



Australian Government

Financial Reporting Council

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Survey on financial literacy of directors

The Financial Reporting Council (FRC) today released the results of its survey on the financial literacy of directors in Australia. The survey was conducted in April and May of this year with both directors, and financial professionals who deal with directors, being asked to rate the financial literacy of directors in Australia. They were also asked to suggest ways that the financial literacy of directors could be improved.

The survey was distributed with assistance from the AICD, G100, AUASB, the professional accounting bodies and the large four accounting firms. It was completed by 385 respondents from a diverse population of directors, and financial professionals who deal with directors, from larger and smaller ASX listed companies, non-listed companies, not-for-profit organisations and superannuation trustees. This diversity was reflected in their commentary on the financial literacy of directors and in their suggestions on how to improve it.

The results of the survey are available on [the FRC website](#).

Some of the observations from the survey include:

- Notwithstanding the diversity of the survey respondents, almost all respondents acknowledged in their commentary that there were issues and challenges for directors in acquiring and maintaining the level of financial literacy needed by directors.
- Directors generally rated their personal level of financial literacy marginally higher than the financial literacy of their fellow directors. The financial professionals who deal with directors rated director financial literacy at notably lower levels than the directors themselves (although the FRC would note that this result is not surprising since, in many cases, directors would have rated their personal level of financial literacy from the perspective of someone without professional accounting training, whereas financial professionals would have judged it from the perspective of someone with professional accounting training).
- Financial professionals who regularly deal with directors, on average, rated the general financial literacy of the directors of the top 200 ASX listed entities (good to very good) higher than that of other ASX listed entities (fair to good) and substantially higher than non-listed entities (poor to fair).
- Both directors and financial professionals rated the knowledge of directors of basic accounting principles (fundamental accounting concepts, the purpose of financial statements, the role of accounting policies and the role of notes in financial statements) as higher than their knowledge of specific, more technical accounting issues.

- Directors conceded that on average their knowledge of more technical accounting issues was fair. The financial professionals who regularly deal with them, on average, rated it as poor to fair.
- A number of respondents expressed concern that the increasing complexity of accounting standards is making it more difficult for directors to acquire and maintain the level of financial knowledge needed to sign off on financial statements. This is borne out by the two previous observations.

The Parliamentary Secretary to the Treasurer and the Minister responsible for the FRC, the Hon Bernie Ripoll MP, was in attendance at the meeting of the FRC that approved the release of the survey results. He commented: "The Australian Government is committed to improving the financial literacy of all Australians at all levels. I believe this survey raises some important issues in that regard and I wish to thank all those who were involved in the survey."

The FRC is proposing to write to ASIC, the ASX Corporate Governance Council and the primary organisations that provide accounting and financial education courses for directors to raise with them some of the suggestions provided in the survey responses on steps that could be taken to improve the financial literacy of directors in Australia.

Media inquiries:

Name: Kevin Lewis
Title: Chair, FRC Board Education Task Force
Tel: + 61 9227 0319
Email: kevin.lewis@asx.com.au

About the FRC

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

The surveys mentioned above were undertaken by the FRC's Board Education Task Force, which was one of the task forces established by the FRC in furtherance of its 2011-2014 Strategic Plan.

The members of the Board Education Task Force are Andrew Fleming (FSC), Ian Laughlin (APRA), Kevin Lewis (ASX) and Ian Purchas (IPA). Klaus Zimmerman (IPA) was also a member of the Task Force prior to 2012.