisition and retention.

Information request 2.4: Financial incentives for training in SMEs

We provide the following comments in response to the questions raised in this information request:

What is the most effective way to encourage SMEs to increase work-related training? What lessons are there from past programs and policies?

Many small business owners face significant barriers to investing in work-related training for employees and themselves. The main barriers being limited time and financial resources. To address these challenges, we support the provision of targeted financial assistance aimed at encouraging SMEs to engage in meaningful training activities.

Drawing on CPA Australia's experience, the most effective training programs for SMEs share the following characteristics:

- **Flexible delivery formats**: Training should be available in modular, bite-sized formats that allow participants to engage at their own pace. This flexibility is essential for time-poor business owners and staff.
- **After-hours accessibility:** Training must be accessible outside standard business hours to accommodate the operational demands of small businesses.
- **Customised content:** Programs should target specific capability gaps commonly observed in SMEs, such as digital literacy, financial management, and business strategy.
- **Inclusive access:** Incentives should apply to both business owners and employees to ensure broad uptake and impact.

What should be considered in determining an appropriate size of SMEs eligible for financial incentives for training? Should sole traders be eligible?

CPA Australia acknowledges the importance of setting eligibility criteria for financial incentives. However, rigid thresholds based solely on metrics such as employee count or turnover can create unintended consequences, excluding businesses that fall just outside the cap while including others with similar needs.

CPA Australia strongly recommends the inclusion of sole traders and other small business owners within the scope of the training incentives. Our annual Asia-Pacific Small Business Survey consistently highlights that Australia's small business owners face capability gaps that hinder growth and innovation. Access to targeted training would help them better manage their business and people, enhance their ability to identify and adopt appropriate technologies, and improve their financial literacy.

Which types or formats of training (for example, management or IT-related, short courses versus workshops) should be covered by financial incentives? How should training providers be vetted? What types of training would be most effective in increasing productivity in SMEs?

CPA Australia recommends that a wide variety of training types and formats should be covered by the training incentives. Training should focus on building core capabilities in:

- technology and digital literacy
- business management and strategy
- financial management.

To ensure accessibility and relevance, training should be offered in a variety of formats, including:

- micro-credentials and stackable modules for time-poor participants
- workshops and webinars for interactive learning
- self-paced online programs available outside standard business hours
- in-person sessions.

Flexibility in delivery is essential, as many small business owners and employees are unable to participate during regular business hours. On-demand access and modular design will help maximise engagement and completion rates.

Can the introduction of financial incentives for training in SMEs lead to increased risks of fraud or misuse? Have past measures identified significant fraud or misuse?

CPA Australia acknowledges that poorly designed financial incentives for SME training can increase the risk of fraud or misuse. We would welcome the opportunity to work with relevant stakeholders to help design a program that minimises risk and maximises impact.

Information request 2.5: SME advisory services for training provision

We provide the following comments in response to the questions raised in this information request:

What advisory or consultation services would most effectively support SMEs to increase their provision of work-related training? In what form should this support be made available or delivered?

It should be noted that accountants are the most popular source of professional advice for SMEs in Australia. They often have a deep understanding of their small business clients, placing them in a strong position to help the small business identify their capability gaps and recommend high-impact training opportunities.

Do Australian SMEs have persistent capability gaps, such as managerial capacity, digital competencies or any other critical skills, that an advisory or consultation service should prioritise?

CPA Australia's annual Asia-Pacific Small Business Survey shows that Australian small businesses face persistent capability gaps in technology adoption, business management and financial management. These gaps are contributing to the sector's underperformance relative to the Asia-Pacific average.

In a recent roundtable with members advising small business and Small Business Victoria, participants identified the following common capability gaps of small business owners and those new to business:

- **Lack of preparedness -** Many new business owners lack a clear understanding of the demands and responsibilities in running a business.
- **Limited awareness of legal liability -** Business owners are often unaware of their legal obligations, including directors' duties, personal guarantees and personal liability.
- **Poor financial management skills -** Many lack the skills and time to effectively manage their business finances, such as cash flow
- **Salary confusion -** Uncertainty around how to pay themselves can cause issues, for example misunderstanding the need to repay loan accounts.
- **Improper use of AI tools -** Some rely on AI-generated legal documents such as shareholder agreements without seeking proper legal review.
- **Hiring challenges -** Confusion around employee vs contractor, and difficulty attracting and retaining skilled talent remains a major challenge.
- **Mental health strain -** The pressures of running a business often leads to stress and wellbeing issues.
- **Online misinformation -** Misleading or oversimplified advice from finfluencers can mislead new business operators.
- **Incorrect business structure -** Poor initial choices on business structure and processes can hinder growth and create unnecessary compliance challenges and costs.
- **Blurring personal and business finances -** Mixing personal and business finances can lead to tax and other business complications.
- **Misconceptions about taxes collected -** Some business operators mistakenly treat taxes collected such as GST, as their own business income, leading to tax debt issues.

Fit-for-purpose occupational entry requirements

Draft recommendation 3.2: Expand entry pathways and streamline qualification requirements for occupations

Support

CPA Australia supports introducing a tiered licensing model for lower-risk assurance engagement. This recognises the need for a more flexible and proportionate framework that reflects the varying levels of audit risk across different entities. This should lead to a decrease in cost for lower-risk audits.

Current RCA requirements are fit for purpose for high-risk audits

The current Registered Company Auditor (RCA) qualification under the *Corporations Act 2001* is appropriately rigorous and should remain unchanged for high-risk audits. These include engagements involving listed companies, multinational enterprises, and financial institutions, where public interest and systemic risk demand the highest standards of competence and independence.

RCA involvement in lower-risk audits adds cost without proportionate benefit

As noted in our previous submission, RCAs are frequently required to conduct lower-risk audits under various laws, regulations, and funding agreements. These include audits of charities, not-for-profit organisations, non-government schools and acquittal audits.

Stakeholder expectations extend beyond capital markets

Auditing plays a critical role beyond capital markets. Many stakeholders, including regulators, funders, and governing bodies, associate RCA involvement with higher standards of assurance and integrity. This perception has led to widespread reliance on RCAs, even where legislative or contractual provisions allow for alternative arrangements.

A more nuanced licensing framework, introducing the "approved auditor" tier

To better align qualification requirements with audit risk, CPA Australia supports the introduction of a new "approved auditor" designation, as proposed by researchers at the University of Adelaide. This tier would enable qualified professionals to undertake lower-risk assurance engagements without meeting the full RCA requirements, while still maintaining public confidence and audit quality.

Eligible professionals under this tier could include:

- SMSF auditors
- holders of public practice certificates from CPA Australia, CA ANZ, or IPA;
- qualified members of CPA Australia, CA ANZ, or IPA who have successfully completed a prescribed course (e.g., as specified in *Corporations Regulations 2001*, Regulation 9.2.03).

This approach mirrors the successful two-tier audit licensing system in New Zealand, which maintains high standards for high-risk audits, while enabling more proportionate regulation for lower-risk engagements.