

2007-08 FRC ACTIVITY STOCKTAKE AGAINST AGREED FUNCTIONS

(‘Section’ refers to provisions in the *Australian Securities and Investments Commission Act 2001*)

Functional requirement	Section	Point	How addressed
1. General functions			
Providing broad oversight of the process for setting accounting and auditing standards.	s225 (1) (a)(b)	1.1	During the year, the FRC has overseen the accounting and auditing standard setting arrangements by (i) appointing members (other than the Chairs, who are appointed by the Treasurer) to the Australian Accounting Standards Board (AASB) and the Australian Auditing and Assurance Standards Board (AUASB); (ii) approving and monitoring AASB and AUASB priorities, business plans, budget and staffing arrangements; (iii) determining the broad strategic directions of the AASB and the AUASB; (iv) providing directions, advice or feedback on matters of general policy and its procedures to the AASB and the AUASB; and (v) monitoring the effectiveness of the AASB and the AUASB consultative arrangements.
Monitoring the effectiveness of auditor independence requirements in Australia	s225(1)(c)	1.2	To facilitate the performance of its auditor independence functions, the FRC has an Auditor Independence Committee (AIC) which met on five occasions during 2007-08. In addition, the consultant appointed by the FRC in December 2004, Mr William Bartlett, continued to assist in the performance its auditor independence functions until his contract expired at the end of 2007. The functions performed by the consultant are now carried out by the FRC Secretariat located within Treasury.
		1.3	The FRC also examined the reports and recommendations made by consultants engaged throughout 2005 to 2007. These reports examined issues associated with disciplinary procedures of the professional accounting bodies, the teaching of professional and business ethics by the professional accounting bodies, the application of professional and business ethics by accounting firms, and the quality review programs of the professional accounting bodies.
		1.4	The arrangements with the FRC’s ‘MOU bodies’ continued to work well in 2007-08. The MOU bodies are the three professional accounting bodies, ASX, APRA and ASIC. The FRC has a Memorandum of Understanding (MOU) in place with these bodies for the purpose of facilitating the exchange of information between the MOU bodies and the FRC. The FRC also has a letter of understanding with the CALDB concerning the exchange of information. The MOU for ASIC and APRA were revised in 2008.
		1.5	During 2007-08 the representatives of the AIC met with the MOU bodies, the four major audit firms and other significant firms to obtain information about the manner in which they are regulating, or ensuring compliance with, the requirements of the <i>Corporations Act 2001</i> .

Giving the Minister reports and advice about the matters referred to in paragraphs (a), (b) and (c) of section 225(1) of the ASIC Act; and	s225(1)(d)	1.6	The FRC/AASB/AUASB annual report for 2006-07 containing a comprehensive overview of the main operations and achievements of the FRC, AASB and AUASB, was approved by the FRC on 8 October 2007, delivered to the Minister on 15 October 2007 to meet the 31 October tabling deadline. However, with the calling of the election and the subsequent change in Government, the tabling of the annual report was delayed until the new Government was formed. The reports were tabled on 21 February 2008
Establishing appropriate consultative mechanisms	s225(1)(f)	1.7 1.8 1.9 1.10 1.11 1.12 1.13	<p>During 2007-08, the FRC Chairman had an active role in conveying to the public key FRC decisions, including by approving bulletins and the minutes of meetings for publication and speaking at various events including conferences and meetings. The FRC Chairman engaged in discussions with a range of international and domestic organisations including the professional accounting bodies and accounting firms.</p> <p>The FRC Chairman met with the professional accounting bodies, regulatory bodies including ASIC, ASX and APRA, other stakeholders including the Group of 100 (G100), the Accounting Professional and Ethical Standards Board (APESB) and the Audit Quality Review Board (AQRB). The Chairman met on international visits with the International Accounting Standards Board (IASB), the Financial Stability Forum, (FSF), European Financial Reporting Advisory Group (EFRAG), the UK Financial Services Authority (FSA), the US Securities Exchange Commission (SEC) and the Public Company Accounting Oversight Board (PCAOB). Following these meetings, the FRC Chairman conveyed the results of those meetings to the Council.</p> <p>The FRC Chairman attended the IASC Foundation Trustees' meetings held in Rome during January 2008, London during March 2008 and Washington in June/July 2008.</p> <p>Consultation by FRC members with stakeholders is facilitated by receiving copies of FRC agenda papers one week prior to the meeting. At FRC meetings members are able to provide regular updates on issues of interest to their respective stakeholders via a standing agenda item.</p> <p>Guests are invited to attend FRC meetings, for the full meeting or relevant agenda items only. Guests may come from stakeholder organisations that are not directly represented on the Council.</p> <p>Bulletins reporting on the main outcomes of each of the five FRC meetings held in 2007-08 were posted on the FRC website within a few days of the meeting. The approved minutes from the previous FRC meeting were also posted on the FRC website at the same time.</p> <p>In addition, formal meetings are convened with stakeholders with whom the FRC has a Memorandum of Understanding to exchange information on auditor independence issues.</p>

2. Specific accounting standards functions			
Appointing AASB members	s225(2)(a)	2.1	The FRC Nominations Committee held three formal meetings during 2007-08, and conducted interviews with a number of candidates seeking appointment to the AASB. The FRC agreed to the appointment of two new members and the reappointment of two existing members to the AASB.
		2.2	The Nominations Committee reported on the peer evaluations of AASB members at the FRC meeting held on 5 September 2007.
Approving and monitoring AASB priorities, business plan, budget and staffing arrangements.	s225(2)(b)	2.3	At its meeting held on 1 June 2007 the FRC approved the priorities, business plan, budget and staffing arrangements of the AASB for 2007-08 subject to minor amendments.
		2.4	The FRC Finance Committee met six times during 2007-08. On the recommendation of the Finance Committee, the FRC: <ul style="list-style-type: none"> • approved the AASB's Financial Statements for 2006-07 (5 September 2007 meeting); • approved the priorities and business plan for the AASB and • noted the budget and staffing arrangements of the AASB for 2008-09 (11 June 2008 meeting).
- Standing FRC item on AASB		2.5	The AASB Chairman provided an update on the progress of AASB activities and work priorities at each FRC meeting.
- Half-yearly report from AASB		2.6	A mid-year review by the AASB was considered by the FRC Finance Committee on 8 February 2008, and reported to the FRC meeting on 12 February 2008 via the FRC Finance Committee Chairman's report.
- Priority setting and feedback		2.7	The 2006-07 annual report, approved by the FRC on 8 October 2007 in an out-of-session vote, outlined progress on the AASB's work program in 2006-07, and set out its work program for 2007-08. The AASB's 2007-08 business plan as approved by the FRC at its June 2007 meeting continued to give priority to policy issues relating to the public sector and Small and Medium Enterprises (SMEs). The FRC noted in its 12 February 2008 meeting the AASB priorities going forward. The key priorities for the Board include superannuation entity accounting, public sector issues, reporting by charities, emissions trading and SME accounting. In respect of the work being undertaken on extractive industries, it is expected that this project will be completed by mid 2009.
		2.8	Feedback on accounting standards and related policy issues was sought by the AASB through the regular reports to FRC meetings by the AASB Chairman.

- Required business plan content		2.9	The AASB business plan for 2008-09 describes how the AASB intends to address set priorities with a detailed work program. The FRC Finance Committee reviewed the AASB's annual business plan for 2008-09 prior to its consideration and approval by the Council at its meeting in 11 June 2008.
- Budget and staffing process		2.10	The 2008-09 AASB business plan outlines the number and composition of AASB staff and secondments. The FRC is satisfied that the AASB has adopted responsible commercial business techniques in preparing the Board's budget and staffing arrangements.
Determining the AASB's broad strategic direction	s225(2)(c)	2.11	On 28 June 2002, the FRC issued a strategic direction that formally endorsed the planned adoption of IASB standards (ie IFRS) and IFRIC interpretations from 1 January 2005. The FRC considered on 19 February 2007 under advice of the AASB the appropriateness of differential accounting standards in relation to the application of IFRS for SMEs.
		2.12	On 12 December 2002, the FRC issued a strategic direction to the AASB to pursue, as an urgent priority, the harmonisation of accounting standards for whole of government financial reporting between Government Finance Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting. At its 8 December 2006 meeting the FRC directed and endorsed the AASB's proposal to undertake additional work on harmonising accounting standards for whole of government financial reporting by government and entities within the General Government Sector and consulting with stakeholders. In November 2008, the FRC will conduct with Finance a public sector workshop.
		2.13	In November 2005 the FRC appointed a consultant, Mr Kevin Simpkins, to advise it on the merits of accounting standards that were 'sector neutral' in relation to incorporated entities, public sector and not-for-profit entities. On 19 February 2007 the FRC considered issues raised in public consultations regarding Mr Simpkins' report, received by the FRC in 2006, such as the need for sector specific guidance in addressing financial reporting of public benefit entities. The FRC noted at its meetings on 19 February 2007 and 11 June 2008, the AASB's 2006-07 and 2007-08 priorities included continuing to contribute to the International Public Sector Accounting Standards Board's (IPSASB) project to further provide international comparability for Australian public and not-for-profit sectors.
Giving the AASB direction, advice or feedback on general policy or procedures	s225(2)(d)	2.14	The AASB annual business plan and forward work programs reflect the strategic policy directions set by the FRC. The AASB Chairman provided reports at each FRC meeting, allowing the FRC to provide feedback on general policy and procedures.
		2.15	The FRC monitored the AASB's procedures for transparency, appropriate consultation and due process for developing accounting standards.
Monitoring international accounting standards, further a single set of international standards, promote best practice in Australia	s225(2)(e)(f)(g)	2.16	The resource allocation for the adoption of the Australian equivalents of IFRS is outlined in the AASB business plan and budget for 2007-08, which was reviewed and approved by the FRC on 1 June 2007. Significant projects which the AASB is running on behalf of the IASB, or participating in, are indicated in the business plan. The FRC encouraged the AASB to continue to influence the development

		<p>2.17 internationally of a single set of accounting standards.</p> <p>The FRC Chairman attended an IASC Foundation Trustees' meetings in London during October 2007 and March 2008. The Australian representative on the IASB, Mr Warren McGregor has a standing invitation to all FRC and AASB Meetings.</p> <p>2.18 The FRC has allocated funds to enable it to meet the costs of overseas travel by FRC representatives attending official international meetings and other Australians attending IAASB related activities where their travel costs are not met by stakeholder groups.</p> <p>2.19 The FRC Chairman led a visit for discussions with a range of standard setting, regulatory and professional accounting bodies in the United States, and Europe in October 2007 and March 2008.</p> <p>2.20 The FRC Secretariat provided an agenda paper on international developments for each FRC meeting.</p>
Monitoring the operation and effectiveness of Australian accounting standards and consultative arrangements	s225(2)(h)(i)(ii)	<p>2.21 The AASB Chairman reported on the operation and effectiveness of Australian accounting standards and consultative arrangements at FRC meetings, and in the AASB's Annual Report for 2007-08.</p> <p>2.22 The FRC Secretariat reported to the FRC on communications received from the business community, public sector and not-for-profit sector about the impact and effectiveness of accounting standards in meeting the objectives of Part 12 of the ASIC Act. The major issue reported was implementation of the Australian standards based on IFRS.</p> <p>2.23 The FRC Chairman and members consulted with their constituent bodies on this matter, and a standing item for FRC meetings, 'stakeholder issues', provided an opportunity to convey the information gained from these consultations to other FRC members.</p> <p>2.24 The FRC encouraged the AASB to have extensive consultation and communication processes with stakeholders. The AASB reports on its consultation measures and due process on its website, at FRC meetings and in its annual report.</p>
Seeking contributions for the cost of Australian accounting standard setting	s225(2)(i)	<p>2.25 For a number of years, the FRC employed a tri-partite funding model which has included contributions from the Commonwealth, State and Territory Governments, the professional accounting bodies, and the corporate sector. As a result of the extra responsibilities endowed to the FRC under CLERP 9, the Commonwealth announced substantial extra funding for the FRC and standard setting activities in the 2004-05 Budget, the appeal for voluntary contributions from the corporate sector is not proceeding. Negotiations with the professional accounting bodies and the States and Territories for the provision of funding support for the standard setting process are in train.</p>

Monitoring and reviewing the level of funding and funding arrangements for the AASB	s225(2)(j)	2.26	The AASB budget and business plan were prepared by the AASB Chairman and Administration Director and reviewed by both the AASB Audit Committee and the FRC Finance Committee. At its meeting on 11 June 2008 the FRC approved the AASB business plan 2008-09. On 1 July 2008, the AASB moved from <i>Commonwealth Authorities and Companies Act 1997</i> (CAC Act) to the <i>Financial Management and Accountability Act 1997</i> (FMA) and are responsible for their own budget. However, the FRC will continue to monitor funding arrangements for the Board.
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3. Specific auditing standards functions			
Appointing of AUASB members	s225(2A)(a)	3.1 3.2	<p>The FRC Nominations Committee held three formal meetings during 2007-08, and conducted interviews with a number of candidates seeking appointment to the AUASB. The FRC agreed to the appointment of two new members and the reappointment of two existing members to the Board for three-year terms.</p> <p>The Nominations Committee reported on the peer evaluations of AUASB members at the FRC meeting held on 5 September 2007.</p>
Approving and monitoring AUASB priorities, business plan, budget and staffing arrangements.	s225(2A)(b)	3.3 3.4	<p>At the FRC meeting on 1 June 2007 the priorities, business plan, budget and staffing arrangements of the AUASB for 2007-08 were endorsed and later formally approved out of session</p> <p>The FRC Finance Committee met six times during 2007-08. On the recommendation of the Finance Committee, the FRC:</p> <ul style="list-style-type: none"> • approved the AUASB's Financial Statements for 2006-07 (5 September 2007 meeting); • approved the priorities and business plan for the AUASB; and • noted the budget and staffing arrangements of the AUASB for 2008-09 (11 June 2008 meeting).
- Standing FRC item on AUASB		3.5	The AUASB Chairman provided an update on the progress of AUASB activities and work priorities at each FRC meeting.
- Half-yearly report from AUASB		3.6	A mid-year review by the AUASB was considered by the FRC Finance Committee on 8 February 2008, and reported to the FRC meeting on 12 February 2008 via the FRC Finance Committee Chairman's report.
- Priority setting and feedback		3.7 3.8	<p>The AUASB's priorities in 2007-08 were revisions to the auditing and assurance standards based on amendments to regulations and accounting standards, changes to related ASAs, legal and international developments and changes in best practice.</p> <p>The 2007-08 annual report, approved by the FRC in an out-of-session after a draft report was endorsed at its meeting on 3 September 2008, outlined progress on the AUASB's work program in 2006-07, and set out its work program for 2007-08. Feedback on progress was sought via the regular reports to FRC meetings by the AUASB Chairman.</p>
- Required business plan content		3.9	The AUASB business plan for 2008-09 describes how the AUASB intends to address set priorities with a detailed work program. The FRC Finance Committee reviewed the AUASB's annual business plan for 2008-09 prior to its consideration and approval by the Council at its meeting on 11 June 2008.

- Budget and staffing process		3.10	The 2008-09 AUASB business plan outlines the number and composition of AUASB staff. The FRC is satisfied that the AUASB has adopted responsible commercial business techniques in preparing the Board's budget and staffing arrangements.
Determining AUASB's broad strategic direction	s225(2A)(c)	3.11	The AUASB in 2008-09 is progressively reviewing and reissuing selected guidance statements to support the ASAs, standards for reissue on ASAE, ASRE & ASRS
		3.12	The AUASB for 2007-08 wherever possible used as a base the International Standards on Auditing developed by the International Auditing and Assurance Standards Board. The AUASB also actively engaged with and monitored the activities of other national standard setters.
		3.13	The AUASB will continue in 2008-09 to monitor the impact of the legally enforceable Australian Auditing Standards under the <i>Corporations Act 2001</i> .
Giving AUASB direction, advice or feedback on general policy or procedures	s225(2A)(d)	3.14	The AUASB annual business plan and forward work programs reflect the strategic policy directions set by the FRC on 11 June 2008. The AUASB Chairman provided reports at each FRC meeting, allowing the FRC to provide feedback on general policy and procedures.
		3.15	The FRC monitored the AUASB's procedures for transparency, appropriate consultation and due process for developing auditing standards.
Monitoring international auditing standards, further a single set of international standards, promote best practice in Australia	s225(2A)(e) (f)(g)	3.16	The resource allocation for the development of Australian auditing standards is outlined in the AUASB business plan and budget for 2007-08, which was reviewed and approved by the FRC on 1 June 2007. The AUASB budget allows it to actively liaise with the International Auditing and Assurance Standards Board (IAASB), to assist in adopting international best practice. The FRC encouraged the AUASB to continue to influence the development internationally of a single set of auditing standards.
		3.17	The FRC has allocated funds to enable it to meet the costs of overseas travel by FRC representatives attending official international meetings and other Australians attending IAASB related activities where their travel costs are not met by stakeholder groups.
		3.18	The FRC Chairman led a visit for discussions with a range of standard setting, regulatory and professional accounting bodies in the United States, and Europe in October 2007 and March 2008.
		3.19	The FRC Secretariat provided an agenda paper on international developments for each FRC meeting.
Monitoring the operation and effectiveness of Australian auditing standards and consultative arrangements	s225(2A)(h) (i)(ii)	3.20	The AUASB Chairman reported on progress in re-making Australian auditing standards at FRC meetings and in the AUASB 2007-08 annual report. A comprehensive 'stocktake' of progress is included in each annual report.

		3.21	The FRC Chairman and members consulted with their constituent bodies on this matter, and a standing item for FRC meetings, 'stakeholder issues', provided an opportunity to convey the information gained from these consultations to other FRC members.
		3.22	The FRC encourages the AUASB to have extensive consultation and communication processes with stakeholders. The AUASB uses its website for consultation on exposure drafts, and reports on its consultation arrangements in its annual reports.
Seeking contributions to cost of Australian audit standard setting	s225(2A)(i)	3.23	For a number of years, the FRC employed a tri-partite funding model which has included contributions from the Commonwealth, State and Territory Governments, the professional accounting bodies, and the corporate sector. As a result of the extra responsibilities endowed to the FRC under CLERP 9, the Commonwealth announced substantial extra funding for the FRC and standard setting activities in the 2004-05 Budget, and there is no longer an appeal for voluntary contributions from the corporate sector. Negotiations with the professional accounting bodies and the States and Territories for the provision of funding support for the standard setting process are in train.
Monitoring and review the level of funding and funding arrangements for the AUASB	s225(2A)(j)	3.24	The AUASB budget and business plan were prepared by the AUASB Chairman and Principal Executive and reviewed by both the AUASB Audit Committee and the FRC Finance Committee. At its meeting on 11 June 2008, the FRC approved the AUASB business plan for 2008-09. On 1 July 2008, the AUASB moved from <i>Commonwealth Authorities and Companies Act 1997</i> (CAC Act) to the <i>Financial Management and Accountability Act 1997</i> (FMA) and are responsible for their own budget. However, the FRC will continue to monitor funding arrangements for the Board.

Monitoring the overall compliance by companies, registered schemes and disclosing entities with the audit-related disclosure requirements of the Corporations Act and the accounting standards;	s225(2B)(b)	4.7	The FRC's MOUs with ASIC and ASX provides for these bodies to give the FRC regular reports identifying matters arising from its financial reporting or auditor surveillance activities in relation to compliance by companies and auditors with the independence disclosure requirements in Part 2M.3 of the Corporations Act. During 2007-08, the FRC received information from each body.
Giving the Minister reports and advice about the matters referred to in paragraphs (a) and (b) of section 225(2B) of the ASIC Act;	s225(2B)(c)	4.8	For 2007-08, the FRC's reports and advice to the Minister are contained in the audit independence report prepared under section 235BA. The FRC did not note any independence issues requiring the preparation of supplementary reports or advice.
Giving professional accounting bodies reports and advice about the matters referred to in subparagraphs (a)(ii)(iii)(iv) and (v).	s225(2B)(d)	4.9	The FRC provided feedback and advice to the professional accounting bodies during 2007-08 in the context of the regular MOU meetings established with them and as referred to in the FRC report on auditor independence for 2007-08.
Monitoring international developments in auditor independence, assessing the adequacy of the Australian auditor independence requirements provided for in: - the Corporations Act; and - codes of professional conduct; in the light of those developments and giving the Minister, and professional accounting bodies, reports and advice on any additional measures needed to enhance the independence of Australian auditors; and	s225(2B)(e)	4.10 4.11	The FRC monitored international developments through consideration of publicly-available inspection reports issued by overseas oversight bodies, other material placed on the internet websites of these bodies and general media reports about audit independence issues. During the year the FRC did not become aware of any other international developments in the area of audit independence that suggested Australia's new requirements are in need of revision or further enhancement.
Promoting, and monitoring the adequacy of, the teaching of professional and business ethics by, or on behalf of, professional accounting bodies to the extent to which the teaching of those subjects relates to auditor independence.	s225(2B)(f)	4.12 4.13	In April 2006 the FRC engaged a short-term consultant to provide consultancy services in respect of the teaching of professional and business ethics or, or on behalf of, the professional accounting bodies. The consultant's report was delivered to the FRC during the first half of 2006-07 and the recommendations were reviewed by the FRC. In April 2007 the FRC engaged a short-term consultant to evaluate how professional and business ethics are applied in practice by accounting firms. The FRC reviewed the report in 2007-08.
FRC's information gathering powers	S225A	4.14	The ASIC Act enables the FRC Chairman, acting on behalf of the FRC, to give a professional accounting body a written notice requiring the body to provide the FRC with information concerning its professional codes of conduct, quality assurance reviews, or investigation and disciplinary procedures. Information can also be sought from an Australian auditor with respect to auditor independence matters.

		4.15	The FRC's formal information gathering powers were not used during 2007-08. However, the FRC did gather information from the MOU bodies in accordance with the terms of the respective MOUs.
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5. Annual reports			
<p>As soon as practicable after 30 June in each year, and in any event before 31 October, the FRC must give the Minister a report on:</p> <ul style="list-style-type: none"> - the operations of: the FRC and its committees and advisory groups; the AASB and AUASB and its committees, advisory panels, and consultative groups. - the achievement of the objects set out in section 224; during the year that ended on 30 June in that year. 	s235B(1)(a) (i)(ii)(iii)(b)	5.1	The FRC / AASB / AUASB annual report for 2006-07 contained a comprehensive overview of the main operations and achievements of the FRC, AASB and AUASB.
		5.2	The FRC approved the draft FRC / AASB / AUASB annual report, incorporating the financial accounts, for 2006-07 at its meeting on 5 September 2007.
		5.3	In accordance with the requirements under subsection 9(1) of the <i>Commonwealth Authorities and Companies Act 1997</i> (CAC Act) the directors of the AASB and AUASB provided the 2006-07 annual report to the Minister by 15 October 2007.
The annual report must include details of any changes to the AASB's or AUASB's priorities or business plans that were made as a result of action taken by the FRC.	s235B(2) and (2A)	5.4	The FRC / AASB / AUASB annual report for 2006-07 included an up-to-date work programs for the AASB and AUASB that outlined amendments to their priorities.
<p>As soon as practicable after 30 June in each year, and in any event before 31 October, the FRC must give the Minister a report on:</p> <ul style="list-style-type: none"> -the performance by the FRC, during the year that ended on 30 June in that year, of its functions under subsection 225(2B) of the ASIC Act (the auditor independence functions); - the findings and conclusions that the FRC reached in performing those functions; and - the actions (if any) that were taken by the FRC in respect of those findings and conclusions. <p>The report may be given to the Minister separately or included in the report given to the Minister under section 235B.</p>	s235BA(1)	5.5	The FRC decided that the 2006-07 auditor independence report should be given to the Minister as a separate document from the annual report of the FRC, AASB and AUASB.
		5.6	On 31 October 2007, the then Parliamentary Secretary to the Treasurer approved an extension of time for the preparation of the 2006-07 auditor independence report.
		5.7	The FRC approved the 2006-07 auditor independence report on 5 December 2007 in an out-of-session vote.
		5.8	The report was given to the Minister on 15 January 2008 and was tabled on 21 February 2008.
6. Confidentiality			
FRC, AASB and AUASB must take all reasonable measures to protect from unauthorised use or disclosure information	s237	6.1	The FRC complied with the confidentiality requirements in its Rules of Procedure. The FRC Secretariat was bound by the Commonwealth Department of Treasury security guidelines, which requires the evoking of security classifications for all sensitive material.

given to it in confidence			
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