

PERFORMANCE OF FINANCIAL REPORTING COUNCIL'S STATUTORY FUNCTIONS

(Reflecting the FRC's functions as at 1 July 2008)

Functional requirement	Section	Point	How to be addressed
1. Introduction			
Purpose of document		1.1	The purpose of this document is to outline the manner in which the Council will perform the statutory functions set out in sections 225, 225A, 235B, 235BA and 237 of the <i>Australian Securities and Investments Commission Act 2001</i> . Where a function relates to the FRC's broad oversight of the processes for setting auditing and accounting standards, this document also indicates how the FRC anticipates the Australian Accounting Standards Board, the Auditing and Assurance Standards Board and their respective Offices will interact with the Council in respect of that function.
2. General functions			
To provide broad oversight of the processes for setting accounting and auditing standards in Australia.	s225 (1)(a) and (b)	2.1	The FRC will oversee the accounting and auditing standard setting arrangements by: <ul style="list-style-type: none"> (a) appointing the members (other than the Chairmen) of the Australian Accounting Standards Board (AASB) and the Australian Auditing and Assurance Standards Board (AUASB); (b) giving advice or feedback to the AASB and AUASB on their priorities, business plans and procedures; (c) giving advice or feedback to the Offices of the AASB and AUASB on their budgets and staffing arrangements; (d) determining the broad strategic directions of the AASB and the AUASB; and (e) monitoring the effectiveness of the consultative arrangements of the AASB and AUASB.
To monitor the effectiveness of auditor independence requirements in Australia	s225(1)(c)	2.2	The FRC will monitor the effectiveness of auditor independence requirements in Australia by: <ul style="list-style-type: none"> (a) having regular meetings with the Australian Securities and Investments Commission, Australian Prudential Regulation Authority, Australian Securities Exchange and the Professional Accounting Bodies and gathering relevant information from those bodies under the terms of Memoranda of Understanding with them; and (b) having regular meetings with the major audit firms and other stakeholder bodies and obtaining relevant information from them.
		2.3	There will be an Auditor Independence Committee to assist the FRC in the preparation of its annual report to the Government on the effectiveness of the auditor independence framework in Australia.

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To give the Minister reports and advice about the matters referred to in paragraphs 225(1)(a), (b) and (c).	s225(1)(d)	2.4	The FRC will publish an annual report on the performance of its statutory functions.
		2.5	The FRC will prepare periodic reports to the Government on the activities of the FRC.
		2.6	The FRC will provide other advice to the Government on matters coming within the FRC's area of responsibility on an 'as required' basis.
To establish appropriate consultative mechanisms	s225(1)(f)	2.7	FRC members will receive advance copies of all FRC meeting agenda papers. Where possible, these papers will be distributed by electronic means at least one week prior to the date of the meeting, thereby giving FRC members the opportunity to consult (subject to confidentiality requirements) their respective stakeholder bodies.
		2.8	FRC meetings will generally include a standing item whereby the Council is updated on stakeholder issues. Stakeholder groups represented on the FRC should be consulted regularly by the FRC member they have nominated. FRC members will be responsible for keeping their respective stakeholders informed of FRC developments and will bring to FRC meetings the views of their stakeholders as they consider appropriate. The FRC Chairman will also meet regularly with stakeholders and the results of these meetings will be discussed with the Council.
		2.9	A Bulletin that reports on the main outcomes of each FRC meeting will be posted on the FRC's website within five business days of the meeting to which it relates. Simultaneously, the minutes of the previous FRC meeting will be posted on the website.
		2.10	In accordance with the FRC's Rules of Procedure, guests may be invited to FRC meetings to provide updates on topics relevant to the FRC's functions: for example, to provide updates on international developments including the work programs of relevant international bodies.
		2.11	When appropriate, the FRC will engage consultants (through Treasury) to assist it in carrying out its functions. These consultants will be technical experts in their respective consultancy fields, and will advise the FRC in the context of its functions. These consultants will provide, in accordance with the FRC's approved terms of reference, objective research and analysis with regard to particular areas of FRC responsibility, and feedback received from liaising with key stakeholders. Prior to the engagement of a consultant, it is envisaged that the FRC will consult the Chairs of the AASB and AUASB to determine whether the Boards maintain information that may be of relevance to, or address the subject of, the proposed consultancy.
		2.12	Subject to the FRC's Rules of Procedure, only the Chairman and Deputy Chairman shall speak publicly on behalf of the FRC. The FRC Chairman will have an active role in conveying key FRC decisions to the public.
		2.13	The FRC Chairman will maintain regular contact and reporting with the Treasury Portfolio Ministers. This will include briefing and advising the Government on key FRC decisions.

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To advance and promote the main objectives of Part 12 of the ASIC Act	s225(1)(g)	2.14	The FRC will seek to advance and promote the main objectives of Part 12 of the ASIC Act as part of its: responsibility for overseeing the processes for setting accounting and auditing standards; and performance of the accounting and auditing standards functions. As part of this process, the FRC will work with, and proactively support the work of, the AASB and AUASB in their statutory roles as independent standard setting bodies.
Any other functions that the Minister confers on the FRC by written notice to the FRC Chair.	s225(1)(h)	2.15	Any additional functions that are conferred on the FRC by the Minister will be performed by the FRC in accordance with the terms of the Minister's notice.
3. Specific accounting and auditing standards functions			
Appointing the members of the AASB and AUASB (other than the Chairs)	s225(2)(a) s225(2A)(a)	3.1	The FRC Nominations Committee (the Committee) is responsible for recommending to the FRC appointments to the AASB and AUASB. In carrying out its functions, the Committee will have regard to the procedures contained in its Charter (see http://www.frc.gov.au/guidelines/charter.asp).
		3.2	The Committee will periodically advertise seeking expressions of interest from persons interested in being considered for appointment to the AASB and AUASB. Prior to seeking the expressions of interest, the Committee will consult the Chairs of the Boards on any specific issues – such as changes to the composition of the Boards – that may need to be addressed in the advertisements.
		3.3	At least annually, the Committee will undertake, and report to the FRC on, performance reviews of AASB and AUASB members. The reviews will be used by the Committee, in consultation with the Chairs of the Boards, as input when considering succession planning for the two Boards. The FRC anticipates that these reviews could be used by the Chairs of the Boards as a feedback mechanism to individual Board members for the purpose of improving the operations of the Boards.
		3.4	The FRC will approve all appointments to the AASB and AUASB, other than the Chairs.
Giving the AASB and AUASB advice or feedback on their priorities, business plans and procedures.	s225(2)(b) s225(2A)(b)	3.5	The Chairs of the AASB and AUASB will consult the FRC about the Boards' priorities, business plans and procedures prior to them being revised or approved so that, where appropriate, the FRC can provide advice or feedback on these matters. The Chairs of the AASB and AUASB will report to the FRC on a regular basis about the activities of their respective Board, including updates on the progress of, and other matters associated with or arising out of, their priorities, business plans and procedures.
		3.6	When the FRC provides formal advice or feedback to the Chair of either Board, it will be provided in writing and signed by the FRC Chairman. Reference to such feedback or advice is also required to be included in the FRC's annual report (see paragraph 5.4 below).

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Giving the Offices of the AASB and AUASB advice or feedback on their budgets and staffing arrangements (including level, structure and composition of staffing).	s225(2)(ba) s225(2A)(ba)	3.7	The Chairs of the AASB and AUASB will consult the FRC about the Offices' budgets and staffing arrangements prior to them being revised or approved so that, where appropriate, the FRC can provide advice or feedback on these matters. The Chairs of the AASB and AUASB will report to the FRC on a regular basis about the activities of the Offices of the AASB and AUASB, including updates on the progress of, and other matters associated with or arising out of, the Offices' budgets and staffing arrangements.
		3.8	When the FRC provides formal advice or feedback to the Chief Executive of the Office of either Board, it will be provided in writing and signed by the FRC Chairman. Reference to such feedback or advice is also required to be included in the FRC's annual report (see paragraph 5.4 below).
Determining the broad strategic directions of the AASB and AUASB	s225(2)(c) s225(2A)(c)	3.9	When necessary and/or appropriate, the FRC will issue broad strategic directions to the AASB and AUASB that formally endorse proposed courses of action or goals. When developing and issuing such directions, the FRC will follow the procedures contained in <i>Process for the development and issuing of broad strategic directions by the FRC</i> (see http://www.frc.gov.au/guidelines/strategic_directions.asp).
		3.10	The FRC Chairman will hold regular meetings with stakeholders and the results of these meetings will be provided to the FRC. The FRC Secretariat will supply background papers to assist discussions concerned with potential broad strategic directions when appropriate.
		3.11	The broad strategic directions issued to the AASB and AUASB by the FRC must be consistent with the legislation. The FRC will periodically assess whether the directions continue to be appropriate and will advise its views in a letter from the FRC Chairman to the Chair of the AASB or AUASB following the corresponding FRC decision.
		3.12	The AASB's and AUASB's priorities and business plans will reflect the broad strategic directions set by the FRC.

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<p>Monitoring the development of international accounting and auditing standards and the accounting and auditing standards that apply in major international financial centres; and</p> <p>Furthering the development of single sets of accounting and auditing standards for world-wide use with appropriate regard to international developments; and</p> <p>Promoting the continued adoption of international best practice accounting and auditing standards in the Australian accounting and auditing standards setting processes if doing so would be in the best interests of both the private and public sectors in the Australian economy.</p>	<p>s225(2)(e), (f) and (g) s225(2A)(e), (f) and (g)</p>	3.13	<p>The FRC will promote the development of the highest quality accounting standards and Australia's adoption of international best practice auditing standards. As part of this process, the FRC will encourage the AASB and AUASB to continue to contribute to the development internationally of single sets of accounting and auditing standards. The FRC Chairman and members will, where appropriate, contribute to international forums intended to advance the concepts of single sets of international accounting and auditing standards.</p>
		3.14	<p>In areas where Australia has a comparative advantage, the FRC will encourage the AASB and other Australian entities to provide leadership in the development of a single set of international accounting standards in the private, public and not-for-profit sectors.</p>
		3.15	<p>The FRC will work with the NZ ASRB and TTAASAG to promote IFRS in the Asia-Oceania region by promoting links with other relevant accounting standard and policy organisations.</p>
		3.16	<p>The FRC will facilitate assistance for Australian representatives to work with international accounting and auditing standards setting bodies and their committees in the development and improvement of specific standards. The Australian representatives on these bodies will be invited to provide regular reports to the FRC on the activities of the bodies.</p>
		3.17	<p>The FRC Chairman will engage in periodic overseas visits and consult key parties in regard to furthering the use of single sets of IFRS and auditing and assurance standards, promoting best practice financial reporting in Australia and monitoring international financial reporting developments.</p>
		3.18	<p>The FRC Secretariat will regularly provide FRC members with information about significant international developments.</p>

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Monitoring: the operation of accounting and auditing standards to assess their continued relevance and effectiveness in achieving their objectives in respect both the private and public sectors of the Australian economy; and the effectiveness of the consultative arrangements used by the AASB and AUASB.	s225(2)(h)(i) and (ii) s225(2A)(h)(i) and (ii)	3.19	Ongoing reports will be received from the Chairs of the AASB and AUASB at each regular FRC meeting. In addition, the FRC Secretariat will report to the FRC in summary form on the nature and frequency of communications it has received from the business community, public sector and not-for-profit sector about the impact and effectiveness of accounting and auditing standards in meeting the objectives of Part 12 of the ASIC Act. Comments will be restricted to issues that are material and of significance to the work of the FRC and the Boards.
		3.20	This function will be primarily undertaken by the FRC Chairman and by FRC members with their own stakeholder groups. FRC meetings will generally include an item, 'stakeholder issues', as a means of enabling information gained from these consultations to be conveyed to other FRC members.
		3.21	The FRC will monitor the AASB's and AUASB's consultation and communication processes and the extent to which the Boards report on their consultation measures and due processes on their websites and in their annual reports.
Seeking contributions towards the costs of the Australian accounting and auditing standards setting processes.	s225(2)(i) s225(2A)(i)	3.22	The AASB and AUASB are <i>Financial Management and Accountability Act 1997</i> (FMA Act) agencies that are subject to the Australian Government's normal Budget funding processes, which are developed by the Portfolio Department and subject to the oversight of the Treasurer through the Expenditure Review Committee.
		3.23	In performing this function, the FRC will, in appropriate circumstances (including where the Council believes the Boards need supplementation of their funding to adequately perform their statutory functions), make submissions to Portfolio Ministers and the Portfolio Department in support of requests by the Boards for additional funding. The Boards, as FMA Act agencies, also have the ability to seek funding supplementation through the normal Budget funding processes.
		3.24	Where the Government concludes that it is unable to provide additional funding for the Boards either through the Budget funding processes or other mechanisms, the FRC may, in conjunction with the Portfolio Department, seek further funding from stakeholders for the purposes of meeting the costs of the Australian accounting and auditing standards setting processes.
Monitoring the level of funding, and funding arrangements, for those processes.	s225(2)(j) s225(2A)(j)	3.25	The FRC will monitor reports by the Chairs of the AASB and AUASB concerning the projected budgetary outcomes for the Offices of the AASB and AUASB.

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4. Specific auditor independence functions			
FRC's information gathering powers	s225A	4.1	The FRC Chairman, acting on behalf of the FRC, may give a professional accounting body a written notice requiring the body to provide the FRC with information with respect to professional codes of conduct, quality assurance reviews, or investigation and disciplinary procedures. Similarly, information can be sought from an Australian auditor with respect to auditor independence matters.
Monitoring and assessing the nature and overall adequacy of: (a) the systems and processes used by Australian auditors to ensure compliance with auditor independence requirements; (b) the systems and processes used by professional accounting bodies for planning and performing quality assurance reviews of audit work undertaken by Australian auditors to the extent to which those reviews relate to auditor independence requirements; (c) the action that Australian auditors who have been subject to such quality assurance reviews have taken in response to the reports prepared as a result of those reviews;	s225(2B)(a)	4.2	The FRC will establish the scope of action and the steps that will be required in order to meet the target of providing the Minister with a report on auditor independence.
		4.3	As part of its monitoring of auditor independence issues, the FRC has entered into Memoranda of Understanding (MOU) with a number of organisations involved in the regulation or oversight of auditors, including the three main professional accounting bodies, the Australian Securities and Investments Commission (ASIC), the Australian Prudential Regulatory Authority (APRA) and the Australian Securities Exchange (ASX).
		4.4	The MOUs with ASIC and APRA will facilitate liaison, co-operation, assistance and the exchange of information between the agencies. As part of the MOU process, ASIC will provide reports, at least annually, to the FRC identifying: (a) issues noted by ASIC in relation to the systems and processes used by Australian auditors to ensure compliance with auditor independence requirements and that ASIC believe may be relevant to the FRC's function to monitor and assess the nature and overall adequacy of these systems and processes; (b) issues noted by ASIC in relation to the overall compliance by companies, registered schemes and disclosing entities with the audit-related disclosure requirements of the Corporations Act and the accounting standards; and (c) issues noted by ASIC in relation to any enforcement activity which are relevant to the FRC's function to monitor and assess the auditor independence arrangements and audit related disclosure.
		4.5	Any suspected breaches of the law that the FRC becomes aware of in conducting its auditor independence functions will be referred to ASIC.
		4.6	Representatives of the FRC will meet periodically with the bodies with which it has entered into MOUs, including: ASIC, the professional bodies (CPA Australia, ICAA, NIA) APRA and the ASX, to assist in leveraging their resources, facilitating cooperation and avoiding overlaps of responsibilities. Representatives of the FRC will also meet with the Companies Auditors and Liquidators Disciplinary Board (CALDB) with regard to the exchange of letters between the FRC and CALDB on auditor independence matters.
		4.7	The FRC will present its recommendations on the effectiveness of auditor independence requirements in Australia to the Government.
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(d) the action taken by professional accounting bodies ensure that Australian auditors who have been subject to such quality assurance reviews respond appropriately to the reports prepared as a result of those reviews. (e) the investigation and disciplinary procedures of professional accounting bodies as those procedures apply to Australian auditors;		4.8	The FRC will allocate the necessary resources to satisfy the scope of its auditor independence work, including (where necessary) the engagement of one or more consultants to assist it in monitoring and assessing the effectiveness of auditor independence requirements in Australia.
		4.9	The FRC will consider what type of information it would like to gather itself in light of what other key parties are doing. In this context, the FRC may decide to test firms on a few key issues (for example, how auditors deal with particular independence issues such as financial/employment relationships). This testing could be done with some large and middle tier firms and its scope will be determined on the basis of advice provided by an auditor independence consultant.
		4.10	The FRC will enter into discussions with Australian auditors to get an understanding and receive information on their systems and processes used to ensure compliance with auditor independence requirements, the reports issued by these processes and their follow-up on Quality Review programs that they have been subject to.
		4.11	The focus of the FRC's work will be on the general practices and procedures adopted by firms to ensure auditor independence. While the FRC may choose to test how firms apply these practices and procedures at a practical level, the FRC will not test the application of those practices and procedures for every audit conducted by the firm.
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)	4.12	The FRC will obtain high-level information from ASIC and ASX (and, where appropriate, other stakeholder bodies) regarding companies' compliance with audit related disclosure requirements for use in its report to the Minister concerning the performance of the auditor independence function.
		4.13	Overall, the FRC will monitor and advise on the state of auditor independence and whether the framework in Australia encourages compliance with auditor independence requirements.
Giving the Minister reports and advice about the matters referred to in paragraphs (a) and (b) of section 225(2B) of the ASIC Act; and	s225(2B)(c)	4.14	The FRC will provide the Government with a source of advice on the performance of Australia's audit profession as it relates to the issue of independence.

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Giving professional accounting bodies reports and advice about the matters referred to in subparagraphs (a)(ii)(iii)(iv) and (v) of section 225(2B) of the ASIC Act.	s225(2B)(d)	4.15	The MOU with each accounting body will recognise that the FRC and the body each have a role to play in promoting a robust system of auditor independence within Australia. The MOU will provide that wherever possible and mutually beneficial, the body and the FRC will collaborate on issues relating to the independence requirements of Australian Auditors.
		4.16	As part of the MOU process, the professional accounting bodies will provide regular reports to the FRC with regard to their Quality Review programs, their disciplinary processes and courses dealing with auditor independence.
Monitoring international developments in auditor independence, assessing the adequacy of the Australian auditor independence requirements provided for in: (a) the Corporations Act; and (b) 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;	s225(2B)(e)	4.17	The FRC will monitor and review international developments in auditor independence, assessing the adequacy of the Australian auditor independence requirements.
		4.18	Where appropriate, the FRC Chairman will take the opportunity during his overseas visits to meet with senior representatives of audit standard setting and audit oversight bodies.

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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)	4.19	The FRC will promote and monitor the adequacy of the teaching of ethics by or on behalf of the professional accounting bodies and by educational institutions to the extent that they relate to auditor independence in consultation with the professional accounting bodies and educational institutions.
5. Annual reports			
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: (a) the operations of: the FRC and its committees and advisory groups. (b) the achievement of the objects set out in section 224; during the year that ended on 30 June in that year.	s235B(1)(a) and (b)	5.1	The FRC will ensure that its annual report contains a comprehensive overview of the main operations and achievements of the FRC with regard to the applicable financial year.
		5.2	The FRC will seek to approve its annual report at its annual September meeting.
		5.3	The FRC will provide the Minister with the report it is obliged to produce under this section as soon as practicable after 30 June each year and in any event before 31 October.
The report must include details of any advice or feedback that the FRC gave under paragraph 225(2)(b) or (ba) or (2A)(b) or (ba) during the year that ended on that 30 June.	s235B(2)	5.4	The FRC will ensure that its annual report includes information about any advice or feedback given to the AASB and AUASB about their priorities, business plans and procedures (see paragraphs 3.5 and 3.6 above) or the Offices of the AASB and AUASB about their budgets and staffing arrangements (see paragraphs 3.7 and 3.8 above).

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<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"> (a) 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); (b) the findings and conclusions that the FRC reached in performing those functions; and (c) 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	<p>The FRC will provide the Minister with the report it is obliged to produce under this section as soon as practicable after 30 June each year and in any event before 31 October.</p>

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6. Confidentiality			
The FRC, the AASB, the Office of the AASB, the AUASB and the Office of the AUASB must take all reasonable measures to protect from unauthorised use or disclosure information given to it in confidence.	s237	6.1	The FRC will comply with the confidentiality requirements in its Rules of Procedure, posted on the FRC website, which state that ‘..The Council must take all reasonable measures to protect from unauthorised use or disclosure information given to it in confidence, in accordance with section 237 of the <i>Australian Securities and Investments Commission Act 2001</i> ..’. In addition, the FRC Secretariat will be bound by the Commonwealth Department of Treasury security guidelines, and will evoke security classifications for all sensitive material.