

Financial Reporting Council

Annual Report 2012-13

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18 October 2013

The Hon Joe Hockey MP
Treasurer
Parliament House
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Dear Treasurer

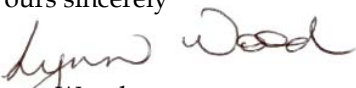
I have pleasure in presenting the annual report of the Financial Reporting Council (FRC) for the year ended 30 June 2013.

The report has been prepared in accordance with sections 235B of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) for presentation in the Parliament. Subsection 235B(1) of the ASIC Act requires the FRC to prepare a report on its operations during the year, and on the achievement of the objects of Part 12 of the ASIC Act relating to accounting and auditing standards. Section 225(2B) of the ASIC Act further requires the FRC to provide strategic policy advice and report on the quality of audits conducted by Australian auditors.

The FRC strategic policy advice role in relation to audit quality and associated reporting requirements commenced on 27 June 2012 following the passage of the *Corporations Legislation Amendment (Audit Enhancement) Act 2012*. The report for the year ending 30 June 2013 is the first opportunity for the FRC to provide strategic advice on audit quality.

Subsection 235B(4) of the ASIC Act requires the report to be tabled in each House of the Parliament as soon as practicable.

Yours sincerely


Lynn Wood
Chairman

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CHAIRMAN'S REPORT



2012-13 has been a busy and highly successful year for the Financial Reporting Council (FRC). We have made a number of significant submissions to international financial reporting organisations; have released completed reports from the Managing Complexity and Board Education taskforces; our meetings were attended by the then Parliamentary Secretary to the Treasurer, the Hon. Bernie Ripoll, MP on two occasions; and we had a variety of distinguished international visitors, keen to engage the views of FRC members.

Oversight of standard setting

At the domestic level the FRC has enhanced engagement with both of our standard setters – the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB). The AASB and AUASB each prepared a strategic plan and sought feedback from the FRC in its role of providing input on the strategic direction of the standard setters. The FRC is very pleased with the finalised plans and believes they will contribute to ensuring that Australia continues to have an appropriate, robust and dynamic financial reporting framework.

At the international level the International Accounting Standards Board (IASB) has been committed to the completion of its remaining four convergence projects with the US Financial Accounting Standards Board (US FASB). The use of the IASB's International Financial Reporting Standards (IFRS) is now required in three quarters of G20 members and is the clear standard that countries consider adopting for their domestic financial reporting regimes for profit-oriented entities. IFRS is becoming the common accounting language within our region, with use required in such jurisdictions as Hong Kong, Republic of Korea, Malaysia, New Zealand, Singapore and Taiwan. China has adopted national accounting standards that are substantially converged with IFRS.

Our links with New Zealand have continued to be strong and, as part of our cross-appointment relationship with New Zealand, I have been a member of New Zealand's External Reporting Board (XRB) which has been both useful and informative, while Kevin Simpkins from the XRB has been an important member and contributor to the FRC.

Within the broader Asia-Oceania region we continue to see strong moves toward greater harmonisation of accounting and auditing standards and note the increasingly important role taken by the Asian-Oceanian Standard Setters Group (AOSSG) under the current Chairman, Kevin Stevenson, also the Chairman of the AASB. The AOSSG has become an important contributor to the IASB, as well as a member of the IASB's Accounting Standards Advisory Forum (ASAF).

During the visit the FRC Secretary and I made to London and Brussels in October 2012 we took the opportunity to press a number of key interlocutors to:

- enhance the convergence process between IFRS and the domestic accounting standards in operation in the US and Japan;
- understand the calls for greater regulation of the audit market being made in various quarters in Europe (and elsewhere), and to attempt to ensure that there was some focus on common international approaches; and
- highlight the attributes of the Australian public sector financial reporting system and consider ways of promoting the adoption of high quality public sector financial reporting systems more broadly.

All of these issues, and the role that might be played by integrated reporting in the financial reporting system, are possible topics for discussion by the G20 countries during Australia's hosting of the G20 in 2014.

Merran Kelsall, Chairman of the AUASB, is a Member of the International Auditing and Assurance Standards Board (IAASB), and has been very helpful in keeping us up to date with global developments in auditing. Over ninety jurisdictions now use, or are committed to using in the near future, the IAASB's International Standards on Auditing (ISAs), including in our region: China; Hong Kong; India; Indonesia; Japan; Republic of Korea; Malaysia; New Zealand; Philippines; Singapore; and Thailand. The FRC made a substantial contribution to the IAASB consultation on *Improving the Auditor's Report* in October 2012, which incorporated the results of a survey of (largely retail) investors undertaken with the support of the Australian Shareholders' Association (ASA).

Audit Quality

In March 2010, Treasury released *Audit Quality in Australia: A Strategic Review* for consultation to identify drivers of audit quality, and to assess whether any measures

should be taken to address any threats to these drivers. The review recommended a number of minor amendments to the framework.

These recommendations were progressed by the *Corporations Legislation Amendment (Audit Enhancement) Act 2012* which allowed the extension of the current five year audit partner rotation period by two years under certain circumstances; requires the publication of annual transparency reports by certain audit firms; allowed ASIC to issue audit deficiency reports in certain circumstances; allowed ASIC to communicate directly with an audited body on certain audit matters; and removed duplication by replacing the FRC auditor independence function with a strategic, high-level Ministerial advice role regarding audit quality.

The FRC Audit Quality Committee has included a report on audit quality in this report. One particular focus of the audit quality work of the FRC has been to develop a working definition of the term 'audit quality'. In May 2013 the FRC made a submission to the IAASB's consultation on a *Framework for Audit Quality*, in which the FRC proffered the following working definition of audit quality for consideration:

'the likelihood of the audit achieving the fundamental objective of the audit which is to obtain reasonable assurance that material misstatements in the overall financial report are detected, and addressed or communicated to relevant stakeholders'.

Other Activities during 2012-2013

In 2011, as part of the FRC's 2011-14 Strategic Plan, the FRC established a taskforce to examine ways of managing the complexity of financial reporting. In May 2012 the Managing Complexity Taskforce released a report detailing outcomes from the review and inviting comments. Fifteen submissions were received by the end of July 2012 and on 3 October 2012 the Managing Complexity Taskforce released its final report and concluded its work. Since that time the FRC has been assiduously following the implementation of the recommendations and these are detailed in Chapter 3 below. The Financial Report Taskforce was later established to follow up on one of the key recommendations.

Similarly in 2011 the FRC established the Board Education Taskforce to consider the issue of board understanding of financial reporting. The taskforce, ably assisted by the Australian Securities Exchange (ASX), conducted a survey of directors and financial reporting professionals, working with them to identify if there were any shortcomings in terms of the financial literacy of directors and, if so, how to address them. On 5 September 2012 the Taskforce released the report with the results of the survey and recommendations, and concluded its work.

The FRC also adopted its new Strategic Plan for 2013-16 at its June 2013 meeting. The Strategic Plan updates the 2011-14 Strategic Plan in light of the June 2012 changes to the *Australian Securities and Investments Commission Act 2001 (ASIC Act)*, which

considerably revised the FRC's functions in relation to audit quality. An analysis of the environment in which the FRC is operating concluded that the financial reporting environment is now more complex and confirmed the continuing importance of the work of the FRC on audit quality, public sector reporting and mapping out the financial reporting framework.

Outlook — 2014 FRC's 15th Year

The coming year will represent the 15th year of the FRC's existence in its current form, and it promises to be an important one for the financial reporting community in Australia. A key event for the FRC will be the meeting of the IFRS Foundation Trustees in Sydney in the week commencing 7 April 2014, as proposed by the former FRC Chairman and current IFRS Foundation Trustee, Mr Jeffrey Lucy AM. The week will include the 2014 Ken Spencer Memorial Lecture, to be given by the IASB Chairman, Hans Hoogervorst.

As mentioned earlier, Australia will be hosting the G20 in 2014, and we are very hopeful that progress on issues supported by the FRC, such as the G20 call for convergence to a single set of high quality global accounting standards can be achieved.

In July 2013 the FRC made a submission to the International Integrated Reporting Council's (IIRC) Consultation Draft of its Framework. The IIRC is currently analysing the responses in order to shape the International Integrated Reporting Framework which they expect to be publishing in December 2013.

A number of international inquiries and processes aimed at reforming the audit sector may well come to fruition over the coming year, including those underway in Europe at the European Commission level, and in member states including the United Kingdom; by the Public Company Accounting Oversight Board (PCAOB) in the United States and by the Canadian Public Accountability Board (CPAB) in Canada.

Australia is already very well placed in this regard given the 2010 Treasury review mentioned earlier which, while leading to a number of minor amendments (now enacted), concluded the framework was fundamentally appropriate.

However, we are not taking a complacent attitude, especially given the areas needing improvement raised by the Australian Securities and Investments Commission (ASIC) in its Audit Inspection Program Report 2011-12 in December 2012 (the sufficiency and appropriateness of audit evidence obtained by the auditor; the level of professional scepticism exercised by auditors; and the extent of reliance that can be placed on the work of other auditors and experts), and by matters being identified in other jurisdictions.

To ensure a continuing focus by the FRC on audit quality, the FRC's Audit Quality Committee intends to meet every quarter. The Committee, and other members of the

FRC, will continue to engage with audit firms, professional bodies, regulators, and other interested stakeholders to proactively identify trends and issues in audit quality as they occur.

Acknowledgements

I would like to acknowledge the contributions of all FRC Members for the generous assistance they have provided, not least their tireless input to the work of our various Committees and Taskforces, and particularly those of the Deputy Chairman Michael Coleman, also Chair of the Audit Quality Committee, and the Chair of the Nominations Committee, Jan West AM, who have both undertaken significant work in their roles. The inputs of Kevin Stevenson and Merran Kelsall, Chairmen of the AASB and AUASB respectively, have also been invaluable, both in the work of numerous Committees and Taskforces, and across the board on the FRC.

During 2012-13 there were a number of changes to the membership of the FRC. Ross Barker joined the FRC on behalf of the Business Council of Australia, and I would like to thank his predecessor, Bruce Brook for his work for the FRC, including his important role as Chair of the Managing Complexity Taskforce. Roger Burrows joined, on behalf of G100, and I also thank his predecessor, John Stanhope, for his work on the FRC, including his key role as Chair of the Integrated Reporting Taskforce (noting he remains a highly valued member of this taskforce).

During 2012-13, Belinda Gibson, Deputy Chair of ASIC stepped down, and was replaced by ASIC Commissioner, John Price. Although Belinda was only a member of the FRC for one year her strong contribution during that time was much appreciated. Vas Kolesnikoff, CEO of the ASA also stepped down during the year. Vas was a key contributor to the survey of ASA members which informed our submission to the IAASB.

Finally Mr Jim Murphy, Executive Director, Markets Group of Treasury stepped down in early July 2013 after more than ten years of outstanding service. His strong support for the FRC over this period was particularly valued, as well as his very thoughtful contributions. On behalf of the FRC, I wish all the departing members well in their future endeavours, thank them for their efforts, and look forward to their successors making important contributions as well.

Michael Coleman, Mark Coughlin, Stein Helgeby, Noelle Kelleher and Ian Laughlin, were re-appointed to the FRC during 2012-13 and I know that they will continue to make valuable contributions. Merran Kelsall was re-appointed as AUASB Chairman, and FRC representative. Jim Murphy had also been re-appointed during the year.

I would very much like to thank Bruce Paine for his important contribution to the FRC Secretariat over the year, and wish him well on his retirement from Treasury.

In conclusion, it is important that the FRC acknowledge the contribution being made to this work by the three professional accounting bodies, the Australian Public Policy Committee (APPC) and many others.

I have greatly enjoyed my second year as FRC Chairman and I look forward to working with FRC Members and their stakeholder bodies in the coming year to ensure the FRC continues its role in overseeing the effectiveness of the financial reporting framework in Australia, and furthering the development of a single set of high quality global accounting standards and auditing standards.

A handwritten signature in cursive script that reads "Lynn Wood".

Lynn Wood
Chairman of the Financial Reporting Council
18 October 2013

1. OVERSIGHT OF AUSTRALIAN STANDARD SETTING

1.1. INTRODUCTION

Under Part 12 of the ASIC Act one of the FRC's functions is to provide broad oversight of the processes for setting accounting and auditing standards in Australia and to give the Minister reports and advice about these processes. Specific accounting and auditing standard setting functions for which the FRC was responsible in 2012-13 are contained in subsections 225(2) and (2A) of the ASIC Act. The activities of the FRC in executing these functions and responsibilities can be grouped as follows:

- activities in relation to the standard setting boards in Australia;
- activities in relation to developments in Australia; and
- activities in relation to international developments.

An outline of each of these three areas is provided in this and the following chapters in conjunction with information about the FRC's performance of its functions in each area.

1.2. ACTIVITIES IN RELATION TO THE BOARDS

The ASIC Act provides the FRC with a number of responsibilities with respect to the two standard setting boards (the Boards), the AASB and the AUASB. These responsibilities include appointing the members of the Boards, giving them advice on certain areas and determining their broad strategic directions.

1.2.1. Appointment of members to the Boards

The ASIC Act provides that the FRC is responsible for appointing the members of the AASB and AUASB (other than the Chairmen, who are appointed by the Minister). In addition, the ASIC Act provides that the members of the Boards (other than the Chairmen) hold office on the terms and conditions determined by the FRC.

The FRC is assisted in the performance of these functions by a Nominations Committee which is responsible for seeking expressions of interest from persons interested in being considered for appointment to either the AASB or AUASB and interviewing and evaluating candidates on the basis of merit. The Nominations Committee is also responsible for preparing and conducting the annual members' peer review for the FRC, the AASB and the AUASB. The current membership of the Nominations Committee as at 30 June 2013 is listed in the following table.

Committee	Chairman	Members
Nominations Committee	Jan West AM	Lynn Wood Mark Coughlin Andrew Fleming Stein Helgeby Merran Kelsall Kevin Stevenson

The following appointments and re-appointments to the Boards for terms commencing on 1 January 2013 and ending on 31 December 2015 (unless otherwise shown) were approved by the FRC on 5 December 2012:

- AASB: appointment of Messrs Peter Carlson and Peter Gibson; and the reappointment of Messrs Ian McPhee, John O'Grady and Brett Rix. Mr Victor Clarke was reappointed for two years.
- AUASB: appointment of Mr Chris George, Ms Jane Meade and Ms Jo Cain; and the reappointment of Mr Bernie Szentirmay and Ms Valerie Clifford for three years.

The FRC would like to thank the following AASB and AUASB members who left during 2012-13 for their contributions: Ms Kris Peach, Ms Sue Highland, Ms Diane Azoor Hughes, Ms Elizabeth Johnstone and Mr David Simmonds.

As at 30 June 2013, the AASB had 14 members while the AUASB had 13 members.

1.2.2. Giving advice or feedback to the Boards and their Offices

The FRC's functions include giving the AASB and AUASB advice or feedback on their priorities, business plans and procedures and giving the Offices of the AASB and AUASB advice or feedback on their budgets and staffing arrangements (including level, structure and composition of staffing).

The FRC monitored the activities of the Boards as part of its regular activities, mainly by asking the Chairmen of the Boards to provide written and oral reports on the Boards' activities at each FRC meeting. The reports provided FRC Members with the opportunity to raise issues and question the Chairmen about the activities of the Boards at each meeting.

1.2.3. Broad strategic directions of the Boards

The FRC's functions include determining the broad strategic directions of the AASB and AUASB. The FRC has developed guidelines to be applied in the development of any strategic directions that are issued to the Boards (FRC website: Process for the Development and Issuing of Broad Strategic Directions by the FRC). The guidelines

envisage that, in developing and issuing new and revised strategic directions, the FRC will take into account:

- the Australian Government's stated policies and priorities;
- relevant international and domestic considerations impacting on the setting of accounting or auditing standards; and
- the public interest in the context of the Australian economy.

Since its establishment, the FRC has made three determinations concerning the broad strategic directions of the AASB and AUASB. These directions sought to achieve the following key outcomes:

- to require the AASB to work towards the adoption in Australia of accounting standards that are the same as those issued by the IASB, to ensure their applicability to Corporations Act entities for accounting periods beginning on or after 1 January 2005 (Direction approved 5 September 2002);
- to require the AASB to pursue as an urgent priority the harmonisation of Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting (Direction approved 12 December 2002); and
- to require the AUASB to develop Australian auditing standards that have a clear public interest focus and are of the highest quality and to use, as appropriate, International Standards on Auditing (ISAs) issued by the IAASB as a base from which to develop the Australian standards (ASAs) (Direction approved 4 April 2005).

Each of these directions is still current. At the December 2012 meeting the AASB indicated that it would propose to the FRC that it regard Phase 2 of the second strategic direction as having been met. Phase 2 included considering how GAAP GFS should be extended from the whole of government financial reports to individual entities within the general government sector. The FRC requested the Public Sector Taskforce to provide advice at the March 2013 meeting. At the FRC's March 2013 meeting the taskforce recommended that the FRC agree to the AASB proposal not to proceed with issuing a standard to implement the previously agreed Phase 2 of GAAP GFS harmonisation, given the likely costs and benefits of the measure. The recommendation was approved.

It was also agreed that the AASB would alert the FRC, through the Public Sector Taskforce, of AASB developments likely to be of significance to the public sector.

2. AUDIT QUALITY

2.1. INTRODUCTION

Following the passage of the *Corporations Legislation Amendment (Audit Enhancement) Act 2012* (Audit Enhancement Act) the FRC adopted a strategic advice role in relation to audit quality. This advice may include matters relating to the effectiveness of *Corporations Act 2001* (Corporations Act) provisions relevant to audit, the review processes undertaken by the professional bodies to ensure that auditor skills and processes remain at a high level and disciplinary processes undertaken to address any weaknesses in these areas. These three areas are addressed in this Chapter.

Audit contributes to and maintains confident and informed markets by enhancing the quality of financial reports. Under the Corporations Act, all disclosing entities, public companies (except some companies whose members' liability is limited by guarantee), large proprietary companies and registered schemes are required to prepare financial reports and have them audited. These audits must be conducted by auditors or audit companies registered by ASIC for that purpose.

Australia has comprehensive legislative and professional requirements concerning audit. The main legislative requirements are set out in the Corporations Act. ASIC is the key audit regulator under the Corporations Act and has responsibility for the surveillance, investigation and enforcement of the financial reporting requirements of the Corporations Act, including the enforcement of audit requirements. The Corporations Act also gives legal effect to the auditing standards developed by the AUASB. The professional accounting bodies set and enforce professional standards and are comprised of the Institute of Chartered Accountants in Australia (ICAA), CPA Australia and the Institute of Public Accountants (IPA). The auditing standards further require that auditors adhere to the relevant ethical standards as issued by the Accounting Professional and Ethical Standards Board (APESB).

The Audit Quality Taskforce was reconstituted as the Audit Quality Committee in late 2012 to reflect the ongoing importance of issues pertaining to audit quality, and the audit quality responsibilities assumed by the FRC following the passage of the Audit Enhancement Act. The Audit Quality Committee is tasked with assisting the FRC through facilitating engagement with stakeholder bodies, reviewing international developments related to audit quality and providing input on the strategic advice provided to the Minister in relation to the matters noted above.

2.2. THE QUALITY OF AUDIT

The FRC noted ASIC's disappointment with the results of the ASIC Audit Inspection Program Report 2011-12 (the ASIC Report) and welcomes the positive response from

audit firms in developing action plans to further enhance audit quality in Australia. The FRC will monitor the follow-up action undertaken by ASIC and the six largest accounting firms, who comprise PricewaterhouseCoopers, KPMG, Ernst & Young, Deloitte, Grant Thornton and BDO.

During 2012-13, the FRC noted the work undertaken by the professional accounting bodies to improve audit quality, such as the review of guidance and training programs designed to drive improvement in audit quality among their members. The FRC notes that the audit quality review programs conducted by these bodies appear to be operating effectively to identify areas for improvement although this will be tested during the ASIC review in 2013-14.

The FRC further supports the collaboration between the professional bodies to address audit quality issues. The Joint Accounting Bodies published the 4th edition of the *Independence Guide* in February 2013, which significantly re-wrote the existing *Auditor Independence Guide*. This guide provides comprehensive assistance to members of the Joint Accounting Bodies in public practice when dealing with auditor independence issues.

The FRC also monitored the adequacy of the teaching of ethics as it relates to audit quality by obtaining relevant information from the professional accounting bodies. Following a review of the information supplied, the FRC considers that the teaching of ethics by these bodies continues to be adequate.

2.2.1. Stakeholder engagement

The FRC and the Audit Quality Committee consulted widely with the audit profession during the year and sought information on audit quality matters from ASIC and the professional accounting bodies. The FRC also continued to review releases from the professional accounting bodies, accounting firms, international audit regulators and other stakeholders to further inform its audit quality role.

ASIC

ASIC reported that its activities during the year included working with other audit oversight regulators to encourage the largest global audit firms to improve audit quality internationally through the International Forum of Independent Audit Regulators. ASIC also liaised with the Australian standard setter, the AUASB, and internationally, both directly and through the International Organisation of Securities Commissions, with a view to continued improvements to international auditing and auditor independence standards.

ASIC has written to certain audit committee chairs in Australia suggesting that they ask their auditors for the findings from ASIC audit firm inspections relating to the audit of their companies. Audit committees can contribute to audit quality by ensuring that auditors receive reasonable fees to support quality audits, that auditors are fully

informed of risks that may impact on the audit, and that auditor independence is protected.

ICAA

The ICAA reported that audit quality remains a key priority and that insights into auditors' perceptions of audit quality are crucial to the continual improvement of audit. During 2013 the ICAA's activities in this regard included:

Thought leadership

- In depth analysis of research into the perceptions of partners and staff of the large firms of the key drivers of audit quality. The overall results were included in the publication *Preserving capital market confidence through audit quality*. Analysis of the data showed that auditors at all levels are aware of the importance and implications of professional scepticism to the quality of their work. Both auditor scepticism and communication were rated as the top skills needed for the audit profession. In May 2013 this research was extended to mid-tier firms, surveying over 1150 partners and staff across 74 offices. The ICAA is currently collating the responses of these surveys.
- Promotion of audit quality framework papers which highlight drivers of audit quality with practical guidance on how firms can focus their systems in these areas. *The benefit of audit: A guide to audit quality* addresses the importance of effective communication between the audit committee and the external auditor. The *Framework for managing audit quality sustainability* describes a process for managing a sustainable audit process.
- The release of the paper *Why business ethics matter* in May 2013, highlighting the importance of integrating ethical management into business practices and systems.
- Exploration of options to assist Australian auditors in the conduct of their work, including funding an academic study on how firms apply professional scepticism in an audit context.
- The release of a summary of the views and impacts being raised in the debates about mandatory audit firm rotation in *Mandatory Firm Rotation: Summary of Impacts* in June 2013.

Guidance and support

- Guidance covering quality control, risk management, independence, applying professional scepticism, issues arising from quality reviews in addition to regular newsletters, summaries and articles in *Charter* magazine on financial reporting, assurance and quality control.

- *Audit Conference* program under the theme 'Leading with Integrity' in New South Wales, Victoria, South Australia, Queensland and Western Australia. Also a *Public Practitioners Conference* program in the Hunter Valley, Gold Coast, Torquay and Sydney.

CPA Australia

CPA Australia reported that it identified audit quality and the need for constant improvement as being of utmost importance. During the year to 30 June 2013 CPA Australia's initiatives designed to improve audit quality included:

Thought leadership

- *A Guide to understanding auditing and assurance: listed companies* provides a simple, plain language explanation of audit for investors and other stakeholders and was released in February 2013. The July 2013 report of the Australian Parliamentary Joint Committee on Corporations and Financial Services found that the guide addresses some of the very important expectation gaps that have been highlighted in the wake of recent corporate collapses.
- Initiation of a research program with the Accounting and Finance Association of Australia and New Zealand (AFAANZ) on audit independence and market structure in the ASX listed company market for audit services. The preliminary findings of this research have been provided to the FRC and a final report is expected to be published in late 2013.
- CPA Australia was the major sponsor of and presented to the 2013 International Symposium on Audit Research held in Sydney. This is the premier international forum for research into audit quality.

Guidance and support

- Working closely with ASIC to determine the best means to address the findings of the ASIC Report, leading to the development of new and enhanced activities towards the focus area of professional scepticism. CPA Australia informed its members about the findings of the ASIC Report – including audit evidence, professional scepticism and the use of experts – and incorporated relevant resources into its training programs, quality review program, podcasts, articles and other content.
- Comprehensive upgrade and relaunch of the *Small Entities Audit Manual* in April 2013. This provides easy to access information and programs that facilitate quality audits and reviews that are important to a range of entities, including associations, companies limited by guarantee, self-managed superannuation funds and trust accounts.

2.2.2. International developments

The FRC tracks international developments to better evaluate the adequacy of Corporations Act provisions relating to the conduct of audit, the auditing standards and applicable codes of professional conduct. The FRC reviews general media reports about audit quality issues, as well as material from key overseas oversight and standard setting bodies and other regulatory agencies.

During 2012-13, the FRC has observed with interest a range of developments in Europe and North America that have implications for audit quality. The more significant of these developments include:

- The US PCAOB continued to host roundtables to consider auditor independence and auditor rotation issues with key stakeholders during 2012 and early 2013. The PCAOB also adopted Auditing Standard No. 16, *Communications with Audit Committees* in August 2012.
- In September and December 2012 CPAB released discussion papers for comment, *Enhancing Audit Quality – A Canadian Perspective*, in relation to auditor independence, auditor reporting and audit committees. These discussion papers were followed by the release in April 2013 of the *2012 Public Report on Inspections of the Quality of Audit* that identified the importance of consistent audit processes for high quality audits.
- In January 2013 the UK Financial Reporting Council (FRC-UK) released the *Sharman Implementation Consultation Paper*, seeking input on proposed guidance and amendments to the International Standards on Auditing (UK & Ireland). The consultation paper addressed recommendations made by the Sharman Panel of Inquiry on going concern and liquidity risks in June 2012. The FRC-UK also implemented a 'comply or explain' set of proposals in October 2012, including mandatory audit tendering for FTSE 350 companies every 10 years and comprehensive reporting from audit committees on their activities.
- The IAASB released *A Framework for Audit Quality* in January 2013 seeking feedback on its effectiveness in explaining the factors that contribute to audit quality. During the period, the IAASB also continued working on the auditor reporting project following the 2012 release of the IAASB Invitation to Comment *Improving the Auditor's Report*. Auditor reporting proposals are forecast to be issued as standards and implemented from 2015.
- In February 2013 the UK Competition Commission issued its *Provisional Findings Report* seeking stakeholder feedback on possible systemic risks relating to competition in the statutory audit market. Possible remedies identified in the Provisional Findings Report include mandatory tendering, mandatory audit firm rotation, expanded reporting requirements and the prohibition of 'Big-4 only'

clauses in loan documentation. The final report is expected to be published by October 2013.

- In April 2013 the legal affairs committee of the European Council (EC) voted in favour of proposed amendments including that audit firms be required to rotate after a maximum period of 14 years (and in specific circumstances 25 years). The European Parliamentary committee will now negotiate with members of the EC to agree on a final text for a bill to be voted on. The final legislation is not expected for a couple of years.
- In May 2013 the PCAOB released a briefing paper *Discussion – Audit Quality Indicators*. While their initial purpose was to seek input on possible audit quality indicators, they recognised the need to ground their discussion with a working definition of audit quality which they proposed as:
 - ‘meeting investors’ needs for independent and reliable audits and robust audit committee communications on: financial statements, including related disclosures; assurance about internal control; and going concern warnings’.

The FRC will maintain a watching brief on these developments to determine how best to respond in order to improve audit quality in Australia. During 2012-13 the Audit Quality Committee considered a number of international audit proposals and assisted with the preparation of FRC submissions in response to matters that were of particular importance.

- In 2012-13 the Audit Quality Taskforce developed a survey for the members of the ASA. The survey results reflected concern about the scope of auditor responsibilities and how retail shareholders interact with company information. The results of this survey were used to inform the FRC submission to the IAASB Invitation to Comment *Improving the Auditor’s Report*. The submission highlighted the FRC’s support for improvements in the communication of key audit information and the participation of the audit profession in the development of these initiatives. The submission further highlighted the importance of users understanding the role and responsibilities of audit. This submission contributed to the subsequent development of proposed revisions to international auditing standards related to the Auditor’s Report by the IAASB.
- In May 2013 the Audit Quality Committee responded to the IAASB Consultation Paper *A Framework for Audit Quality*. The submission firstly highlighted the FRC’s support for the development of a framework for audit quality and discussed the benefits of a working definition of audit quality. The FRC submission proposed a working definition of audit quality as ‘the likelihood of the audit achieving the fundamental objective of the audit which is to obtain reasonable assurance that material misstatements in the overall financial report are detected, and addressed or communicated to relevant stakeholders’ and responded to the consultation paper with this working definition in mind. Like the PCAOB, the FRC recognised

the need for a working definition of audit quality that includes mention of its purpose so measurement can be more readily agreed. The submission also supported the acknowledgement that improving audit quality relies upon all participants in the financial reporting supply chain.

- The FRC's opinion was also sought by CPAB in response to the release of discussion papers on audit quality in Canada in late 2012. The FRC submission paid particular attention to the importance of a generally accepted definition of audit quality and the respective roles of the auditor, management and audit committee. The submission further highlighted the commonalities between the Canadian and Australian approaches to audit oversight.

2.3. REVIEW PROCESSES

Australia runs a co-regulatory regime with ASIC and the professional bodies cooperating on the implementation of their review processes. For example, the ICAA and CPA Australia accept each other's quality review programs for the purposes of member compliance oversight.

2.3.1. ASIC Audit Inspection Program

The ASIC Report covers findings from inspections of 20 Australian audit firms substantially undertaken in the period between 1 January 2011 and 30 June 2012. The inspections focussed on audit engagement file reviews covering aspects of the audits of financial reports with 2010 or 2011 year-ends, and the audit firms' quality control systems. The next Report will cover the period from 1 July 2012 to 31 December 2013.

ASIC briefed the FRC on the key findings from the ASIC Report at the FRC's December 2012 meeting. The focus of the briefing was on how ASIC and the audit profession could best address the findings with an emphasis on the importance for audit firms of their primary responsibility for audit quality.

ASIC informed the FRC that they considered the findings 'disappointing' as they indicated that there had been no improvement in the findings from the previous 18-month inspection period, with an increase in instances where ASIC considered that auditors did not perform all of the work necessary to obtain reasonable assurance that the audited financial statements were not materially misstated. Three broad areas were specifically identified as requiring improvement by audit firms:

- the sufficiency and appropriateness of audit evidence obtained by the auditor;
- the level of professional scepticism exercised by auditors; and
- the extent of reliance placed on the work of other auditors and experts.

The ASIC Report proposed that audit firms should renew efforts to improve audit quality and the consistency of audit execution.

Following the release of the ASIC Report, ASIC asked the six largest audit firms to prepare action plans to address these matters. ASIC asked the audit firms to focus on improving the consistency of the execution of audits and to address the three broad areas requiring improvement identified in the ASIC Report. The action plans focussed on:

- the culture of the firm, including messages from firm leadership focusing on audit quality and consultation on complex audit issues;
- the experience and expertise of partners and staff, including increased and better use of experts;
- supervision and review, including greater partner involvement in working with audit teams in the planning and execution of audits, and new or increased real time quality reviews of engagements; and
- accountability, including impacts on remuneration of engagement partners and review partners for poor audit quality, often extending the responses to firm leadership.

The FRC notes that ASIC welcomed the response of the six largest audit firms. ASIC acknowledged that each firm had developed a genuine and comprehensive action plan to improve audit quality and had taken full ownership for the timely implementation of the plan and monitoring its effectiveness.

The audit firms will generally implement key aspects of the action plans for audits for the year ending 30 June 2013. The audit firms have been asked to monitor the implementation and effectiveness of the action plans, with ASIC to review the results of each firm's monitoring of initial progress in early 2014.

2.3.2. ICAA Quality Review Program

ICAA members who hold a Certificate of Public Practice (CPP) are required to undergo the Quality Review Program (the Program) in accordance with the policies and procedures governing the operation of the Program. This includes those members who provide audit services, including registered company and Self-Managed Superannuation Fund (SMSF) auditors.

The ICAA has informed the FRC that the Program seeks to assess whether practitioner members have implemented appropriate quality control policies and procedures in their accounting practices. The ICAA works in three key ways to promote continuous improvement:

- working closely with individual practices to remediate their policies and procedures, where these policies and procedures are not appropriate, to maintain compliance with standards and legal requirements;
- analysing review results in detail to direct Institute resources and services where they are most needed; and
- using the results and issues arising from the Program to inform advocacy with regulators and standard setters.

Practices with significant non-compliance issues are re-reviewed within one year. Practices that sign off on audits requiring registered company auditor (RCA) registration are reviewed at least once every three years. All other practices are reviewed at least once every five years.

During 2012-2013, 80 per cent of the practices reviewed were reported to have either met all of the professional standards and regulatory requirements as set by standard setters and regulators or showed levels of non-compliance that were not significant. This compares with 76 per cent of practices in the 2011-12 financial year.

For those practices showing a level of non-compliance that was not significant, the ICAA requires the practice to confirm in writing that the issues identified during the review have been addressed. The remaining practices are required to develop an action plan within two months outlining how they will address the identified issues, and to undergo a follow-up review within 12 months. Where an action plan is not provided or adequately implemented at the time of the follow-up review, a practice may be referred for investigation by the ICAA's Professional Conduct team.

These results came from the review of audit engagements files constituting audits of a range of entities, summarised as follows: listed entity (3 per cent), Corporations Act, excluding listed entities (30 per cent), SMSF (39 per cent) and non-Corporations Act/SMSF (28 per cent).

The ICAA further informed the FRC that there has been an increase in non-compliance (not systemic) with individual aspects of requirements mostly in relation to practices continuing to adapt their policies and procedures to the new requirements of the Clarity standards. These practices are required to confirm in writing that the issues identified have been addressed.

The ICAA is also enhancing its review approach for very small practices that conduct audit engagements to enhance audit quality at the smallest end of the profession.

These practices will be subject to a more comprehensive review approach. This initiative is part of the overall objective of enhancing audit quality at all levels, regardless of practice size.

2.3.3. CPA Australia Quality Review Program

CPA members who hold a public practice certificate are subject to a Quality Review (QR) Program by CPA Australia.

CPA Australia's QR program adopts a cyclical, risk assessment approach to selecting members for review. Member selection is defined by the following criteria:

- Public Practice Certificate (PPC) holders who are either a RCA or SMSF auditor are subject to review every three years;
- all other members are reviewed on a four, three or one year cycle based on the outcome of their last review.
 - members who receive a qualified report (assurance report) are reviewed after three years instead of four years; and
 - members who are subject to further review (follow-up report) due to non-compliance issues are reviewed the following year.

For the year to 30 June 2013 the results of the QR Program were:

- 27.5 per cent Accept Reports with no departure from professional standards identified;
- 50.4 per cent Assurance Reports with minor departures from professional standards identified; and
- 22.1 per cent Follow-Up Review Reports where multiple departures from professional standards reported a breach of an audit standard identified. Any breach of an audit standard results in an automatic follow-up review the following year. Where breaches fail to be addressed, CPA Australia then treats the matter as a Professional Conduct matter and may pursue disciplinary options.

The majority of all auditing breaches identified by the QR Program related to audits of SMSFs and Queensland Building Services Authority (QBSA) review engagements. Education has been provided to members about the importance of perceived and actual independence, particularly with the compilation and audit engagements for SMSF and QBSA review engagements.

In the current review period (the 2013 calendar year) over 850 members are expected to complete a Quality Assurance review and 199 follow-up reviews are expected to be completed.

2.3.4. IPA Quality Review Program

The IPA has informed the FRC that it requires all members who are issued with a Professional Practice Certificate to undertake a Public Practice Quality Assurance Review (PPQA) every three to five years. Members who are Australian auditors must be reviewed every three years.

The IPA undertakes a review of around 500 members in public practice every year. For the year to 30 June 2013, all reviews were conducted using an online data collection program in relation to member practice and their client base. Reviews are still undertaken in a face to face situation and members must provide proof of their compliance with professional and ethical requirements of the IPA.

Due to the small number of IPA members who are RCAs, only one of the members reviewed was an RCA. There were no deficiencies discovered in the review of this member and the member was not required to undertake any additional action as a result of the review.

2.4. DISCIPLINARY PROCEDURES

In undertaking its role in providing strategic advice on audit quality, the FRC reviews disciplinary procedures. For this purpose, ASIC and the professional bodies provided the FRC with relevant information on their disciplinary procedures for 2012-13. The FRC acknowledges and notes the work that is being completed by these bodies and will continue to assess the extent to which these procedures may impact upon audit quality.

Of particular relevance to the FRC's audit quality role, during the year to 30 June 2013 ASIC obtained enforceable undertakings in relation to the audits of Centro Properties and Centro Retail, ABC Learning Centres and Citigold Corporation. The penalties included undertaking not to practice as an RCA for a specified period of time and deregistration as an RCA. ASIC has made arrangements to pass draft Statements of Facts and Contentions concerning members of the ICAA and CPA Australia to those bodies to enable them to take appropriate disciplinary action.

3. MONITORING AND INFLUENCING AUSTRALIAN DEVELOPMENTS

3.1. INTRODUCTION

In addition to providing broad oversight of the processes for setting accounting and auditing standards and strategic advice on the quality of audits conducted by Australian auditors, the FRC is also charged with:

- establishing appropriate consultative mechanisms; and
- promoting the main objects of Part 12 of the ASIC Act.

The objects of Part 12 of the Act are broadly to facilitate the development of high quality accounting standards and auditing and assurance standards and related guidance materials in order to facilitate the Australian economy and to maintain investor confidence in the Australian economy.

3.2. DOMESTIC STAKEHOLDER ENGAGEMENT

To meet its statutory responsibilities the FRC seeks views from a broad range of stakeholders, including users, preparers and auditors of financial reports. Among the stakeholders are the Commonwealth, State and Territory governments, standard setters and industry regulators, as well as professional accounting, business and investor bodies. Key stakeholder bodies are represented on the FRC as members.

Over the past year, the FRC has engaged with domestic stakeholders through a variety of means, including:

- regular meetings and other involvement with stakeholders and interest groups;
- consideration of financial reporting issues in the public and private sectors; and
- consultation with stakeholders on key strategic issues through the work of the FRC Taskforces and Committees and targeted stakeholder surveys.

The FRC Chairman has also regularly met with key stakeholders to discuss financial reporting matters of general interest, obtain feedback on the work of the FRC, explain the activities of the FRC, and discuss matters of particular interest to the stakeholder. In addition she has attended a number of public fora where issues of relevance to the FRC have been discussed.

In November 2012 the FRC Chairman and members of the Secretariat met the then Parliamentary Secretary to the Treasurer, the Hon. Bernie Ripoll, MP. The Chairman also had meetings with a number of Treasury officials. In November 2012 she also met the Chairmen of the AASB (Kevin Stevenson), AUASB (Merran Kelsall) and ASIC (Greg Medcraft).

The FRC Chairman and Secretary met the then Parliamentary Secretary to the Treasurer again, in March 2013. At this time, the FRC Chairman also met with officials at the Treasury and the Department of Finance and Deregulation to discuss a variety of FRC issues, including the FRC budget and Strategic Plan.

The FRC Chairman met a variety of individual stakeholders during the period, including Ms Jan McCahey of PricewaterhouseCoopers (PwC), Mr Warren McGregor (AASB), Ms Africa Zanella (Global Reporting Initiative), Ms Liz Prescott (IIRC), Ian Curry (ASA), stakeholders from the Australian Council of Superannuation Investors, Business Council of Australia, Group of 100 (G100), Ms Nicola Steele from the Australian Institute of Company Directors (AICD) and Mr Doug Niven of ASIC.

She also attended a meeting with the Australian Public Policy Committee (APPC) on 6 March 2013 in conjunction with Michael Coleman, Chairman of the FRC Audit Quality Committee and Erin Flynn, Committee Secretary. At the meeting it was agreed that the APPC would work with the Audit Quality Committee to discuss key audit issues.

The Parliamentary Joint Committee on Corporations and Financial Services (PJC) held an ASIC Oversight hearing on the morning of 15 March 2013 on audit issues that was attended by the FRC Chairman and Mr Jim Murphy on behalf of the FRC, and Mr Bruce Paine on behalf of the FRC Secretariat. Ms Merran Kelsall attended in her role as Chairman of the AUASB. Ms Liz Stamford of the ICAA also attended the same session. ASIC Commissioners attended a subsequent hearing. In her statement to the PJC, the FRC Chairman set out the current responsibilities of various parties with respect to financial reports, including directors, auditors, ASIC, the AUASB and the FRC, as set out in the Corporations Act. She also discussed the FRC's revised responsibilities under the *Audit Enhancement Act*, and the establishment of the FRC Audit Quality Committee to advise the FRC on meeting these revised responsibilities.

In May 2013 the FRC Chairman participated on a panel at the annual G100 National Congress in Sydney, which focused on effective corporate reporting.

3.3. STRATEGIC ACTIVITIES

In 2012-13 the FRC continued the work it had identified in its 2011-2014 Strategic Plan. The 2011-2014 Strategic Plan identified a number of priority projects for which the FRC intended to take a thought leadership role, including in relation to integrated reporting, managing complexity in financial reporting, promoting board understanding of financial reporting and public sector financial reporting. The work of

the FRC in each of these areas during 2012-2013 is discussed in the subsequent sub-sections.

During the period the FRC also reviewed the 2011-2014 Strategic Plan. The Strategic Plan was updated in light of the June 2012 changes to the ASIC Act, which considerably revised the FRC's functions in relation to audit quality. The review also identified the strengths and weaknesses of, and opportunities and threats facing, the financial reporting system in Australia today. Following these considerations, in June 2013 the FRC adopted the 2013-2016 Strategic Plan, a copy of which is available as Appendix A (FRC website: FRC Strategic Plan 2013-2016).

The new strategic plan concludes that, while the financial reporting system held up well during the GFC, the financial reporting environment has become more complex. The reasons for this included extensive disclosure requirements and legislative initiatives flowing from concerns about business failures and sovereign debt problems during the GFC, which had underlined the importance of financial reporting and auditing standards, audit quality and related matters for governments and international bodies. The complexity and length of financial reports is a weakness of the system and may mean that the system is not appropriately meeting the needs of investors and other stakeholders.

The review also revealed a number of ongoing and emerging issues that needed to be monitored, including a loss of momentum towards a single set of international standards if the US decides not to adopt IFRS, the trend towards uniform regulation internationally which could lead to inappropriate regulation of the audit profession globally, and additional reporting requirements (for example, on Corporate Social Responsibility (CSR) or Environmental, Social and Governance (ESG) matters) that could further increase the complexity of financial reports.

A number of the existing taskforces monitor these issues. In addition, during 2012-2013 the FRC established the Financial Report Taskforce.

3.3.1. Strategic plan

During 2012-13 the FRC approved the establishment of a Strategic Plan Committee, primarily to undertake the review of the FRC Strategic Plan. The Committee has also considered other high level matters that do not fall within the purview of other Committees and taskforces, such as a review of the Memoranda of Understanding with stakeholder bodies, the FRC Performance of Functions document and FRC proposals to the G20 for 2014.

3.3.2. Public sector financial reporting

The Public Sector Taskforce has played an important role in consulting with domestic stakeholders on whether the FRC Strategic Direction relating to public sector accounting (harmonisation of GFS and GAAP reporting) is working successfully in

2012-13, and in providing advice to the FRC on the AASB proposal on phase 2 of this Strategic Direction. Given the ongoing nature of this role, the taskforce was relabelled as a Committee during 2012-13.

In addition the Public Sector Committee has produced a number of other valuable outputs:

- a package of documents on the Australian public sector financial reporting system (FRC website: Public Sector Financial Reporting in Australia), to assist in explaining this system and promoting the characteristics of good public sector financial reporting systems more broadly;
- a submission in July 2012 to the International Federation of Accountants' (IFAC) Public Interest Oversight Board/Monitoring Group public consultation to the Monitoring Group Review and Public Interest Oversight Board Work Program suggesting ways forward on governance, funding and the International Public Sector Accounting Standards Board (IPSASB); and
- input to the Monitoring Group on the governance of public sector accounting standards in January 2013.

The Public Sector Committee plans to meet once a year in order to undertake an environmental scan of upcoming issues that will impact on public sector reporting and governance, in order to provide input through the FRC to the AASB's planning process.

3.3.3. Financial reporting

The Financial Report Taskforce was established in February 2013 to follow up on the first recommendation of the Managing Complexity Taskforce report. The key objective of the Taskforce is to provide policy advice to the Financial Reporting Council (FRC):

- examining how the current financial reporting regimes for the various types of reporting entities in Australia can best be understood and, if needed, make recommendations regarding rationalisation of the regimes.

3.3.4. Integrated reporting

While much of the focus on integrated reporting is global in nature, following the work of the IIRC, the FRC's Integrated Reporting Taskforce has consulted broadly with domestic stakeholders regarding the development of integrated reporting. In particular the Taskforce and other FRC members have worked with, and held discussions with: the Minister; other relevant accounting and auditing stakeholders; and other bodies in this space including the Business Reporting Leaders Forum and the Global Reporting Initiative. The Taskforce issued *What do we mean by the term*

'Financial Reporting', especially in relation to Integrated Reporting? an explanatory paper incorporating comments made by the IIRC in February 2013.

The IIRC released the *Consultative draft of the International IR Framework* on 16 April 2013, for a three-month consultation period.

3.3.5. Managing complexity

As part of the FRC's 2011-14 Strategic Plan, the Managing Complexity Taskforce was established to review the issue of complexity in financial reporting – in particular the sources of complexity in reporting, and possible ways to manage this complexity. In May 2012 the taskforce released a report on the outcomes of the review and inviting submissions. Fifteen submissions from key stakeholders were received, and the taskforce then considered the comments received. On 3 October 2012 the taskforce issued its final report (FRC website: *Managing Complexity in Financial Reporting*) outlining the findings drawn from the submissions.

While the taskforce concluded its work with the report, the FRC has been assiduously following the implementation of its recommendations. These outcomes have been collated in Appendix D, and are also available on the FRC website.

3.3.6. Promoting board education

As part of the FRC's 2011-14 Strategic Plan, the Board Education Taskforce was established to consider the issue of board understanding of financial reporting. In September 2012, the Board Education Taskforce published the findings of its survey of directors and financial reporting professionals (FRC website: *Results of Survey on the Financial Literacy of Australian Directors*). The survey, ably conducted by the ASX, was designed to identify whether there were any issues in terms of the financial literacy of directors in Australia and, if so, how to address them.

The follow up actions for the survey's findings were consolidated and discussed at the meeting of the FRC on 13 June 2013. These actions are collated in Appendix E (FRC website: *Financial Literacy of Australian Directors*).

4. MONITORING AND INFLUENCING INTERNATIONAL DEVELOPMENTS

4.1. INTRODUCTION

The ASIC Act confers on the FRC specific functions associated with the development of international standards:

- monitoring the development of international accounting and auditing standards as well as the accounting and auditing standards that apply in major international financial centres; and
- furthering the development of single sets of accounting and auditing standards for world-wide use with appropriate regard to international developments.

In addition the FRC has been highly cognisant of the call by the G20, from the Action Plan of 2008 (and subsequent years) that 'the key global accounting standards bodies should work intensively toward the objective of creating a single high-quality global standard'.

4.2. STAKEHOLDER ENGAGEMENT

During 2012-13 key engagements with the international standard setter community have included:

- attendance by the Chairman Lynn Wood, and separately the Chairman of the AASB and AOSSG, Kevin Stevenson, at the IFRS Regional Policy Forum, Hong Kong, 5-6 June 2013;
- meetings with Mervyn King and Paul Druckman of the IIRC, including a presentation to the FRC on 5 December 2012;
- a visit to London and Brussels, by FRC Chairman and Secretary, 8-12 October 2012, including attendance at the IFRS Trustees meeting; and
- meetings with Mr Ian Mackintosh, Vice Chairman, IASB, including a presentation to the FRC on 28 August 2012.

Details of the various international meetings, and meetings attended as part of the cross-appointment arrangements with New Zealand, are included later in this chapter.

4.3. MONITORING AND INFLUENCING GLOBAL STANDARDS

In accordance with its governing legislation, the FRC seeks to support and further the adoption of a single set of global financial reporting standards. The only internationally accepted set of accounting standards are IFRS issued by the IASB for use in the preparation of general purpose financial statements. IFRS have been adopted by over 100 countries around the world, including all the members of the European Union (EU) and increasing numbers of countries in the Asia-Oceania region. Australia was one of the earliest adopters of IFRS, which have had force of law under the Corporations Act since 2005. The Australian Government, through the FRC, provided financial support to the work of the IASB through a grant of \$1 million to the IFRS Foundation in the period covered by this report. A number of Australia's important G20 partners, notably the United States and Japan, still use their own individual national level accounting standards.

Australia also uses the IAASB's ISAs as the basis for ASAs. Over 90 jurisdictions now use, or are committed to using in the near future, the IAASB's ISAs, including the following jurisdictions in our region: China; Hong Kong; India; Indonesia; Japan; Malaysia; New Zealand; Philippines; Singapore; Republic of Korea; and Thailand.

The FRC Chairman and Secretary visited London and Brussels in the week 8-12 October 2012. Key themes of the meetings held include:

- Audit regulation – there was a widespread view that regulation of the audit market would be tightened, including in the United States. Few were concerned with international cooperation and coordination, except within the EU.
- IFRS convergence – it was expected that the process of convergence between IFRS and US GAAP would gradually wind up in 2013, and that it would probably be finalised with less than complete convergence on the key projects of: leases; revenue recognition; financial instruments, including classification and measurement; impairment methodology and hedge accounting. It was not expected that decision makers would be able to come to a decision regarding the adoption of IFRS by the United States in the near future.
- Public sector financial reporting – Eurostat, the EU's statistical agency, was leading a process attempting to arrive at common standards for public sector financial reporting in the EU. The FRC's material setting out Australia's model and advocating principles for high quality public sector financial reporting was seen as useful.

4.4. MONITORING AND INFLUENCING REGIONAL STANDARDS

4.4.1. IFRS Regional Policy Forum

The 2013 IFRS Regional Policy Forum was hosted by Hong Kong, and attended by the FRC Chairman. Delegates from 16 regional jurisdictions participated. Participants discussed different IFRS convergence approaches to assist economies planning to adopt or converge with IFRS.

Among key outcomes, participants reaffirmed their commitment to acceleration of convergence with, and adoption of, IFRS as a set of high-quality global financial reporting standards in the Asia-Oceania region, no matter which convergence approach is taken. Participants also agreed that standard setters should strengthen cooperation with the relevant regulators to promote consistent implementation of financial reporting standards.

The IASB Chairman Hans Hoogervorst reflected on the status of IFRS work, including:

- that IFRS is the only accounting standard that countries consider adopting for their domestic financial reporting regimes in preference to individual national GAAP;
- the reasons for the high regard of IFRS – strong governance arrangements, high quality of the standards produced, public transparency and accountability, and a focus on the technical excellence of ‘neutral’ standards (that is descriptive rather than shaping economic reality); and
- some remaining challenges:
 - supporting the transition by major economies to IFRS (Japan was mentioned, with the recent establishment of an IFRS regional office in Tokyo reflecting this focus); and
 - protecting hard-fought gains and resisting calls to allow deviations by individual jurisdictions from published standards.

4.4.2. Asian-Oceanian Standard Setters Group (AOSSG)

AOSSG was established in 2009 as a forum to:

- promote the adoption of, and convergence with, IFRSs by jurisdictions in the region;
- promote consistent application of IFRSs by jurisdictions in the region;
- coordinate input from the region to the technical activities of the IASB; and

- cooperate with governments and regulators and other regional and international organisations to improve the quality of financial reporting in the region.

The current AOSSG Chairman, Kevin Stevenson, also the Chairman of the AASB, is an FRC member. In March 2013 it was announced that the AOSSG, along with its members: the Accounting Standards Board of Japan (ASBJ); the AASB; and the Chinese Accounting Standards Committee have been selected to serve on the IASB's new ASAF.

The AOSSG is focussing on two key priorities:

- deliberating on the four core IASB projects – leases, revenue, insurance and financial instruments; and
- mobilising the relevant AOSSG working groups to provide input from AOSSG members on potential IASB decisions on core topics. The output of these working groups has effectively raised the capacity of the AASB.

The AOSSG is also piloting a *Centre of Excellence for IFRS in Developing Countries* in Nepal, and this initiative has drawn keen interest from the IASB and World Bank.

As a result the AOSSG has been very active in 2012-13 in making submissions to the IASB on a variety of exposure drafts, and has rapidly become one of the key recognisable regional groupings of standard setters, lending greater weight to the views of the region.

4.5. TRANS-TASMAN HARMONISATION

4.5.1. New financial reporting framework

In New Zealand the XRB structure contains three entities, the Board of the XRB and two standard setting boards, the New Zealand Accounting Standards Board (NZASB) and the New Zealand Auditing and Assurance Standards Board (NZAuASB). The FRC Chairman is a member of the XRB as part of the arrangement for cross-appointments between Australia and New Zealand. The Chairman of the XRB, Mr Kevin Simpkins is a long-standing member of the FRC. During 2012-13 the FRC Chairman dialled into five XRB meetings, and she attended, with Bruce Paine of the FRC Secretariat, the XRB Strategy Day.

4.5.2. Trans-Tasman Accounting and Auditing Standards Advisory Group (TTAASAG)

Successive FRC Chairmen have been members of TTAASAG, which was established in 2004 to advise the Australian and New Zealand Governments and accounting and auditing standard setters on ways to reduce costs and improve efficiency by aiming for

single sets of accounting and auditing standards to apply in both jurisdictions. TTAASAG also seeks to maximise the influence of Australia and New Zealand in the development of international accounting standards and international auditing and assurance standards, including the international standard setting processes supporting the development of those standards.

4.5.3. Cross-memberships with New Zealand bodies

Following its establishment, TTAASAG proposed that cross-memberships between relevant standard setting and oversight bodies of Australia and New Zealand would be a desirable step in the process of reducing costs and improving efficiency of businesses operating in both jurisdictions. A recent review of the role of cross-appointees conducted by TTAASAG concluded that they are contributing to the standard setting process by facilitating cooperation and communication.

4.6. KEY INTERNATIONAL MEETINGS

The following table sets out key meetings of the FRC Chairman with international interlocutors in 2012-13.

FRC Chairman		
Date	Location	Meeting/Event
20 June 2012	Wellington	New Zealand XRB
15 August 2012	Teleconference	New Zealand XRB
27 August 2012	Sydney	Ian Mackintosh, Vice Chairman IASB
2 October 2012	Melbourne	Address by Professor Arnold Schilder (IAASB) on Directions on Auditing and Assurance
3 October 2012	Sydney	AUASB Auditor Reporting Roundtables
8 October 2012	London*	UK FRC, Stephen Haddrill Institute of Chartered Accountants England and Wales UK Treasury
9 October 2012	London*	International Accounting Standards Board, Ian Mackintosh PWC UK
9 October 2012	Brussels*	European Commission

FRC Chairman		
Date	Location	Meeting/Event
11 October 2012	Brussels*	IFRS Trustees Nomination Committee Federation of European Accountants Australian Embassy to Belgium and Luxembourg EFRAG joint conference
12 October 2012	Brussels*	IFRS Foundation, promoting IFRS in North America IFRS Trustees Meeting European Commission
15 November 2012	Sydney	Paul Druckman, CEO of IIRC
21 November 2012	New Zealand	NZ Joint Strategy Discussion Day (with Bruce Paine, FRC Secretariat)
22 November 2012	New Zealand	Jane Diplock, IIRC Board member
11 December 2012	Teleconference	TTAASAG meeting
13 February 2013	Teleconference	XRB meeting
15 February 2013	Sydney	Ian Mackintosh, IASB
6 March 2013	Teleconference	Meeting with M. Jérôme Haas, Chairman of Autorité des Normes Comptables (France)
21 March 2013	Sydney	AUASB Audit Quality Roundtable Meeting with Helen Brand, Global CEO ACCA re global developments in integrated reporting and the changing role of accountants
23 April 2013	Teleconference	XRB meeting
21 May 2013	Sydney	Meeting — Charles Macek, Vice Chairman, IFRS Advisory Council
27 May 2013	Sydney	Meeting with Mervyn King, Paul Druckman, Liz Prescott (IIRC) with FRC Integrated Reporting Taskforce Chairman, Roger

Monitoring and influencing international developments

FRC Chairman		
Date	Location	Meeting/Event
		Burrows
5-6 June 2013	Hong Kong	IFRS Regional Policy Forum

* with FRC Secretary

FRC Secretary		
Date	Location	Meeting/Event
19 February 2013	Canberra	Meeting Professor Andreas Bergmann, Chairman IPSASB; Mr Paul Sutcliffe, IFAC staff; and Mr Tim Youngberry, IPSASB with FRC Secretary, Mr Bruce Paine and Australian Treasury staff
3 May 2013	Canberra	Meeting Ms Beth Brooke, Ms Felice Friedman and Mr Tony Smith (Ernst & Young) with Jim Murphy, David Woods

5. GOVERNANCE AND ADMINISTRATION

5.1. ESTABLISHMENT, FUNCTIONS AND POWERS

The FRC is the peak body responsible for overseeing the effectiveness of the financial reporting framework in Australia. Its key functions include the oversight of the accounting and auditing standard setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the Minister on these and related matters to the extent that they affect the financial reporting framework in Australia.

The FRC monitors the development of international accounting and auditing standards, works to promote the development of a single set of accounting and auditing standards for worldwide use and promotes the adoption of these standards.

The FRC operates within a framework set out in Part 12 of the ASIC Act. The ASIC Act sets out core objectives for accounting and auditing standard setting in Australia:

- Accounting standards should facilitate the Australian economy by reducing the cost of capital and enabling Australian entities to compete effectively overseas, and should maintain investor confidence in the Australian economy, including its capital markets.
- Accounting and auditing standards should facilitate the Australian economy by being clearly stated and easy to understand.

The ASIC Act expressly limits the FRC's ability to become involved in the technical deliberations of the AASB and AUASB. In particular, it provides that the FRC does not have power to direct the AASB or AUASB in relation to the development, or making, of a particular standard, or to veto a standard formulated or recommended by the AASB or AUASB. This provision is designed to ensure the independence of the standard setters.

5.2. MEMBERSHIP AND MEETINGS

Under section 235A of the ASIC Act, the members of the FRC are appointed by the Minister on a part-time basis and hold office on terms and conditions determined by the Minister. Most members of the FRC have been appointed on the basis of nominations put forward by key stakeholder groups.

As at 30 June 2013, the FRC had 18 members. During 2012-13, two members left the FRC and one new member was appointed. A full list of members during 2012-13, and the stakeholders who nominated them, is in Appendix B.

Four meetings of the FRC were held during 2012-13.

5.3. CONSULTANTS

During 2012-13, no consultants were engaged to perform work on behalf of the FRC.

5.4. COMMUNICATION AND CONSULTATION

The FRC uses its internet website (see www.frc.gov.au) and meetings with stakeholders and other interest groups as its primary means of communication and consultation.

Following each FRC meeting, information about the decisions taken at the meeting is placed on the FRC's website. The FRC's website also includes information about the FRC's members, minutes of past FRC meetings, reports published by the FRC and its procedural rules.

5.5. FINANCES

In 2012-13, the Australian Government provided funding through the Treasury for the purposes of the FRC. As the FRC's Secretariat is provided by staff of the Treasury's Markets Group, expenditures in connection with the FRC and the performance of its functions are included in the Treasury's annual financial statements.

Particulars of the funding for the AASB and AUASB (including the sources of that funding) are included in the separate reports of the AASB and AUASB.

5.6. FREEDOM OF INFORMATION

Since 1 May 2011, agencies subject to the *Freedom of Information Act 1982* (FOI Act) have been required to publish information to the public as part of the Information Publication Scheme. This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report. All information published by the FRC can be accessed from links on the home page of the FRC's website.

The FRC did not receive any applications for access to documents under the FOI Act during 2012-13.

5.7. REGULATORY IMPACT STATEMENTS

The FRC did not submit any Regulatory Impact Statements in 2012-13.

APPENDIX A — FINANCIAL REPORTING COUNCIL (FRC) STRATEGIC PLAN 2013-2016

1. FRC'S OBJECTIVES

The FRC is the key external advisor to the Australian Government on the financial reporting system.

In summary, its functions are to provide broad oversight of the processes for setting accounting and auditing standards for the public and private sectors, to provide strategic advice on the quality of audits conducted by Australian auditors, and to advise the Minister, and in some areas the professional accounting bodies, on these and related matters to the extent that they affect the financial reporting system in Australia.

The FRC is a statutory body under Part 12 of the *Australian Securities and Investments Commission Act 2001* (the Act), which specifies the FRC's functions and powers. The FRC's functions are reflected in Division 1 Subdivision A of Part 12 of the Act.

The FRC's objectives are to support the Act's objects outlined in Part 12 of the Act, to fulfill its functions effectively and efficiently and to provide timely and relevant advice to the Minister.

The objects of Part 12 of the Act are broadly to facilitate the development of high quality accounting standards that require the provision of financial information and the development of auditing and assurance standards and related guidance materials in order to facilitate the Australian economy and to maintain investor confidence in the Australian economy, including its capital markets.

2. FRC'S STRATEGY

To meet its objectives the FRC seeks views from a broad range of stakeholders, including users, preparers and auditors of financial reports. Among the stakeholders are the Commonwealth, State and Territory governments, standard setters and industry regulators, as well as professional accounting, business and investor bodies. Key stakeholder bodies are represented on the FRC as Members.

In addition, the Australian and New Zealand governments have established cross-appointment arrangements to promote closer economic relationships between the two countries. The FRC accordingly has a New Zealand representative as one of its

Members. The FRC welcomes input from stakeholders, including on emerging issues, to assist it in carrying out its functions.

The FRC's Members are expected to make a significant, multi-faceted contribution to the FRC, and not to just represent the views of a particular stakeholder.

The FRC systematically addresses its statutory obligations and reports on its performance annually. In doing so, it monitors and promotes the Australian Accounting Standards Board (AASB) and Australian Auditing and Assurance Standards Board (AUASB), and it carefully monitors local and international developments and assesses their importance and relevance to Australia. It seeks to influence international accounting and auditing developments by promoting suitably qualified Australians to be appointed to relevant international boards as well as providing submissions to relevant international invitations to comment (link to submissions part of website).

The FRC establishes Taskforces and standing Committees to advise it on specific areas of interest, and these may include non-FRC members with relevant expertise.

3. ENVIRONMENTAL SCAN

General economic conditions and trends, as well as developments related to financial reporting and auditing, in Australia and overseas contribute to the environment in which the FRC undertakes its role.

Key environmental factors include:

General

Global economic growth and financial market conditions – compared to pre-GFC conditions, economic growth is lower, financial markets are much more cognisant of risk, and in many jurisdictions public sector debt is higher.

The increasing interconnectedness of the global economy, including financial markets.

The explosion of information available via the internet, and the ease with which stakeholders' views can be disseminated and contested often within a very short period.

The continuing shift in economic power from western economies to major developing countries (for example, China and India), some of which may not have as developed a framework for financial reporting.

The expected increase in the stock of financial assets in Australia through superannuation savings, placing greater focus on the corporate governance and reporting standards applicable to superannuation funds.

The constrained resources available to business and government (including the FRC).

The Financial Reporting System

The GFC has underlined for governments and international bodies such as the G20 and the Financial Stability Board the importance of financial reporting and auditing standards, audit quality, and related matters. Sovereign debt induced crises have demonstrated that such importance cannot be confined to the private sector.

Australia adopted International Financial Reporting Standards (IFRS) in 2005 and has since been actively promoting IFRS as the preferred global reporting standard as issued by the International Accounting Standards Board. It has also played a leading role in promoting public sector and not-for-profit reporting based on IFRS. Australia's auditing standards are based on the international standards issued by the International Auditing and Assurance Standards Board.

The financial reporting environment in Australia and elsewhere has become more complex, including as a result of legislative initiatives flowing from concerns about business failures during the GFC and sovereign debt problems.

4. SWOT ANALYSIS — FINANCIAL REPORTING SYSTEM

The strengths and weaknesses of, and opportunities and threats (SWOT) facing, the financial reporting system in Australia, also contribute to the environment in which the FRC undertakes its role.

Strengths

Forms part of a system of globalised standards, reflecting international best practice.

Held up well during the Global Financial Crisis (GFC).

Has assisted Australian corporations in accessing global financial markets.

Australia and New Zealand play a leading role in the development of public sector financial reporting.

Weaknesses

Complexity and length of financial reports, due to a variety of reasons including extensive disclosure requirements.

The level of financial literacy among many company directors and investors may not be sufficient to understand the complexity of current financial reports.

The outcome of the financial reporting system may not be appropriately serving the diverse needs of investors and other stakeholders.

Australia and New Zealand have often needed to develop public sector and not-for-profit reporting without much international context as few countries have devoted the resources to these areas when compared to the resources applied to private sector reporting.

Opportunities

Increasing acceptance of global standards for financial reporting with more countries close to adopting IFRS.

Opportunity to build influence in Asia.

Initiatives supporting integrated reporting intended to provide more forward looking information to stakeholders.

Potential to influence public sector and private sector not-for-profit financial reporting internationally.

Threats

The momentum made towards having a single set of international standards may be reduced if the US decides not to join the international movement in adopting IFRS.

Concerns arising from perceived audit failures during the GFC (especially in the EU) and the trend towards uniform regulation internationally could lead to inappropriate regulation of the audit profession globally.

As financial reporting develops further around the world, Australia's influence could be diluted.

Additional reporting requirements being advocated (e.g. on CSR and ESG matters) that could increase the complexity of financial reports and decrease their perceived usability by stakeholders generally.

5. ACTIONS

The FRC's work is consistent with its responsibilities under the Act.

The key elements of the FRC's work include:

- appointing members (other than the Chairman) of the AASB and AUASB, and undertaking an annual peer review of these Boards and the FRC itself;

- providing broad oversight of the processes for setting accounting and auditing standards, including consideration of the Boards' broad strategic directions and their operations;
- monitoring and furthering the development of international accounting and auditing standards, and promoting their use in Australia;
- monitoring and assessing the relevance and effectiveness of accounting and auditing standards in both the private and public sectors in Australia;
- giving strategic policy advice and reports to the Minister and professional accounting bodies regarding the quality of audits taking into account, but not limited to, any of the following:
 - the systems and processes to comply with the relevant provisions of the Act, auditing standards, and applicable codes of professional conduct;
 - the systems and processes used by professional accounting bodies for audit quality assurance reviews;
 - the response by auditors, and by professional accounting bodies, to assurance reviews;
 - the investigation and disciplinary procedures of professional accounting bodies;
 - the adequacy of the relevant provisions of the Act, auditing standards, and applicable codes of professional conduct in light of international developments in relation to audit quality; and
 - the teaching of ethics related to audit quality;
- establishing appropriate consultative mechanisms, and monitoring the effectiveness of the consultative arrangements used by the AASB and AUASB;
- advancing and promoting the main objects of Part 12 of the Act. The objects include matters related to:
 - accounting and auditing standards, where the FRC has a governance role with the Boards being independent with respect to setting standards while being cognisant of related strategic matters;
 - audit quality, which is one of the areas where the FRC is tasked with providing advice and reports;

- facilitating the Australian economy. The specific functions of the FRC (covered above) indicate that the FRC's focus in this area should concentrate on matters related to the operation and outcomes of the financial reporting system (for example, legislative complexity, directors' financial literacy, usefulness to investors);
- identifying issues through the SWOT analysis and continuous environmental scanning that warrant consideration. Selected issues may be addressed by setting up Task Forces whose chairmen report at FRC meetings. Reports on selected issues with recommendations are agreed by the FRC and publically released when appropriate (link to Managing Complexity and Financial Literacy reports and relevant follow up reports); and
- any other matters conferred by the Minister.

This plan will be reviewed regularly.

Approved by the FRC 13 June 2013.

APPENDIX B — MEMBERS OF THE FRC

1 JULY 2012 TO 30 JUNE 2013

Chairman

Lynn Wood
Nominated by the Australian Government, Sydney
Appointed from 11 March 2011 to 10 March 2014

Deputy Chairman

Michael Coleman
Company Director, Macquarie Group Limited and Macquarie Bank Limited, Sydney
Nominated by the Australian Institute of Company Directors
Appointed from 22 September 2006 to 31 October 2009; reappointed from 14 December 2009 to 13 December 2012; with an extension from 14 December 2012 to 13 December 2015

Members

Ross Barker
Managing Director, Djerriwarrh Investments Ltd., Melbourne
Nominated by the Business Council of Australia
Appointed from 23 August 2012 to 30 August 2015

Roger Burrows
Chief Financial Officer, Asciano, Sydney
Nominated by the G100
Appointed from 23 August 2012 to 30 August 2015

Mark Coughlin
Partner, PricewaterhouseCoopers, Adelaide
Nominated by CPA Australia
Appointed from 22 September 2006 to 31 October 2009; reappointed from 14 December 2009 to 2 June 2012; with an extension from 31 August 2012 to 30 August 2015

Andrew Fleming
Deputy Head of Australian Equities at Schroders Investment Management Australia Limited, Sydney
Nominated by the Financial Services Council
Appointed from 24 October 2011 to 23 October 2014

Belinda Gibson
Deputy Chairman, Australian Securities and Investments Commission
Nominated by the Australian Securities and Investments Commission
Appointed from 10 May 2012 to 5 May 2013

Grant Hehir
Secretary, Victorian Department of Treasury and Finance, Melbourne
Nominated by Heads of State and Territory Treasuries
Appointed from 14 March 2011 to 13 March 2014

Stein Helgeby
Deputy Secretary, Governance and Resource Management Group, Department of Finance and Deregulation, Canberra
Nominated by the Australian Government
Appointed from 24 February 2010 to 23 February 2013; reappointed from 24 February 2013 to 23 February 2016

Noelle Kelleher
Chief Financial Officer, Vision Super, Melbourne
Nominated by the Association of Superannuation Funds of Australia
Appointed from 3 June 2009 to 2 June 2012; reappointed from 31 August 2012 to 30 August 2015

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Merran Kelsall	Chairman, Auditing and Assurance Standards Board, Melbourne Nominated by the Australian Government Appointed from 29 July 2008 to 9 August 2010; reappointed from 7 January 2011 to 6 April 2011, with an extension from 14 March 2011 to 9 August 2013; and from 10 August 2013 to 9 August 2016
Vas Kolesnikoff	Chief Executive Officer, Australian Shareholders' Association, Sydney Nominated by the Australian Shareholders' Association Appointed from 5 April 2011 to 4 April 2014; resigned 1 February 2013
Ian Laughlin	Deputy Chairman, Australian Prudential Regulation Authority, Sydney Nominated by Australian Prudential Regulation Authority Appointed from 1 July 2010 to 30 June 2013; reappointed from 1 July 2013 to 30 June 2015
Kevin Lewis	Chief Compliance Officer, Australian Securities Exchange, Sydney Nominated by the Australian Securities Exchange Appointed from 14 March 2011 to 13 March 2014
Jim Murphy	Executive Director, Markets Group, Australian Treasury, Canberra Nominated by the Australian Government Appointed from 7 March 2003 to 6 March 2006; reappointed from 7 March 2006 to 6 March 2009; and from 6 April 2009 to 5 July 2009; with an extension from 3 June 2009 to 2 June 2012; and from 3 June 2012 to 30 August 2015; resigned 17 July 2013
John Price	Commissioner, Australian Securities and Investments Commission, Sydney Nominated by the Australian Securities and Investments Commission Appointed from 18 June 2013 to 20 March 2015
Ian Purchas	Director, SV Partners, Sydney Nominated by the Institute of Public Accountants Appointed from 10 May 2012 to 10 May 2015
Kevin Simpkins	Chairman, External Reporting Board (New Zealand) Nominated by the New Zealand Minister of Commerce Appointed from 3 June 2009 to 28 February 2014
Kevin Stevenson	Chairman, Australian Accounting Standards Board, Melbourne Nominated by the Australian Government Appointed from 1 July 2009 to 30 June 2014
Jan West AM	Company Director, Melbourne Nominated by The Institute of Chartered Accountants in Australia Appointed from 7 March 2005 to 6 March 2008; reappointed from 29 July 2008 to 28 July 2011; and from 29 July 2011 to 28 July 2014

APPENDIX C — ATTENDANCE AT MEETINGS

Financial Reporting Council

The FRC held four meetings during 2012-13. Members' attendance is shown in the table below:

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
L Wood (Chairman)	4	4	
M Coleman (Deputy Chairman)	4	4	
R Barker	3	3	
R Burrows	3	3	
M Coughlin	4	3	1
A Fleming	4	4	
B Gibson	3	2	1
G Hehir	4	3	1
S Helgeby	4	3	1
N Kelleher	4	4	
M Kelsall	4	4	
V Kolesnikoff*	2	3	
I Laughlin	4	4	
K Lewis	4	4	
J Murphy	4	3	1
J Price*	0	2	
I Purchas	4	4	
K Simpkins	4	4	
K Stevenson	4	3	1
J West AM	4	3	1

*Attended meeting/ meetings as an invitee

During 2012-13 a number of changes were made to the structure of the committees and taskforces and to their membership. In order to avoid undue complexity, the following sections report on membership of the committees and taskforces as at 30 June 2013. The FRC appreciates that members made a large contribution to the FRC through the Committees and taskforces and, in particular for members who moved committees and taskforces, that this contribution is not fully reflected by the following tables.

FRC Nominations Committee

The FRC Nominations Committee held three formal meetings in 2012-13, and held interviews on four days. Members of the Committee as at 30 June 2013 are: Jan West AM (Chairman), Mark Coughlin, Andrew Fleming, Stein Helgeby, Merran Kelsall, Kevin Stevenson and Lynn Wood. The Secretary is Marcus McKillop. These members' attendance is shown in the table below:

Members	Number of meetings/interviews		
	Eligible to attend	Attended	Apologies
J West AM (Chairman)	7	7	
M Coughlin	7	5	2
A Fleming	0	0	
S Helgeby	0	0	
M Kelsall	7	5	2
K Stevenson	7	4	3
L Wood	7	4	3
Secretary: M McKillop	7	7	

FRC Audit Quality Committee

The Audit Quality Committee held five formal meetings in 2012-13 (including some as the Audit Quality Taskforce). Members of the Committee as at 30 June 2013 are: Michael Coleman (Chairman), Roger Burrows, Mark Coughlin, John Price, Merran Kelsall, Ian Laughlin and Lee White (non-FRC member). The Secretary is Erin Flynn. These members' attendance is shown in the table below:

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
M Coleman (Chairman)	5	5	
R Burrows	3	2	1
M Coughlin	5	5	
J Price	0	0	
M Kelsall	5	5	
I Laughlin	3	3	
Mr Lee White (non-FRC member) ICAA	5	2	3
Secretary E Flynn	5	5	

Public Sector Committee

The Public Sector Committee held one formal meeting in 2012-13 (as the Public Sector Taskforce). Members of the Committee as at 30 June 2013 are: Grant Hehir (Chairman), Ross Barker, Stein Helgeby, Kevin Simpkins, Kevin Stevenson and Robert Williams

(non-FRC member). The Secretary is Bruce Donald. These members' attendance is shown in the following table:

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
G Hehir (Chairman)	1	1	
R Barker	0	0	
S Helgeby	1	1	
K Simpkins	1	1	
K Stevenson	1	1	
Mr Robert Williams (non-FRC member) — NSW Treasury	1	1	
Secretary B Donald	1	1	

Strategic Plan Committee

The Strategic Plan Committee held two formal meetings in 2012-13. Members of the Committee as at 30 June 2013 are: Lynn Wood (Chairman), Michael Coleman, Merran Kelsall, Ian Laughlin, Kevin Lewis and Kevin Stevenson. The Secretary was Bruce Paine. These members' attendance is shown in the table below:

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
L Wood (Chairman)	2	2	
M Coleman	2	2	
M Kelsall	2	2	
I Laughlin	2	2	
K Lewis	2	1	1
K Stevenson	2	2	
Secretary B Paine	2	2	

Integrated Reporting Taskforce

This Taskforce held four formal meetings in 2012-13. Members of the Committee as at 30 June 2013 are: Roger Burrows (Chairman), Andrew Fleming, Noelle Kelleher, Merran Kelsall, Kevin Lewis, Kevin Simpkins, Kevin Stevenson, Jan West AM, John Stanhope (non-FRC member) and Judith Fox (non-FRC member). The Secretary for most of 2012-13 was Jane Cheung. These members' attendance is shown in the following table:

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
R Burrows (Chairman)	1	1	
A Fleming	2	2	
N Kelleher	2	2	
M Kelsall	4	2	2
K Lewis	2	2*	
K Simpkins	4	3	1
K Stevenson	3	3	
J West AM	4	2**	2
Mr John Stanhope (non-FRC member) — BRLF	4	3	1
Ms Judith Fox (non-FRC member) — Chartered Secretaries Australia (CSA)	1	1	0
Secretary: B Donald	0	0	

* Chaired one meeting of the taskforce

** Chaired two meetings of the taskforce

Financial Report Taskforce

This Taskforce held two formal meetings in 2012-13. Members of the Committee as at 30 June 2013 are: Ross Barker (Chairman), Andrew Fleming, Merran Kelsall, Ian Laughlin, Ian Purchas, Kevin Stevenson, Kevin Neville (non-FRC member) and Susan Pascoe (non-FRC member). The Secretary for most of 2012-13 was Jane Cheung. These members' attendance is shown in the table below:

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
R Barker (Chairman)	2	2	
A Fleming	2	0	2
M Kelsall	2	2	
I Laughlin	2	2	
I Purchas	2	2	
K Stevenson	2	2	
Mr Kevin Neville (non-FRC member) — Moore Stephens	2	2	
Ms Susan Pascoe (non-FRC member) — ACNC	2	2	
Secretary: B Donald	0	0	

Managing Complexity Taskforce

This Taskforce held one formal meeting in 2012-13, at which it was agreed the work of the taskforce was concluded. Attendance is shown in the following table:

Appendix C — Attendance at meetings

Members	Number of meetings		Apologies
	Eligible to attend	Attended	
M Coleman (Chairman)	1	1	
K Stevenson	1	1	
Ms Tanya Branwhite (non-FRC member) Macquarie Bank	1	1	
Ms Judith Downes (non-FRC member) IFRS Advisory Council	1	0	1
Secretary: J Cheung	1	1	

Board Education Taskforce

This Taskforce held one formal meeting in 2012-13 at which it was agreed that the work of the taskforce was concluded. Attendance is shown in the table below:

Members	Number of meetings		Apologies
	Eligible to attend	Attended	
K Lewis (Chairman)	1	1	
A Fleming	1	1	
I Laughlin	1	1	
I Purchas	1	1	
Secretary: G Tenneti (ASX)	1	1	

APPENDIX D — IMPLEMENTATION OF THE MANAGING COMPLEXITY TASKFORCE REPORT

FRC Managing Complexity Report (October 2012)

Recommendations and response

Examine how the current financial reporting regime for the various types of reporting entities in Australia can be best explained and understood, and if needed, seek rationalisation of the regime (for example, through further deregulation of who needs to report).

The FRC has established the Financial Report Taskforce to follow up on this recommendation. The Taskforce is currently in the process of mapping out the various financial reporting regimes for Australian reporting entities.

The Australian Charities and Not-for-profits Commission (ACNC) established a number of working parties, including the Social Services Reporting Duplication Working Party, to identify and recommend practical strategies to resolve unnecessary duplications in reporting requirements that may already exist and which may arise through the establishment of the ACNC. These working parties provided advice to the ACNC and other relevant not-for-profit government committees, such as the Removing Not-for-profit Regulatory Duplication Working Group which is co-chaired by the ACNC and the Department of Prime Minister and Cabinet.

Support the Australian Accounting Standards Board's ongoing review and consideration of further enhancements to the reduced disclosure regime, including ongoing monitoring of developments in the International Financial Reporting Standards for Small and Medium-sized Entities standard.

The FRC Financial Report Taskforce is considering this issue as part of its work.

The IPA has established a Small and Medium-sized Entity (SME) Research Partnership with Deakin University to inform the Institute and the profession on issues of relevance to the financial reporting framework; the development of international standards and trends. The FRC has been offered the opportunity to be a non-financial partner.

The Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC) has been considering options to introduce a relevant and appropriate reduced disclosure regime for public sector entities. As part of this, HoTARAC has been

collaborating with Curtin University to undertake research on this matter. In parallel to this, both Victoria and the Australian Government have initiated projects to further consider rationalisation of reporting requirements for public sector entities in those jurisdictions.

The FRC Public Sector Committee will undertake to engage with HoTARAC on their project of looking at a reduced disclosure regime for smaller public sector entities, and will provide updates to the FRC. The Public Sector Committee will act as a conduit to engage with the FRC if HoTARAC requires any authoritative input from the FRC to assist with the implementation of a coordinated approach.

Encourage a more coordinated approach between different agencies of government when considering accounting disclosure requirements.

The Australian Government has (i) moved reporting on 'special accounts' (information not required by statute) from the financial statements to web-based reporting; and (ii) is planning to produce a summary of the key points from the financial statements in graphical form for use by the general public.

Further, the Government is planning a comprehensive review of its Consolidated Financial Statements in 2013 to eliminate information that is not required to provide a true and fair view, recognising the limits imposed by accounting standards. A Position Paper 'Sharpening the Focus: A Framework for Improving Commonwealth Performance' was released in late November 2012. One of the proposals is greater use of tiered reporting to simplify reporting for lower-risk entities.

HoTARAC has continued its ongoing efforts to monitor and provide submissions to both local and international standard setters and other bodies on the topics of integrated reporting, disclosures relating to management discussion and analysis, and the development of a principles based presentation and disclosures framework.

In 2011 the Australian Department of Finance and Deregulation issued a circular to provide guidance to all Australian Government entities on the use of the terms *audit* and *assurance*. In May 2013 the AUASB commenced a project to prepare a Guidance Statement possibly titled 'Composite Auditing and Assurance Engagements (including Grant Acquittals)'. The objective will be to re-publicise to agencies and departments the limitations to expectations for auditor certification requirements outside the AUASB framework.

Encourage preparers to make better use of developments in information technology in the delivery of financial reports.

The ASX Corporate Governance Council released its consultation paper on a proposed 3rd edition of the *Corporate Governance Principles and Recommendations* in August 2013.

Appendix D — Implementation of the Managing Complexity Taskforce Report

The Council's consultation package is available at <http://www.asxgroup.com.au/corporate-governance-press-releases.htm>.

ASX separately released a consultation paper on governance related changes to its Listing Rules and to Guidance Note 9. The ASX consultation package is available at <http://www.asxgroup.com.au/public-consultations.htm>.

Together, these packages implement the suggestion of the Managing Complexity Taskforce in terms of giving greater flexibility to listed companies to make their governance disclosures on their website rather than in their annual report, thereby hopefully leading to more streamlined annual reports.

The Standard Business Reporting Program, now fully part of the Australian Business Register, is considering ways that preparers of financial reports might be encouraged to use Standard Business Reporting for the lodgement of financial reports.

Encourage the Australian Securities and Investments Commission to emphasise that, under accounting standards, only material disclosures are required (especially in communications such as the regular commentary about their areas of focus when reviewing financial reports).

ASIC has confirmed that its financial reporting surveillance program focuses on the importance of material disclosures and its latest media release on this topic (27 November 2012) emphasized, inter alia, that directors and auditors should focus on disclosures of useful and meaningful information for investors and other users.

Reinforce the need for board education on financial reporting.

Ongoing – refer to the follow up comments for the Board Education Taskforce report (Appendix E).

Continue to monitor integrated reporting.

Ongoing.

The FRC Integrated Reporting Taskforce made a submission in July 2013 on the Draft Integrated Reporting Framework released by the International Integrated Reporting Council on 16 April 2013.

The AUASB held a roundtable with KPMG mid-May 2013 looking at assurance issues in integrated reporting, and also made a submission on the IIRC's Draft Framework.

Continue to influence the International Accounting Standards Board to undertake reforms including rationalisation of disclosures.

The IASB hosted a public Disclosure Forum to consider the challenging area of disclosure overload. The Forum, held in London on 28 January 2013, was intended to

foster dialogue between preparers, auditors, regulators, users of financial statements and the IASB about how to improve the usefulness and clarity of financial disclosures. Output from the Forum will inform the IASB's work on its Conceptual Framework. The FRC Managing Complexity Report was part of the background provided for this Forum.

The AASB has commenced active work on the IASB's conceptual framework project which recommenced in January 2013. Part of that work involves the topics of disclosure and presentation where the AASB is of the view that there is a great deal of room for rationalisation. This project is expected to be active for quite some time. The AASB is actively engaged through the ASAF in debates about the need for a rationalised disclosure framework and published a paper on the topic in August 2013. The AASB is continuing to contribute to the IPSASB conceptual framework work which involves similar opportunities.

Continue to monitor the work of other jurisdictions in addressing the issue of complexity in financial reporting.

Ongoing.

APPENDIX E — IMPLEMENTATION OF THE BOARD EDUCATION TASKFORCE REPORT

FRC Board Education Report (September 2012)

Recommendations and response

Many respondents suggested the development of a range of education courses targeted specifically at directors, such as ‘Accounting 101 for directors’ and ‘The things I should watch out for and the questions I should ask on the audit committee’.

The AUASB worked with the AICD and the Institute of Internal Auditors to revise and reissue the 2nd edition of ‘Audit Committees – A Guide to Good Practice’. This document was extensively reworked by AUASB in particular, in order to include legislative change, recent case law and current good practice. The Guide was launched in Sydney in September 2012 by the then Parliamentary Secretary to the Treasurer, the Hon. Bernie Ripoll, MP and attracted some media interest.

Some respondents did not appear to appreciate that these types of courses already exist, which suggests to the FRC that the organisations providing these courses could do more to market their availability and that perhaps they should partner with ASIC to develop an information page on the ASIC website listing the names of these organisations, with their contact details and links to the pages on their websites with information about the courses they provide.

ASIC has developed a webpage on financial literacy for directors at <http://www.asic.gov.au/asic/asic.nsf/byheadline/Directors-and-financial-reporting> which has links to webpages of appropriate course providers. Connecting pages have been developed by ICAA, CPA Australia and AICD that focus on financial literacy for directors, providing links to training and/or relevant resources.

Some respondents acknowledged that these courses do already exist but said that they were too expensive, were not easily accessible (especially for directors located in remote areas or overseas), were often pitched at the wrong level (some too simple, others too detailed) and in some cases required too great a time commitment for busy directors.

Quite a few suggested that the best form of training would involve online interactive courses provided free of charge or at low cost, but that of course begs the question as to who would fund the development of these courses and keep them up to date.

A number of respondents noted the importance of having a diverse range of skills among the directors of a company and that this necessarily meant that not all directors would have the same level of accounting or financial acumen. They also noted the important role that companies (particularly listed companies) can play in addressing this issue, such as:

verifying the financial credentials of directors as part of the recruitment process and arranging for additional training for directors who may benefit from it;

including in the board induction process a briefing from internal/external auditors on accounting policies and issues of particular significance to the company's business;

having the internal/external auditor run periodic board workshops on specific accounting issues relevant to the company's business;

having the external auditor present an annual accounting update to the entire board prior to them signing off on the year-end accounts;

inviting all directors as observers to meetings of the audit committee so that they can learn from the directors with accounting/audit expertise; and

inviting non-executive directors as observers to analyst and investor presentations so that they can hear directly from market professionals on the accounting and financial issues of concern to them.

A number of respondents noted the recent Centro decision and the finding of the Federal Court that it is the duty of every director to read the financial statements carefully and to consider whether what they disclose is consistent with the director's own knowledge of the company's affairs.

Some respondents mentioned that, in light of Centro, the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations might usefully be amended to recommend that listed entities disclose:

in their corporate governance statement, the steps they undertake to ensure that their directors have the accounting knowledge needed to understand and sign off on the company's financial statements;

in the section in their annual report setting out the biographies of their directors, the accounting/finance qualifications and experience of the directors and, for those who do not have an accounting/finance background, the additional training that they

have undertaken to enable them to understand and sign off on the company's financial statements.

In August 2013 the ASX Corporate Governance Council released its consultation paper on a proposed 3rd edition of the *Corporate Governance Principles and Recommendations*. The Council's consultation package is available at <http://www.asxgroup.com.au/corporate-governance-press-releases.htm>.

ASX has separately released a consultation paper on governance related changes to its Listing Rules and to Guidance Note 9. The ASX consultation package is available at <http://www.asxgroup.com.au/public-consultations.htm>.

There is a new recommendation 2.6 in the third edition of the *Principles and Recommendations* that picks up on the work of the taskforce and recommends that a listed entity should: (a) have a program for inducting new directors and providing appropriate professional development opportunities for continuing directors to develop and maintain the skills and knowledge needed to perform their role as a director effectively; and (b) disclose a summary of the main features of that program.

The IPA offers an Executive Certificate of Corporate Governance; a structured program of five online interactive sessions addressing changes to accounting standards, corporate regulation, compliance, the Fair Work Act and risk management.

The Australian Prudential Regulatory Authority (APRA) intends to develop an information pamphlet for distribution to new (and current) Board members. It will give a concise and plain-English view of what APRA expects of board members in their oversight of prudential matters.

One respondent suggested that listed companies should consider a mentoring program teaming directors with financial expertise with those who might benefit from working closely with someone with that expertise.

Many respondents also suggested:

compulsory accreditation for all directors requiring them to have passed an exam or otherwise demonstrated a minimum level of financial literacy before they can act as a director;

compulsory continuous professional development requirements for all directors, requiring them to keep up to date with developments affecting directors, including changes in financial reporting laws, accounting standards and regulatory expectations.

The AICD has introduced new continuing education requirements for member directors.

Some other suggestions made by respondents to improve the level of financial literacy of directors in Australia included:

to assist directors of smaller companies, ASIC could prepare a basic fact sheet or brochure on the duties of companies to have proper books and records and of directors to understand the company's accounts (such as those prepared by the Australian Taxation Office (ATO) on the role and responsibility of SMSF trustees), which it sends electronically to all new companies as and when they are registered and which it also makes available on its website for accountants to print out and give to their clients.

ASIC's new webpage on financial literacy for directors includes information on maintaining proper books and records, and directors' duties to understand the company's financial report. The information is available at <http://www.asic.gov.au/asic/asic.nsf/byheadline/Directors-and-financial-reporting>.

Someone (e.g. ASIC, AICD, the accounting bodies or training organisations) should develop a short, free, online 'test your accounting knowledge' app for directors to self-assess whether they need more accounting training. (A director who does the 'test your accounting knowledge' app and is advised he/she could benefit from more accounting training could be referred to the list of training providers on the ASIC website).

The ICAA, CPA Australia, AICD and ASIC have formed a joint working group to explore the feasibility of a 'test your knowledge' tool. Progress is currently being made by the joint working group on development of the content for such a tool. It is anticipated that the tool could be released by the end of 2013.

ABBREVIATIONS

The following abbreviations are used throughout this report:

AASB	Australian Accounting Standards Board
ACNC	Australian Charities and Not-for-profits Commission
AFAANZ	Accounting and Finance Association of Australia and New Zealand
AICD	Australian Institute of Company Directors
AOSSG	Asian-Oceanian Standard Setters Group
APESB	Accounting Professional and Ethical Standards Board
APPC	Australian Public Policy Committee
APRA	Australian Prudential Regulatory Authority
ASA	Australian Shareholders' Association
ASAs	Australian Auditing Standard
ASAF	Accounting Standards Advisory Forum (advises IASB)
ASBJ	Accounting Standards Board of Japan
ASIC	Australian Securities and Investments Commission
ASIC Act	<i>Australian Securities and Investments Commission Act 2001</i>
ASIC Report	ASIC Audit Inspection Program Report
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AUASB	Auditing and Assurance Standards Board
Audit Enhancement Act	<i>Corporations Legislation Amendment (Audit Enhancement) Act 2012</i>

Abbreviations (continued)

Corporations Act	<i>Corporations Act 2001</i>
CPAB	Canadian Public Accountability Board
CPP	Certificate of Public Practice
CSR	Corporate Social Responsibility reporting
EC	European Council
ESG	Environmental, Social and Corporate Governance
EU	European Union
FOI Act	<i>Freedom of Information Act 1982</i>
FRC	Financial Reporting Council
FRC-UK	Financial Reporting Council (of the UK)
FTSE	Financial Times and London Stock Exchange
G20	The G20 brings together 19 countries: Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, the Republic of Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, the United Kingdom, the United States of America plus the European Union, which is represented by the President of the EC and by Head of the European Central Bank.
G100	Group of 100
GAAP	Generally Accepted Accounting Principles
GFC	Global Financial Crisis
GFS	Government Finance Statistics
HoTARAC	Heads of Treasuries Accounting and Reporting Advisory Committee
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board

Abbreviations (continued)

ICAA	The Institute of Chartered Accountants in Australia
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IIRC	International Integrated Reporting Council
IPA	Institute of Public Accountants (formerly National Institute of Accountants)
IPSASB	International Public Sector Accounting Standards Board
ISAs	International Standards on Auditing
NIA	See IPA
NZASB	Accounting Standards Board (of New Zealand)
NZAuASB	Auditing and Assurance Standards Board (of New Zealand)
PCAOB	Public Company Accounting Oversight Board (of the USA)
PJC	Parliamentary Joint Committee on Corporations and Financial Services
PPC	Public Practice Certificate
PPQA	Public Practice Quality Assurance Review
The Program	ICAA Quality Review Program
PwC	PricewaterhouseCoopers
QBSA	Queensland Building Services Authority
QR	Quality Review (CPA Australia Quality Review Program)
RCA	Registered company auditor
SME	Small and medium-sized entity
SMSF	Self-Managed Superannuation Fund

Abbreviations (continued)

SWOT	Strengths, Weaknesses, Opportunities and Threats analysis
TTAASAG	Trans-Tasman Accounting and Auditing Standards Advisory Group
Treasury	Australian Treasury
US FASB	Financial Accounting Standards Board (of the USA)
XRB	External Reporting Board (of New Zealand)