

Financial Reporting Council Strategic Plan 2011-2014

1. FRC Purpose and functions

The Financial Reporting Council (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 standards setting processes for the public and private sectors, monitoring the effectiveness of the auditor independence regime, and advising the Minister on these matters (see www.frc.gov.au for more information).

It is a statutory body under Part 12 of the *Australian Securities and Investments Commission Act 2001*.

2. FRC Stakeholders

The FRC has a wide range of stakeholders including a broad spectrum of preparers and users of financial statements, the Commonwealth as well as State and Territory governments, and other government bodies such as standard setters and regulators. Key stakeholder bodies are represented on the FRC as Members. (Attachment A)

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.

3. Environmental analysis

General¹

The global financial crisis has accelerated the transition of economic gravity from 'advanced' to 'emerging' economies:

- growth in most 'advanced' economies will be constrained by public and/or household debt burdens;
- by contrast most major developing economies have already returned to 'trend' growth, are not troubled by unsustainable public debts, and are instead having to deal with inflationary pressures and potential asset price bubbles

Unlike most other 'advanced' economies, Australia stands to benefit significantly from this changing pattern of global economic activity, given our resources endowment and existing strong trade links with Asia.

- there are some risks around our high levels of household and foreign debt, but Australia does not have a significant public debt problem

¹ The material in this section is based on a summary provided by Professor the Hon Stephen Martin, Chief Executive, CEDA, following CEDA's recent Economic and Political Overview 2011 series.

Australia's economic challenge is to maximize the long-term benefits from the 'resources boom' whilst minimizing inflationary pressures:

- Australia's 'terms of trade' are at their highest sustained level in at least 140 years and mining investment is now larger, as a proportion of GDP, than at any time in the last 150 years;
- Labour shortages are a critical problem, requiring short term and longer term solutions such as greater participation, immigration and skills training; and
- The Reserve Bank's forecasts envisage above-trend growth from this year through 2013, and inflation heading towards the top of the target range. Interest rates and the A\$ will remain above historic averages as part of this process.

Financial Reporting

- One of the impacts of the Global Financial Crisis has been to draw the attention of governments and international bodies such as the G20 and the Financial Stability Board to the importance of having sound and internationally consistent financial reporting standards. The clearest sign of this was the G20's call for a single set of high-quality global accounting standards.
- Australia adopted International Financial Reporting Standards (IFRS) in 2005, and its auditing standards are based on the international standards issued by the International Auditing and Assurance Standards Board.
- Australia's financial reporting environment is becoming steadily more complex as international developments increasingly impinge on its accounting and auditing standards and their broader markets and regulation. Over time there is a strong tendency for outside organisations to seek to add to the financial reporting requirements. The FRC will seek to ensure that the broader interests of the system - of providing critical information to the stakeholders of the entities affected - are preserved in these processes.

4. SWOT Analysis – financial reporting framework

This analysis refers to the financial reporting framework in Australia as a whole.

Strengths

- Forms part of a system of globalised standards reflecting international best practice.
- Held up well during the Global Financial Crisis.
- Has provided valuable assistance to Australian corporations in accessing global financial markets.
- Australia and New Zealand play a leading role in the development of public sector financial reporting.

Weaknesses

- Not all areas are given equal attention and priority in developing international standards, e.g. some issues relating to financial reporting for the public sector and not-for-profits in the private sector have needed renewed focus.

- Exclusive focus on financial reporting, neglecting to some extent the wider context in which economic entities operate,
- Complexity and length of annual reports, due to a variety of reasons, e.g. extensive disclosure requirements (remuneration report etc).
- Level of financial literacy among users, including company directors, leading to issues such as expectation gaps for audit reports.

Opportunities

- Strong political pressure, e.g. from G20, to introduce global standards in financial reporting.
- Increasing acceptance of global standards with more key countries close to adopting IFRS.
- A wide range of Initiatives, both globally and domestically, supporting integrated reporting to widen the scope of information provided to stakeholders.
- Review of audit regulation by government.
- Potential to influence the debate in relation to public sector and private sector not-for-profit financial reporting at a time when the International Accounting Standards Board (IASB) is not giving attention to those areas and the International Public Sector Accounting Standards Board is still developing its standards, known as International Public Sector Accounting Standards (IPSAS).

Threats

- Risk of fragmentation of the global IFRS community if the US does not decide to adopt.
- Discussion of radical proposals to regulate audit practices, e.g. in the European Union (compulsory joint audits, audit firm rotation etc.).
- Failure of a big 4 accounting firm, potentially leading to a lack of competition in the audit market.
- Complexity caused by Australia's federal structure, and the failure to agree key reforms with the States and Territories, e.g. in relation to financial reporting for not-for-profit entities.
- Plethora of narrow additional financial reporting burdens being advocated, e.g. as part of a Corporate Social Responsibility or Environmental, Social and Governance agenda, without consideration as to their broader appropriateness.

5. Key Strategic Issues

The key strategic issues faced by the FRC are the following:

- How to assume a thought leadership position in the debate about integrated reporting;
- How to reduce complexity in financial reporting;
- How to improve financial literacy among company directors;

- How to encourage the wider adoption of IFRS globally and in Asia Oceania;
- How to promote a united approach in Australia among key stakeholders in supporting and improving the financial reporting framework and standards
- How to monitor the effectiveness of auditor independence and other audit quality drivers
- How to best meet the needs of users of profit-oriented and not-for-profit entities (both private and public sector) and
- How to reduce the regulatory burden on entities preparing financial statements without increasing the risks of inappropriate reporting.

6. Action Plan

As part of the 2010 Peer Review process, Members were asked to comment on the operation of the FRC and potential improvements.

Responses from Members showed that the FRC had particular strength in the work undertaken on IFRS differential reporting, as well as SME (small and medium enterprises), and public sector issues and Members being involved at meetings through stakeholder representation.

Members indicated that they would like the FRC to establish a sub-committee for public sector issues, provide independent advice to the Minister, more clearly define the oversight role in respect of the Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) and improve communication with the market about the FRC's activities.

Members are happy with the current skill sets shown by the FRC, however indicated that it may be now too large.

To improve the performance of the FRC, Members would like it to be more proactive in domestic debates and have a more formal process on stakeholder issues.

To improve the effectiveness of the FRC, and in response to the proposals put forward by Members during the Peer Review, it is proposed that the FRC defines a range of projects addressing the key strategic issues.

It is proposed to separate the projects into two categories, the first consisting of priority projects in which the FRC will take a thought leadership role. In general, it is proposed to progress these projects by establishing task forces of three or more Members, including a chairman who is a member of the FRC and possibly selected non-members, to work on them with the support, where necessary, of the FRC Secretariat. It would be up to the task forces to decide the best way of taking the projects forward, for example by issuing consultation papers through the FRC, cooperating with external stakeholders and/or engaging consultants to deliver specific outputs.

For the other projects, the FRC proposes to play a supporting role.

Priority projects

<i>Project description</i>	<i>Method of implementation</i>	<i>Timing</i>
Integrated reporting	<p>Establishment of a task force (Integrated Reporting Task Force)</p> <p>The initial task will be to recommend an appropriate course of action for the FRC given there is already a significant level of activity in this area. A related issue is the question of how the FRC should position itself relative to organisations already active in the debate in Australia.</p>	Task force to be established as soon as possible following the 18 April FRC meeting. First progress report delivered at the June FRC meeting.
Reducing complexity in financial reporting	<p>Establishment of a task force (Reducing Complexity Task Force)</p> <p>The initial task will be to identify areas of complexity which can be addressed in Australia, for example multiple sources of financial reporting requirements (including assurance) and executive remuneration.</p>	Task force to be established at the June FRC meeting. First progress report delivered at the September FRC meeting.
Promoting board understanding of financial reporting	Establishment of a task force (Board Education Task Force)	Task force to be established at the June FRC meeting. First progress report delivered at the September FRC meeting.
Monitoring of audit independence and other audit quality drivers	Establishment of a task force (Audit Quality Task Force)	Task force to be established at the June FRC meeting. First progress report delivered at the September FRC meeting.
Public sector financial reporting, including evaluation of IPSAS	<p>Establishment of a task force (Public Sector Task Force)</p> <p>Given the IASB's focus on other priorities, the key issue would be to develop recommendations on appropriate action in the meantime.</p>	Task force to be established as soon as possible following the 18 April FRC meeting. First progress report delivered at the June FRC meeting

As a separate project, which cuts across the other initiatives, it is proposed to enhance the current FRC website. The main purpose would be to make it a useful source of information to the public on financial reporting in general, but especially in relation to the priority projects undertaken by the FRC committees.

The task forces would therefore be expected to consider the use of the website as part of their project, for example by placing useful material on it, including reports and other research, project updates and other relevant material.

Other projects (supporting role)

<i>Project description</i>	<i>Method of implementation</i>	<i>Timing</i>
Oversight of standard setting processes and providing feedback/advice to the boards	Provision of relevant reports to the FRC, with responses provided as and when necessary	Ongoing
Influencing convergence globally and in the region	<ul style="list-style-type: none"> • Responding to relevant consultations, e.g. by IASB or the Monitoring Board • Support for relevant AASB and AUASB activities, e.g. Asia-Oceanian Standard-Setters Group (AOSSG) annual meeting • Visits to regional and global partners • Support for relevant events such as the Regional Policy Forum and the recent IFRS seminar in Japan 	Ongoing
Trans-Tasman harmonisation	Provision of relevant reports to the FRC	Ongoing
Monitoring private sector not-for-profit financial reporting developments	<ul style="list-style-type: none"> • Secretariat to maintain contact with relevant Treasury units working on private sector not-for-profits (NFPs) reform • Provision of reports to the FRC on developments 	Ongoing

	<ul style="list-style-type: none"> Includes the issue of multiple sources of financial reporting requirements creating complexity and excessive regulatory burdens for private sector NFPs Project may be elevated to a higher priority at the appropriate time. 	
Monitoring the reform of auditing and other requirements as part of the Government's response to the Cooper report	<ul style="list-style-type: none"> Secretariat to maintain contact with relevant Treasury units working on the Government's response Provision of reports to the FRC on developments 	Ongoing
Monitor and Influence G20 and FSB developments	<ul style="list-style-type: none"> Secretariat to maintain contact with relevant Treasury units Provision of reports to the FRC on developments and advice from relevant members 	Ongoing
Consultation documents involving financial reporting issues	<ul style="list-style-type: none"> For discussion in FRC Members may provide written views for inclusion on the meeting agenda for discussion in the FRC FRC may respond depending on members' views 	Ongoing

This plan will be reviewed once in every year.

2 May 2011

Attachment A – Members of the FRC

<i>Name</i>	<i>Nominating body</i>	<i>Term ends</i>
Current members		
WOOD, Lynn (Chairman)	Australian Government	10 March 2014
COLEMAN, Michael (Deputy Chair)	Australian Institute of Company Directors	13 December 2012
BROOK, Bruce	Business Council of Australia	2 June 2012
COUGHLIN, Mark	CPA Australia	2 June 2012
DWYER, Michael	Australian Securities and Investments Commission	11 December 2011
GETHIN-JONES, John	Financial Services Council	18 May 2011 (Appointment of new FSC Member being progressed)
HEHIR, Grant	Heads of State and Territory Treasuries	13 March 2014
HELGEBY, Stein	Department of Finance and Deregulation	23 February 2013
KELLEHER, Noelle	Association of Superannuation Funds of Australia	2 June 2012
KELSALL, Merran	Australian Government	9 August 2013
KOLESNIKOFF, Vas	Australian Shareholders' Association	4 April 2014
LAUGHLIN, Ian	Australian Prudential Regulation Authority	30 June 2013
LEWIS, Kevin	Australian Securities Exchange	13 March 2014
MURPHY, Jim	Australian Government	2 June 2012
SIMPKINS, Kevin	NZ Minister of Commerce	28 February 2014
STANHOPE, John	Group of 100	2 June 2012
STEVENSON, Kevin	Australian Government	30 June 2014
WEST AM, Jan	The Institute of Chartered Accountants in Australia	28 July 2011
ZIMMERMANN, Klaus	Institute of Public Accountants	2 June 2012