



Matthew Sedgwick
Data Economy Unit
The Treasury
Langton Crescent
PARKES ACT 2600

20 January 2020

By email: e-Invoicing@treasury.gov.au

Dear Matthew,

Options for mandatory adoption of electronic invoicing by businesses

1. PricewaterhouseCoopers (**PwC**) Australia welcomes the opportunity to make a submission to the Treasury (**the Treasury**) in relation to the options for mandatory adoption of electronic invoicing by businesses (**the Consultation Paper**) released for comment in November 2020. As one of Australia's leading professional services firms, we regularly work with clients on operational process optimisation enabled by technology, such as payments and billing systems, and feel we are well placed to share our perspectives on these critical issues.

General comments regarding Peppol e-invoicing

2. PwC Australia supports **Option 1** as set out in the Consultation Paper, a phased mandate for all businesses. This is because the \$28 billion of productivity benefits estimated by Treasury to be realised over 10 years relies on all, or almost all, businesses utilising the Peppol e-invoicing framework. The benefits of adopting e-invoicing can only be realised when a business' suppliers and customers are also e-invoicing enabled. It is a two-sided equation. This is the "network effect", which is critical to the success of the measure.
3. Experience overseas suggests that mandatory adoption of e-invoicing for business to business transactions seems necessary to achieve the high participation rates needed to unlock the efficiency benefits sought. For example, in the EU, where Peppol is currently mandated only for business to government (**B2G**) transactions in several countries, the average business adoption rate is somewhere between 15%-40%.¹ In Singapore, where there is also no mandate, a business adoption rate of circa 21% was achieved in 2019, its first year of Peppol operation.² Contrast this with

¹ https://www.ecb.europa.eu/paym/intro/mip-online/2016/html/mip_qr_1_article_4_e-invoicing.en.html

² <https://www.statista.com/statistics/1180839/singapore-e-invoicing-adoption-rate-by-enterprises-by-sector/>

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jurisdictions where e-invoicing has been mandated. Brazil has a business adoption rate higher than 90%,³ Mexico is over 75%,⁴ while Chile is over 88%.⁵ Closer to home, South Korea has an adoption rate of over 99%, compared with 15% before e-invoicing became mandatory.⁶

4. We believe that a clearly defined and practical timetable for the phasing of mandatory business adoption of Peppol e-invoicing needs to be implemented. The timetable needs to give sufficient time to allow businesses to plan their Peppol projects, particularly in the current environment, for software vendors to develop the required functionality relevant for the Australian market and for businesses to obtain certainty regarding when their suppliers and customers will be Peppol enabled.
5. To this end, we believe a timeframe in the region of 3-4 years for all businesses to mandatorily adopt Peppol e-invoicing might be appropriate, and we agree with the Government that larger businesses should adopt first, followed by smaller businesses. We also believe this timeframe should be complemented by some clear incentives to drive earlier adoption across all segments of the market (discussed in more detail below). Our view is that this approach balances the risk of adding further cost and burden on business in the current economic climate (who may not have the resources or focus to deal with a transformation project at this time) while encouraging those who can to implement sooner to do so, with the comfort of knowing that all or almost all businesses will be Peppol enabled by the mandate date. We recommend that the Government further consult with industry if and when a mandate is decided to confirm the implementation timetable at that point. Further reasons for our views on timing are set out below:
 - a. Large businesses generally tend to have complex operating models and system environments. Therefore, for many large businesses, implementing Peppol e-invoicing will not just be about turning on the technology. It will fundamentally change many existing business processes and controls, particularly for the “procure to pay” (**P2P**) functions, involving several different systems, and will likely require substantial technology and business resources to be allocated to the project. Adequate time to manage such complexities should be factored into the implementation timetable.
 - b. Many large businesses are in the midst of, or about to commence, technology led finance transformation projects, driven by the major ERP vendors moving their client bases off legacy “on premises” system architecture to cloud based ERP. The transition toward Cloud based ERP is likely to accelerate over the coming years. Peppol e-invoice implementation in many ways is a subset of a broader finance transformation and there could be synergies by allowing

³ <https://www.billentis.com/Implementing E-Invoicing on a broad scale in Australia.pdf> p 4

⁴ <https://www.billentis.com/Implementing E-Invoicing on a broad scale in Australia.pdf> p 4

⁵ <http://blog.groupseres.com/en/global-trends-in-electronic-invoicing-seres-global>

⁶ <http://documents1.worldbank.org/curated/en/712881467994710005/pdf/WPS7592.pdf> p 2



businesses time to plan their Peppol adoption to align as much as possible with broader finance transformation initiatives within the organisation.

- c. We agree with the Government that allowing an appropriate amount of time for business adoption should ensure that software providers have the time to develop solutions which are appropriate for the Australian market. This applies to both the Peppol “Access Point” functionality as well as the source systems from which the e-invoice information is drawn. It is important that software vendors have the system fields and functionality available to ensure businesses of all sizes are able to communicate efficiently with each other via the Peppol framework. As an example, many large business purchasers require Purchase Order numbers and other similar items to be quoted on invoices raised by their suppliers. These fields need to be available for populating within the suppliers systems for this information to be available to be communicated via Peppol. If there are material gaps or mismatches between what invoice fields purchasers typically require and what sellers can provide, we run the risk of invoice processing being slowed down as exception handling is taken “offline” for manual resolution.
- d. We also agree with the Government that even though smaller businesses may be able to adopt more quickly and at a lower cost, those small businesses who transact with large businesses and with the government may benefit from the certainty of knowing that large business is Peppol enabled before themselves investing in Peppol functionality. And so we agree that smaller businesses should be mandated to adopt Peppol e-invoicing after larger businesses. Although of course, many small and medium businesses (**SMBs**) transact with each other and the accounting software providers in that market are concentrated into a small number of participants, all of whom either have or will shortly be enabling Peppol for their customers. There may therefore be a compelling basis for some SMBs to adopt Peppol on a voluntary basis sooner (please see below for more details around possible ways to incentivise earlier adoption).
- e. Any categories of businesses (such as sole traders and other non-employing businesses) that are not mandatorily required to adopt Peppol e-invoicing could be incentivised to adopt Peppol e-Invoicing to ensure full market adoption over time. These incentives could be in the form of targeted tax concessions or via digital upskilling and other digital adoption initiatives being considered by the Government as part of its Digital Business Plan.
- f. To give some context on timing, the introduction of the low value goods rules for GST purposes, which had substantial system impacts to manage, was announced in August 2016 and implemented on 1 July 2018, roughly a two year period.⁷ The Single Touch Payroll implementation originally allowed one year but required a raft of concessions and extensions

⁷ *Treasury Laws Amendment (GST Low Value Goods) Act 2017*



might incentivise businesses with large supplier bases to adopt Peppol sooner, providing significant network benefits to the economy prior to the target mandate date.

- b. Encouraging State, Territory and Local Government entities to adopt similar payment commitments to what the Federal Government has announced. To this end, we do note that the NSW State Government has already adopted a 5 day payment policy.
- c. Simplified and/or reduced regulatory reporting in line with other current government initiatives to reduce red tape for businesses who choose to adopt Peppol sooner than required. Some of the areas where e-invoicing data could be provided to government to streamline existing reporting (again on an opt-in basis) include:
 - i. Payment Times Reporting;
 - ii. Taxable payments annual reporting (**TPAR**);
 - iii. Business Activity Statement (**BAS**) reporting (e.g. offering businesses an option to have access to pre-filled BASs using information available based on e-invoicing data), similar to the way in which the deferred GST regime operates in relation to import GST values recorded by Australian Customs.
- d. Differentiated treatment for taxpayers who have adopted Peppol e-invoicing during Top 100 and Top 1000 Streamlined Assurance Reviews undertaken by the Australian Taxation Office, particularly with respect to those aspects of the reviews relating to controls in place for data (i.e. Managerial control 4: Controls in place for data, Managerial control 6: Documented control frameworks, Managerial control 7: Procedure to explain significant differences and Board-level control 4: Periodic internal control testing).⁸

Specific responses to the Consultation Paper

Question 1: Barriers to businesses adopting Peppol e-invoicing

8. We see the key barriers for businesses adopting Peppol e-invoicing to be:
 - a. Cost of implementation and to change business processes - particularly at this stage of the economic cycle, and the relative priority to be afforded to this over other business critical technology projects. For small businesses in particular who are finding current trading conditions difficult, the appetite to invest now in e-invoicing may be low.

⁸<https://www.ato.gov.au/business/large-business/in-detail/typical-questions-in-a-top-1000-streamlined-assurance-review/?page=3>



- b. Ongoing incremental technology costs - both large and small business clients have expressed concern over this, particularly as there is currently no proposal to mandate that invoices are sent via Peppol (only that Peppol enablement exists) and there is corresponding phasing out of other existing invoicing channels and systems which are currently creating cost for businesses.
- c. Supplier and Customer engagement - businesses not only need to implement Peppol themselves, they also need to engage with suppliers and customers to confirm if Peppol is available and agree invoicing processes on a case by case basis. The change management required to do this is high and where there is no clear path for economy wide adoption, the economic benefits realised will be a function of the market's willingness to undertake this process.
- d. No mandate - many clients we have spoken with on this topic have expressed a view that while the initiative is supported in concept, they will not initiate a project until there is certainty from the Government that Peppol e-invoicing will become mandatory and the timetable for this to occur.
- e. Business process change - for many businesses, invoice management and payment processing are manual processes, involving layers of checks and approvals. Peppol automates many of these previously manual processes, which is what helps to drive the reduction in invoice processing costs from circa \$30 per invoice to less than \$10.⁹ Peppol will challenge businesses to rethink how their invoicing and payments process should work and will require humans employed within those functions to change what they do. Rewiring human and technical processes can be challenging and if not managed carefully could limit the effectiveness of the initiative. We saw in some early pilot Peppol projects that accounts payable staff were still asking for copies of PDF invoices and looking to check contract references manually, despite this information already being provided via the Peppol process.
- f. Peppol as yet another invoice channel - there is a view amongst our clients that adopting Peppol e-invoicing will simply create additional complexity and be a burden on their processes, especially where multiple invoice channels are already in place, and the mandate will not extend to requiring invoices to be issued via Peppol even once the system is in place. Businesses will still need to navigate multiple invoicing processes for different suppliers and customers.

⁹ <https://www.ato.gov.au/Business/E-invoicing/E-invoicing-for-businesses/#Costsavings>



Question 2: What would be the costs and benefits of mandating Peppol e-invoicing?

9. We agree with the benefits outlined by both the ATO and the NSW State Government.¹⁰
10. In addition to these, we also believe that Peppol e-invoicing could strengthen controls and processes in relation to payments. The Black Economy Taskforce estimates that identity fraud costs the economy circa \$2.2 bn per annum,¹¹ and there have been recent cases where identity fraud perpetrated via invoicing has led to significant losses for small business operators.¹² Peppol embeds identity and security controls, thereby reducing the risk of fraud. Users must be registered, have their own unique IP address and the e-invoices can be validated real time through automatic user and document authentication processes. It also presents an opportunity for businesses to simultaneously review and upgrade controls in their payments cycle, including bank account validation and matching processes as between the invoice and the master file.
11. As stated above, we further consider that there is potential for businesses, on an opt-in basis, to use its Peppol e-invoicing data to streamline certain tax and regulatory reporting processes, such as Payment Times Reporting, TPAR and potentially also certain aspects of BAS pre-filling.
12. Please see our response to Question 1 above for our views on the costs of mandating Peppol e-invoicing, and how these can potentially be defrayed through a clear mandate and implementation timeline.

Question 3: What other factors should be considered when mandating Peppol e-Invoicing for businesses?

13. Please see paragraphs 5 - 7 above for our views relating to software compatibility, options to incentivise early adoption and the replacement, over time, of other invoicing channels such that Peppol is the only B2B and B2G invoicing mechanism used in Australia.
14. In addition to these, the Government should also consider the cyber and digital security of Australia's Peppol protocol. Given the nature of invoices, key financial and, in some cases, PII information will flow between the private sector and government systems using the Peppol protocol. It is critical, particularly in the current environment, that all parties have confidence that the transmission of such data will be secure and protected. Government has an opportunity to ensure that the latest cyber risk capabilities available are applied to Australia's Peppol e-invoicing protocol for this purpose.

¹⁰ See for example, <https://www.ato.gov.au/Business/E-invoicing/E-invoicing-for-businesses/#Costsavings> and <https://www.digital.nsw.gov.au/design-system/solutions/e-invoicing>

¹¹ https://treasury.gov.au/sites/default/files/2019-03/Black-Economy-Taskforce_Final-Report.pdf p 36

¹² <https://www.abc.net.au/news/2020-11-24/business-email-scam-tradies-computer-hacked-costs-51000/12817584>



Question 4: Which of the options outlined in this consultation paper would you support and why?

15. As stated above, we support Option 1, i.e. 'Phased in requirement for all businesses'. We also believe that the Government should, as far as possible, work with existing definitions of large and small business for this purpose. There are already several different revenue and income threshold tests for various tax and regulatory purposes in Australia.

Consultation questions - e-Invoicing and payment times

Question 1: In your view, if the government mandates the adoption of Peppol e-Invoicing for businesses:

Would this result in a reduction in payment times from large to small businesses?

16. While it is not of itself a "silver bullet" for faster payment times, we believe that the mandatory B2B adoption of Peppol e-invoicing has an important role to play in a portfolio of measures to reduce payment times from large to small businesses. This is provided that:
 - a. All, or nearly all, businesses are Peppol e-invoice enabled;
 - b. There is sufficient functionality available in accounting systems and access points to send and receive all mandatory and best practice invoice fields, including message receipt and exceptions handling communications, as prescribed in the Australian Government's Peppol Framework Best Practice Guidance (when released);¹³ and
 - c. Other invoice channels, such as paper, PDF, other "closed" EDI platforms are materially phased out in place of Peppol e-invoicing.

How would this reduction occur?

17. The Australian Small Business and Family Enterprise Ombudsman (**ABSFEO**) has spent considerable time over the past three years reviewing the payment times and practices in the Australian economy. ABSFEO's research indicates that half of all small businesses reported late payments on 40% or more of their invoices.¹⁴ In addition, ABSFEO estimates that approximately

¹³ This guidance is currently being prepared by a working group convened by the AU and NZ Peppol authorities and is designed to give the market clarity on the relative priority levels of fields within the Peppol standard for Australia and New Zealand, including message response capabilities. PwC is represented on that working group.

¹⁴ <https://www.asbfeo.gov.au/sites/default/files/documents/ASBFEO-payment-times-report-2019.pdf> p 15



20% of traditional invoices are sent to the wrong person and 30% contain incorrect information, findings which it considers contribute to delayed payment.¹⁵

18. PwC has also spent time with many large clients to help them prepare for the Payment Times Reporting (**PTR**) regime which came into effect on 1 January 2020. Early findings from our work with our clients shows that there is a correlation between the extent to which a payment is late (i.e. payments made outside of the prescribed payment time under the terms of the contract) and a corresponding delta between invoice issue date (the date shown on the invoice) and invoice posting date (the date the invoice is posted into the purchaser's system, which generally triggers the payment approval processes). Reasons for these delays include non-conformity of invoices, invoices sitting in the wrong inboxes, and inefficient invoice approval processes.
19. These are invoice processing issues. Using ABSFEO's research, if 30% of approximately 1.2 billion invoices issued each year are non-conforming or incorrect, that means there are circa 360 million invoices each year which are requiring some form of remediation or exceptions handling before payment can occur.
20. Peppol e-invoicing targets precisely these issues, and used in conjunction with other related measures to target payment times, such as the PTR regime, could potentially mitigate some of the processing issues causing late payment. For example, the Peppol protocol can:
 - a. Auto-validate invoices based on Peppol rules as they pass from a supplier's access point to a purchaser's access point, thereby identifying any missing or incomplete data at the point the invoice is issued;
 - b. Issue automated response messages from the purchaser back to the supplier in real time, notifying the supplier instantly as soon as any invoice rejection / acceptance occurs and provide updates as the payment approval process takes place, allowing both parties visibility over processing and facilitating faster remediation if issues arise;
 - c. Ensure that suppliers issue invoices with all relevant and accurate details of the purchaser, since the Peppol protocol is underpinned by a registration and look up service which stores key master data for all participants; and
 - d. Provide purchasers with all requirements for a valid tax invoice, removing the need to reject invoices for tax reasons.

¹⁵ <https://www.asbfeo.gov.au/news/news-articles/e-invoicing-policy-fast-track-payment-times-small-businesses>



21. Improving some or all of these invoice processing steps should reduce the number of incorrect invoices issued across the market, which should therefore assist in reducing the time taken to approve and submit invoices for payment.
22. However, as stated, the above outcomes in our view are to a large extent dependent on the conditions at paragraph 16 being in place.
23. The European Commission seems to share similar views regarding the potential for e-invoicing to improve payment processing times provided some of the barriers discussed above are overcome.¹⁶

Question 2: If the government mandates the adoption of Peppol e-Invoicing, what other action could the government take to reduce payment times further?

24. Please refer above to our earlier comments at paragraph 7.

* * * *

If you have any further questions regarding our submission, please do not hesitate to contact me on [REDACTED]
[REDACTED]

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Brady Dever', with a small blue dot at the end of the signature.

Brady Dever
Partner
Financial Advisory

¹⁶ https://ec.europa.eu/growth/single-market/public-procurement/digital/einvoicing_en