

Financial Reporting Council

Annual Report 2013-14

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17 October 2014

The Hon Joe Hockey MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

I have pleasure in presenting the annual report of the Financial Reporting Council (FRC) for the year ended 30 June 2014.

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. Subsection 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.

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

A handwritten signature in black ink, appearing to read "Coleman".

Michael Coleman
Chairman

TABLE OF CONTENTS

CHAIRMAN’S REPORT	1
1. OVERSIGHT OF AUSTRALIAN STANDARDS SETTING	9
1.1 Introduction.....	9
1.2 Activities in relation to the Boards	9
1.2.1 Appointment of members to the Boards	9
1.2.2 Giving advice or feedback to the Boards and their Offices	10
1.2.3 Broad strategic directions of the Boards	11
2. AUDIT QUALITY	13
2.1 Introduction.....	13
2.2 The Quality of Audit	14
2.2.1 Stakeholder engagement.....	14
2.2.2 International developments.....	19
2.3 Review Processes	21
2.3.1 ASIC Audit Inspection Program	21
2.3.2 ICAA Quality Review Program.....	22
2.3.3 CPA Australia Quality Review Program.....	23
2.3.4 IPA Quality Review Program	24
2.4 Disciplinary procedures	25
3. MONITORING AND INFLUENCING AUSTRALIAN DEVELOPMENTS	27
3.1 Introduction.....	27
3.2 Domestic stakeholder engagement.....	27
3.3 Strategic Activities	28
3.3.1 Strategic Planning Committee	28
3.3.2 Financial Reporting.....	28
3.3.3 Public sector financial reporting	29
3.3.4 Integrated reporting	29
3.3.5 Promoting board education.....	30
4. MONITORING AND INFLUENCING INTERNATIONAL DEVELOPMENTS	33
4.1 Introduction.....	33
4.1.1 Stakeholder engagement.....	33
4.1.2 Monitoring and influencing global convergence	34
4.1.3 Monitoring and influencing regional convergence.....	35
4.1.4 Trans-Tasman harmonisation	35
4.1.5 Key International Meetings	36

5. GOVERNANCE AND ADMINISTRATION	37
5.1 Establishment, functions and powers	37
5.2 Membership and meetings	37
5.3 Consultants.....	38
5.4 Communication and consultation	38
5.5 Finances	38
5.6 Freedom of information	38
5.7 Regulatory impact statements.....	38
APPENDIX A — FINANCIAL REPORTING COUNCIL (FRC)	
STRATEGIC PLAN 2013-2016.....	39
APPENDIX B — MEMBERS OF THE FINANCIAL REPORTING COUNCIL	
1 JULY 2013 TO 30 JUNE 2014	45
APPENDIX C — ATTENDANCE AT MEETINGS	47
ABBREVIATIONS	51

CHAIRMAN'S REPORT



2013-14 has been an important year of change for the Financial Reporting Council (FRC). This report reflects activities undertaken during the Chairmanship of Lynn Wood whose term ended on 9 June 2014. We have made a number of influential submissions to international financial reporting organisations, and we had a variety of distinguished international visitors, keen to engage the views of FRC members. The FRC has become involved with some new issues, finished its work on others, and there has been a substantial turnover in key members.

Deregulation

The FRC is responsible for overseeing the effectiveness of the financial reporting framework in Australia. FRC's key functions have included the oversight of the FRC's accounting and auditing standards setting processes for the public and private sectors, providing strategic advice to the Minister and professional accounting bodies 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. Following the Australia's Government's public commitment to identifying deregulation opportunities, announced in late 2013, the FRC has been asked to provide advice on potential areas for deregulation in the financial reporting sphere, and this process will continue for at least the remainder of 2014. This has very much dovetailed with the work of the FRC's existing Financial Report Taskforce.

One Set of Global Accounting Standards

Australia was an early adopter of International Financial Reporting Standards (IFRS) in 2005 and this was because Australia recognised early on that with the current pace of globalisation to move to a global set of accounting standards is a logical transition. In today's world where businesses and investments operate on a global level – companies, investors and other stakeholders all gain from the use of one set of accounting standards. Companies can prepare reports for subsidiaries located in different countries on the same basis; and these companies will face a lower cost of capital because investors can easily understand and compare financial information across jurisdictions, while the problem of regulatory arbitrage is minimised.

In economic terms having one set of accounting standards allows the capital market to operate efficiently and everyone benefits from an efficient market. IFRS are particularly important to Australia given we are a capital importing country. IFRS are now being used by over 120 countries around the world and they are a major contributor to transparency in financial reporting. Furthermore convergence projects

between IFRS and US Generally Accepted Accounting Principles (GAAP) have significantly reduced the differences between them. Since 2007 foreign registrants in the US can lodge their financial reports in IFRS without reconciliation to US GAAP.

It is important to recall that US GAAP takes a rules-based approach to accounting standards while IFRS exemplifies a principled-based approach. In general rules-based approaches tend to have a greater regulatory impact, allowing entities to follow the detail of the standards while potentially evading the spirit of the standards. The G20, meeting in Australia this year, has long encouraged adoption of a single set of high quality global accounting standards. For most jurisdictions it is now clear that these global standards are IFRS.

This was a theme of this year's Ken Spencer Memorial Lecture, given by the International Accounting Standards Board (IASB) Chairman, Hans Hoogervorst. Mr Hoogervorst and the IFRS Foundation Trustees met in Australia for the first time in April 2014. Michel Prada, Chairman of the IFRS Foundation Trustees, attended the April FRC Meeting and gave an insightful update of international financial reporting developments. Australia's existing strong influence in the financial reporting world was also reflected in the then FRC's Chairman, Lynn Wood's appointment as an IFRS Trustee in January 2014 for three years.

An increased international focus on audit

Audit reforms were introduced in Australia in 2012. These reforms were under the *Corporations Legislation Amendment (Audit Enhancement) Act 2012* and arose from a 2010 strategic review of audit quality undertaken by Treasury, which considered how Australia's audit quality framework compared internationally. The general conclusion of the review was that Australia's audit environment was stable and no major changes were needed. Changes introduced by the Audit Enhancement Act included:

- Changes to the FRC's role giving it a strategic policy role to provide advice on audit quality in Australia to the Minister and professional accounting bodies;
- Provision of flexibility to companies to extend the five-year auditor rotation period by up to two years, provided the audit committee or directors are satisfied that audit quality and independence can be maintained;
- The requirement for audit firms that audit more than ten significant entities per year to publish a transparency report, ensuring that there is publicly available information about the firms that audit listed and other key entities including banks; and
- Allowing the Australian Securities and Investments Commission (ASIC) to publish audit deficiency reports when ASIC believes an audit firm has not taken appropriate remedial action to remedy deficiencies, and also allowing ASIC to communicate directly with the audited entity.

By contrast audit reforms being developed in Europe are more detailed and rules-driven and include a 10 year mandatory audit firm rotation regime for the audits of European Union (EU) public interest entities (with a member state option to allow for a further ten years if a competitive tender or further 14 years if a joint audit is held).

US Congress, on the other hand, has passed a law banning the Public Companies Accounting Oversight Board (PCAOB) from requiring audit firms rotation, and a Canadian review of audit quality in 2013 took a similar view against mandatory audit firm rotation. Thus it will be difficult for Australia to ensure its regulatory regime remains of a similar design to both the EU and North America as we have tended to do in the past.

Given the Government's deregulatory focus it appears unlikely Australia will emulate EU developments.

A number of reforms being undertaken through the International Auditing and Assurance Standards Board (IAASB) will influence audit firm behaviours around the world including Australia, given that we conform with International Standards on Auditing (ISAs). These reforms are aimed at enhancing audit quality and reducing options for regulatory arbitrage.

IAASB projects likely to be of relevance to Australia include:

- The auditor reporting project by which the IAASB seeks to enhance the auditor's report to provide more meaning and value for investors and other stakeholders. The FRC made a submission, developed by the Audit Quality Committee, on the IAASB's Exposure Draft;
 - Users of financial reports have widely divergent understandings of the concepts of 'going concern'. As such, the FRC proposed that care should be taken when considering expanding auditor commentary on this concept. This position was verified via a 2012 FRC survey conducted on the perceptions of the usefulness of audit reports to retail shareholders. The FRC believes that the concept of 'going concern' and its application is a matter better addressed by accounting standards rather than auditing standards. We continue to encourage the IAASB to liaise with the IASB to clarify the relationship between accounts prepared on a going concern basis and the medium to long-term viability of an entity.
- In December 2013 the IAASB released *A Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality* which describes in a holistic manner the different elements that create the environment for audit quality at the engagement, firm, and national levels, as well as relevant interactions and contextual factors.

Financial Literacy of Directors

In 2011 the FRC established the Board Education Taskforce to consider the issue of board understanding of financial reporting. In September 2012 the Taskforce released its report with the results of a survey and its recommendations and concluded its work. There have been three areas of follow-up activity from the Taskforce's work during 2013-14 (involving a considerable amount of work from the FRC's stakeholder bodies):

1. ASIC has developed a webpage on financial literacy for directors with links to appropriate courses on financial literacy for directors provided by Chartered Accountants Australia and New Zealand (formerly ICAA), CPA Australia, the Institute of Public Accountants (IPA) and the Australian Institute of Company Directors (AICD);
2. A free directors' financial literacy app is being developed by a working group of the same organisations so that directors will be able to self-test their financial literacy and take appropriate education if warranted; and
3. The AICD has developed and released a publication called *Financial Fundamentals for Directors*. This follows the AICD introducing compulsory continuous professional development requirements for all directors. These require directors to keep up to date with developments affecting directors, including changes to financial reporting requirements, accounting standards and regulatory expectations.

Complexity

In 2011 the FRC established a taskforce looking at ways to reduce complexity in financial reporting. The Managing Complexity Taskforce recommended in its final October 2012 report that the FRC should:

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

The FRC Financial Report Taskforce has been established to look at this question and is expected to report in 2014-15.

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

The Australian Accounting Standards Board (AASB), Auditing and Assurance Standards Board (AUASB) and ASIC are working closely to encourage simplification of reporting practices in Australia. As a result the AASB released a staff paper *To Disclose or Not to Disclose: Materiality is the Question* on the AASB

website. The AASB is also contributing to the IASB's efforts to achieve simplified disclosure requirements. ASIC has confirmed that its financial reporting surveillance program focuses on the importance of material disclosures and emphasises that directors and auditors should focus on disclosures of useful and meaningful information for investors and other users.

3. Encourage preparers to make better use of developments in information technology in financial reports. For example companies can present their online reports in an interactive format rather than in PDF alone to allow users to better navigate the reports. The Taskforce suggested that consideration be given to allow companies to present governance policies and procedures online to help prevent boilerplate language in annual reports.

The third edition of the Australian Stock Exchange (ASX) Corporate Governance Council's *Corporate Governance Principles and Recommendations* has taken up this suggestion and is offering greater flexibility to listed companies to make online governance disclosures.

Forward-looking information and integrated reporting

The *Corporations Act 2001* (Corporations Act) requires disclosing entities, public companies, large proprietary companies and registered schemes (s. 292) to prepare a financial report with specified content (s. 295(1)) including financial statements, the notes and directors' declaration. The financial report is designed to assist stakeholders in the reporting entity to make informed decisions about allocating scarce resources. Financial reports are helpful in reviewing the performance and financial position of an organisation at a point of time, in the past. At least since the global financial crisis (GFC) there has been a group of users of financial reports seeking more forward-looking information. This trend has led to more attention being assigned to the management discussion and analysis (MD&A) in the annual report.

Last year ASIC introduced Regulatory Guide 247 (RG 247) to assist preparers better complete the MD&A, known in Australia as the Operating and Financial Review (OFR). RG 247 guides the reporting entity to tell its story effectively. It describes how to provide shareholders (and other stakeholders) with a narrative and analysis to supplement the financial report and assist them in understanding the operations, financial positions, business strategies and the entity's prospects.

Integrated reporting is another development relevant to the objective of demonstrating how an organisation creates value over the short, medium and long term and includes forward-looking reporting. In 2011 the FRC established an Integrated Reporting Taskforce, which has coordinated FRC submissions to the International Integrated Reporting Council (IIRC). The FRC made a submission on the IIRC's proposed framework in July 2013, raising concerns about the potential addition to reporting burdens.

The FRC continues to monitor developments in integrated reporting, but it seems clear that there will be no move to mandate such reporting in Australia in the short term.

Full compliance with the principles of Integrated Reporting would require forward looking disclosures. Company directors continue to be concerned about the inherent uncertainty of forward looking disclosures and whether there are appropriate and adequate protections for corporations and directors when making these disclosures. They argue further protections are needed for directors to be able to make more meaningful forward looking disclosures.

The current 'business judgment rule' in the Corporations Act does not provide comprehensive protection to directors. The 'business judgement rule' is only a defence to the directors' duty of care and diligence, it is not available as a defence to allegations of false or misleading forward looking statements or any other reporting requirement in the Corporations Act.

Outlook for 2014-15

Over the coming year the FRC will continue its work providing advice on potential deregulatory initiatives in the financial reporting sphere. We also expect that the work of the Financial Report Taskforce will provide useful background to the long run work of governments (including the States and Territories) in this area.

We also anticipate that the FRC will continue to closely monitor developments in audit quality, as required by the Australian Securities and Investments Commission (ASIC Act). This will be largely achieved by a program of consultation with the key professional bodies, and other relevant agencies such as ASIC.

Finally we expect a continued renewal in the membership of the FRC, with Jan West and Andrew Fleming stepping down.

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. I would particularly like to note the contribution made by Lynn Wood, Chairman from March 2011 to June 2014 and who has done an exemplary job as Chairman, brought an enormous energy to the role and a genuine desire to ensure the FRC's relevance. The creation of detailed Strategic Plans and the FRC Taskforces will be seen as significant legacies of her term as Chairman. I wish Lynn the best in her important role representing Australia, and indeed the region, as an IFRS Foundation Trustee, overseeing the work of the IASB.

I would also like to especially thank a number of longstanding FRC members who have stepped down this year after making a significant contribution:

- Kevin Stevenson (Chairman AASB)
- Kevin Simpkins (Chairman New Zealand External Reporting Board)
- Grant Hehir, Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)
- Jim Murphy (Treasury).

A handwritten signature in black ink, appearing to read 'Coleman', written in a cursive style.

Michael Coleman
Chairman of the Financial Reporting Council
17 October 2014

1. OVERSIGHT OF AUSTRALIAN STANDARDS 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 2013-14 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 standards 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 standards 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 membership of the Nominations Committee as at 30 June 2014 is listed in the table below.

Committee	Chairman	Members
Nominations Committee	Mark Coughlin	Michael Coleman Andrew Fleming Stein Helgeby Merran Kelsall Kevin Stevenson Jan West

The following appointments and re-appointments to the Boards for terms commencing on 1 January 2014 and ending on 31 December 2016 (unless otherwise shown) were approved by the FRC on 28 November 2013:

- AASB: appointment of Regina Fikkers, Steve Mitsas, Taryn Rulton, Marc Smit, and Professor Ann Tarca.
- AUASB: appointment of Robin Low and Caithlin McCabe; and the reappointment of Neil Cherry from 1 July 2014 to 30 June 2016 and John Gavens from 1 January 2014 to 30 June 2015.

The FRC would like to thank the following AASB members who left during 2013-14 for their contributions: Victor Clarke; Michele Embling, Professor Jayne Godfrey, Liane Papaelias, Roger Sexton, and Robert Williams. The FRC would also like to thank the following AUASB members who left during 2013-14 for their contributions: Jon Tyers (Deputy Chairman) and Kristen Wydell.

As at 30 June 2014, 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.

The National Commission of Audit was established to examine the scope and efficiency of Government, review the state of the Commonwealth's finances, and to make recommendations on structural reforms to ensure long-term fiscal sustainability. The Government released the Commission's report on 1 May 2014, and the report recommended that the Offices of the AASB and AUASB be merged to achieve operational efficiencies. The FRC notes that the Offices currently share many resources.

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: About the FRC>Rules of Operation>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 issued by the IAASB as a base from which to develop the Australian standards (Direction approved 4 April 2005).

Each of these directions is still current. At the March 2013 meeting the FRC agreed to an AASB proposal to not 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.

2. AUDIT QUALITY

2.1 INTRODUCTION

The FRC has adopted a strategic advice role in relation to audit quality since the passage of the Audit Enhancement Act in 2012. This advice may include matters relating to the effectiveness of 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 helps to maintain 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 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 Auditing and Assurance Standards Board (AUASB). 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 professional accounting bodies enforce professional standards and comprise the Chartered Accountants Australia and New Zealand (otherwise referred to as the ICAA),¹ CPA Australia and the Institute of Public Accountants (IPA).

The Audit Quality Committee of the FRC is tasked with assisting the FRC through facilitating engagement with stakeholder bodies, reviewing international developments related to audit quality and providing input to the strategic advice provided to the Minister in relation to the matters noted above.

1 The Institute of Chartered Accountants Australia (ICAA) changed its name in July 2014 to Chartered Accountants Australia and New Zealand but as this report relates to the year to June 2014, references will be to the ICAA.

2.2 THE QUALITY OF AUDIT

The FRC noted the results of the *ASIC Audit Inspection Program Report 2012-13* (the ASIC Report) and welcomes the overwhelmingly positive response from major audit firms, who developed action plans in consultation with ASIC to improve the quality of audit in Australia. The FRC continues to monitor the action undertaken by ASIC and the six largest accounting firms, who comprise PricewaterhouseCoopers, KPMG, EY, Deloitte, Grant Thornton and BDO, following the development of these action plans.

During 2013-14, the FRC noted its support for the work undertaken by the professional accounting bodies to improve audit quality, including the review of guidance and training programs which are 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, however further work needs to be done in relation to the issues identified by the ASIC Report.

The FRC further supports the collaboration between the professional bodies to address audit quality issues more broadly.

The FRC also monitored the adequacy of the teaching of ethics as it relates to audit quality through regular meetings with the professional accounting bodies and engagement with the APESB by the Audit Quality Committee on matters of ethics. Following a review of the information that has been 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 2013-14 and received information on audit quality matters from ASIC and the professional accounting bodies. The FRC further informed its audit quality responsibilities through an ongoing review of releases from the professional accounting bodies, accounting firms, international audit regulators and other audit stakeholders.

ASIC

The ASIC Report was released on 27 June 2014 and covered findings from its risk based inspections of 17 Australian audit firms in the period between 1 July 2012 and 30 December 2013.

The ASIC Report noted that while audit firms had made good efforts to improve audit quality these efforts were not yet reflected in its risk-based inspection findings. More information is provided about this report later in the Chapter.

During 2013, ASIC welcomed the responses of the six largest accounting firms to its request to prepare action plans to improve audit quality and the consistency of audit execution. However, the full impact of these plans is expected to be better reflected in the ASIC Report for the 18 months to 30 June 2015.

During the year, ASIC worked with audit oversight regulators in other international jurisdictions through the International Forum of Independent Audit Regulators (IFIAR) to encourage the largest global audit firms to improve audit quality internationally. ASIC also actively participates in the consideration of initiatives to improve audit quality as a member of a working group of the International Organisation of Securities Commissions (IOSCO).

ASIC continued to liaise with the AUASB in relation to proposed improvements to guidance related to auditing standards. ASIC also liaised with the IAASB and International Ethical Standards Board for Accountants (IESBA), both directly and through IOSCO, with a view to seeking improvements to international auditing and auditor independence standards due to their impact on Australian standards.

In March 2014, ASIC issued Information Sheet 196 *Audit quality: The role of directors and audit committees* to assist directors and audit committees in their role of ensuring the quality of the external audit of a financial report. The specific contribution that directors and audit committees should make to audit quality includes recommending audit appointments, ensuring that auditors receive reasonable fees to support quality audits, reviewing the resources devoted to the audit, ensuring that auditors are fully informed of risks that may impact on the audit, and ensuring that auditor independence is protected. ASIC has further suggested that directors and audit committee ask their auditors for any findings from ASIC audit firm inspections relating to the audit of their companies.

ASIC has worked closely with the professional accounting bodies and has suggested ways in which their firm quality review programs could be further enhanced, and has also suggested that the bodies provide additional training and workshops on core skills to assist auditors in exercising professional scepticism.

ASIC had 189 meetings with industry bodies during 2013-4 including audit committee forums and meetings with the professional accounting bodies and other stakeholders.

ICAA

The ICAA reported its ongoing recognition of the importance of audit quality for its practices and its members.

Thought leadership

During 2013-14 ICAA:

- Continued its research into the mindset of auditors and perceptions around the key drivers of audit quality in the major firms.
- Published an Audit Quality *Infographic* to raise awareness across the profession of potential areas for audit quality enhancement or focus.
- Funded research on how firms conceptualise and apply professional scepticism in an audit context.
- Continued to contribute to debates in relation to the IAASB, US Centre for Audit Quality, and US Public Company Accounting Oversight Board (PCAOB) activities and consultations on the Audit Quality Frameworks, Measurement and Audit Reporting projects and other audit quality matters.
- Ran two Audit Quality Forums during 2014 with the firms who prepared Action Plans with ASIC, and the next five largest audit networks in Australia.
- Ran *Knowledge Sharing* sessions in seven Australian states and territories. ASIC also presented at the ICAA Audit Conferences during the year and covered their areas of focus for audit quality.

Guidance and support

During 2013-14, ICAA:

- Updated the ICAA *Audit Manual for Small & Medium Practices* to provide practical assistance for applying standards and undertaking quality work. This update included an increased focus on professional scepticism (both its application and documentation).
- Released guidance on issues arising from quality reviews and how to apply the standards better in these areas.
- Introduced a new Fraud workshop to provide audit practitioners with knowledge, practical understanding and support to address fraud risk factors.
- Introduced new online training events for members, which have included *Top 10 tips for audit*, *Risk Assessments*, and *Professional Scepticism under the Microscope*.
- Maintained regular, relevant communications on audit quality matters through weekly electronic newsletters (which cover changes to standards) and regular articles in monthly member magazines.

Engagement with ASIC

During 2013-14 the accounting profession made an effort to address some of the weaknesses that were identified in the ASIC Report. ICAA discussed the best means to address many of these issues with the FRC and the AQC in late 2013, for example the practical guide on applying and documenting professional scepticism issued in conjunction with the Canadian Public Accountability Board (CPAB).

The Action Plans developed by firms in consultation with ASIC are the firm's individual and specific program, designed to enhance their existing internal systems and processes to allow more consistent application of quality across audit engagements.

The publication *Sharing experiences in audit quality* at the end of 2013 drew out specific ideas, processes and options for enhancement which could be appropriate for smaller firms and was based on the Action Plans prepared by the six largest accounting firms. The initiatives were classified in terms of:

- Culture & accountability, including competencies, attributes and tone at the top;
- Experience & expertise, including training, scepticism, root cause analysis and tools; and
- Supervision & review, including coaching and time.

CPA Australia

CPA Australia restated the importance of audit quality and the need for constant improvement for the profession, capital markets and other stakeholders.

Thought leadership

During 2013-14, CPA Australia:

- Released the publication *Professional Scepticism: looking both ways in a one way street*, which highlighted the key insights from panel discussions and interviews with leaders of the audit profession, psychologists and behavioural scientists.
- Commenced a collaborative research initiative with the Accounting and Finance Association of Australia and New Zealand (AFAANZ) focused on going concern auditor reporting and professional scepticism.
- Collaborated with the AUASB and other stakeholders and hosted roundtables on the proposed international developments in auditor reporting standards.
- Initiated and hosted the inaugural *Evolution of Audit* forum, which sought to promote collaboration on key forward looking issues around audit quality. An international key note speaker, panel of leaders from the auditing profession and ASIC participated in this forum.

- Continued to support research to develop new ways of training and fostering professional scepticism for individuals, teams of professionals and audit firms, in collaboration with a team of academics chosen from AFAANZ. The resources developed in this initiative thus far have already been adopted by tertiary institutions to enhance how professional scepticism is taught in undergraduate and graduate programs.

Guidance and support

CPA Australia has implemented a broad range of ongoing activities and member requirements to promote audit quality, in addition to undertaking the following new activities focused on contemporary and forward looking issues:

- New audit webinar training and a series of online e-learning modules on audit quality topics including materiality, risk assessment, assessing controls and documentation.
- Auditing and assurance resources including guidance documents, factsheets, audit manual and competency standards.
- Audit training products including face to face learning, webinars, online e-learning modules and podcasts.
- Promoting better understanding in the community of the role of auditing and assurance and general financial literacy through publications and initiatives.

Engagement with ASIC

CPA Australia has worked closely with ASIC to determine how best to respond to the key focus areas identified in the ASIC Report. Many of the specific initiatives identified were being addressed in consultation with ASIC before the release of the Report on 27 June 2014. In particular, the following initiatives have been undertaken by CPA Australia during 2013-14:

- Communicating ASIC's findings and key messages widely through a podcast interview with a senior ASIC official.
- Undertaking research to improve education and training in relation to professional scepticism.
- Incorporating the focus areas identified in the ASIC Report into training programs for auditors, the CPA Australia *Advanced Audit and Assurance Professional Program Module* and CPA Australia's *Small Entities Audit Manual*.

CPA Australia supports the Action Plans developed by the largest six auditing firms as a positive, collaborative activity with a view to focusing on and improving audit quality. CPA Australia is especially supportive of the 'example initiatives to improve audit quality' outlined in the ASIC Report and encourages all audit firms to develop audit quality action plans with consideration of these factors.

2.2.2 International developments

The FRC monitors 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 2013-14, the FRC has observed with interest a range of developments in Europe and North America that potentially have implications for audit quality. The more significant international developments include:

- In July 2013, the US House of Representatives passed a bill preventing the PCAOB from imposing auditor term limits on its own. Further, the schedule of prohibited non-audit services, since implemented by the European Commission, parallels the restrictions placed on consulting work under the *Sarbanes-Oxley Act 2002* in the United States.
- On 25 July 2013, the IAASB issued the exposure draft *Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing*. The Exposure Draft proposed a new standard requiring that auditors communicate Key Audit Matters in their published audit report. These matters would be selected from matters communicated with those charged with governance, amongst other proposals.
- In October 2013, the UK Competition Commission (UKCC) introduced the requirement for FTSE 350 companies to put their audit out to tender every ten years, with those that tender less frequently than five years required to report in which financial year they plan to put the audit engagement out to tender.
 - The UKCC expects to release further rules in late 2014 that take account of proposed EC audit reforms.
- In February 2014 the IAASB issued the revised *Framework for Audit Quality: Key Elements that Create an Environment for Audit Quality*. It describes the key factors that are involved in ensuring high quality audits are consistently performed by practitioners and aims to raise awareness of quality issues.
- In April 2014, CPAB released its public report on audit inspections in 2013. The report revealed that inspections have improved over the prior year. Action plans developed by firms to address audit quality issues are responsible for much of the improvement noted in 2013 and 2012.

- In April 2014 IFIAR also released the findings of an audit quality survey conducted in 2013. The survey indicates the persistence of deficiencies in important aspects of audits between IFIAR member jurisdictions and that there is a basis for ongoing concerns with audit quality. Common areas of concern are:
 - Fair value measurement, internal control testing, and adequacy of financial statements and disclosures (for audits of listed public-interest entities);
 - Audit allowance for loan losses and loan impairments, internal control testing, and audit of the valuation of investments and securities (for audits of systemically important financial institutions); and
 - Engagement performance, human resources, and independence and ethics requirements (for inspections of audit firms' quality-control systems).
- In May 2014 the UK Financial Reporting Council (FRC-UK) released its *Audit Quality Inspections Annual Report for 2013-14*, which focuses on where improvements might be necessary. The FRC-UK noted that, generally, improvements in audit quality are achieved because action plans are developed with the firms to address the weaknesses identified in individual audit engagements and firm-wide procedures by inspectors.
- On 16 June 2014, new legislation to improve the quality of statutory audit across the European Union (EU) entered into force. Member states have two years from this date to adopt and publish the provisions to comply with this legislation. The new legislation includes the following:
 - 10 year mandatory firm rotation for public interest entities (up to 20 years if put out to tender or 24 years if the firm undertakes a joint audit);
 - A limit placed on fees chargeable for non-audit services and tax advice of 70 per cent of the value of audit fees, in addition to a schedule of prohibited non-audit services; and
 - The coordination of auditor supervision in the EU through the Committee for European Audit Oversight. The European Securities and Markets Authority will play a role in the co-operation on audit oversight.
- The PCAOB held public meetings in April 2014 to discuss proposals to enhance the auditor's reporting model. Proposals include the requirement to communicate 'critical audit matters' (similar to the IAASB's Key Audit Matters), new requirements on disclosure of matters relating to auditor independence, audit tenure, and other information outside the financial statements, and enhancement to existing language in the auditor's report related to the auditor's responsibilities for fraud and notes to the financial statements.

The FRC will maintain a watching brief on these developments to determine how best to respond in order to improve audit quality in Australia.

The FRC published the Occasional Paper *Audit Quality and the FRC's responsibilities consequential to the Corporations Legislation Amendment (Audit Enhancement) Act 2012* on its website in August 2013. The paper was written by the Australian Auditing and Accounting Public Policy Committee (APPC) and discusses a number of areas related to audit quality in Australia including:

- Defining 'audit quality' – the importance of audit stakeholders taking a broad view of what constitutes audit quality, the Australian profession's contributions to international debate on the definition of audit quality and the fact that there are both input and output factors to audit quality;
- Bridging the audit expectation gap – the need for acknowledgement that bridging the audit expectation gap is a shared responsibility of auditors, those charged with governance, regulators, standards setters, legislators and investors; and
- Financial reporting initiatives – the need for further discussions on whether financial reports should be more forward looking and on proposals to enhance auditor reporting.

2.3 REVIEW PROCESSES

Australia's co-regulatory regime involves ASIC and the professional accounting bodies cooperating on the implementation of their auditor oversight 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

In ASIC's view, in 20 per cent of the total 454 key audit areas that it reviewed across 107 audit files at firms of different sizes, auditors did not obtain reasonable assurance that the financial report as a whole was free from material misstatement. This compares to 18 per cent for ASIC's report covering the previous 18-month period, ending June 2012. These findings do not fully take into account the impact of action plans developed by the largest six audit firms, which were first implemented for financial statements for years ending on 30 June 2013. The results of these action plans are expected to be reflected in future ASIC reports.

ASIC adopts a risk-based approach in its inspection program and has cautioned that the findings should be viewed as an indication of how some firms address more challenging audit situations. Caution is needed before generalising the inspection results across the entire market. The findings reflect cases where, in ASIC's view, the auditor did not have a sufficient basis to support their opinion on the financial report, rather than the findings necessarily implying that the relevant financial reports audited were materially misstated. ASIC further advised that they do not report on areas where auditors perform beyond the relevant standards and to that extent the report does not represent a balanced scorecard.

ASIC's report outlines initiatives that auditors should consider to improve audit quality and the consistency of audit execution, as well as future focus areas for their audit inspections. Three broad areas continued to be 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
- ensuring appropriate reliance on the work of experts and other auditors.

During 2013, the largest six audit firms responded to ASIC's requests to prepare action plans to improve audit quality and the consistency of audit execution.

The ASIC Report noted that it may take some time for the results of the action plans to be reflected in ASIC's risk-based inspection findings. This is because the firms commenced implementing key aspects of the plans for audits of financial reports for the year ended 30 June 2013, which was already 12 months into the 18-month period covered by the report. Further, the plans often concern matters such as the culture of focusing on audit quality within the firms, which can take time to have effect.

ASIC further encouraged firms to consider reviewing their staffing structures to ensure that sufficient and appropriate experience and expertise is available for increasingly complex entities and audits, which typically require increased good judgement.

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 overall assessment of a practice takes into account practice-wide control policies and procedures, in addition to the findings from the review of individual engagement files.

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 2013-2014, 79 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.

These practices undertake Corporations Act and non-Corporations Act/SMSF audits. These practices have undertaken to address the areas of non-compliance.

For those practices showing an insignificant level of non-compliance, 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. All practices that were re-reviewed had adequately addressed the areas of non-compliance, with one practice no longer conducting any engagements in the area of concern. The ICAA will continue to monitor this practice's activities. 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 Professional Conduct team. This was not necessary during 2013-2014.

These results came from the review of audit engagements files constituting audits of a range of entities, summarised as follows: listed entities (2 per cent), Corporations Act, excluding listed entities (25 per cent), SMSF (48 per cent) and non-Corporations Act/SMSF (25 per cent).

The ICAA further informed the FRC that for practices reviewed during 2013-14 this was the first review of audit engagement files since the introduction of the Clarity standards. Practices are continuing to adapt their policies and procedures to the new requirements of the Clarity audit standards.

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. Online questionnaires are being developed and will be piloted in the coming year. 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; and

- 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 2014 the results of the QR Program were:

- 26.6 per cent Accept Reports with no departure from professional standards identified;
- 56.8 per cent Assurance Reports with minor departures from professional standards identified; and
- 16.6 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 which means an investigation is undertaken and disciplinary options may be pursued.

The majority of all auditing breaches identified by the QR Program related to audits of SMSFs. Education has been provided to members about the importance of perceived and actual independence, particularly with respect to compilation and audit engagements for SMSFs.

In the current review period (the 2014 calendar year) over 930 members are expected to complete a Quality Assurance review and 205 follow-up reviews are expected to be completed from the 2013 reviews.

Members considered to be low risk practitioners (i.e. do not perform audit or assurance engagements, insolvency or forensic work, and members who are not undergoing their first quality review), and members undergoing a follow up review are now performed by qualified in house staff rather than accredited contracted reviewers.

2.3.4 IPA Quality Review Program

The IPA requires all members who are issued with a certificate of public practice to undertake a Public Practice Quality Assurance Review (PPQA) every three to five years. Members who are a registered company auditor or a self-managed superannuation fund auditor are required to hold a certificate of public practice and must be reviewed every three years. All other members are reviewed every five years.

The IPA quality assurance review is designed to assist IPA public practitioners improve their work practices to best practice levels. This in turn ensures clients have security with the level of service and professionalism being provided.

The IPA undertakes a review of around 500 members in public practice every year. For the year to 30 June 2014, all reviews were conducted using an online data collection program in relation to member practice and their client base. Reviews are now undertaken as a desk based review and members must provide proof of their compliance with professional and ethical requirements of the IPA. A site visit and face to face review will only occur where evidence by the member has been considered insufficient to establish compliance with the standards, or if the IPA otherwise deems it necessary.

During 2013-2014:

- 89 per cent of members reviewed met all professional standards and requirements or had minor non-compliance issues however they were resolved before the review was finalised.
- 11 per cent of members reviewed showed a level of non-compliance where follow up action was required.
- 21 members reviewed were self-managed superannuation fund auditors and met all professional standards and requirements and may have had minor non-compliance issues however they were resolved before the review was finalised.
- 1 member reviewed was a registered company auditor with a non-compliance issue (relating to continuing professional education records) requiring follow up action. This was resolved through contact with the member.

2.4 DISCIPLINARY PROCEDURES

In undertaking its role in providing strategic advice on audit quality, the FRC is required to review disciplinary procedures. For this purpose, the FRC has sought information on the disciplinary procedures from ASIC and the professional accounting bodies. 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.

During the year to 30 June 2014, ASIC obtained enforceable undertakings or orders from the Companies Auditors and Liquidators Disciplinary Board relating to the following auditors:

- Brian Kingston in relation to the audit of Wickham Securities Limited. Mr Kingston has been deregistered as a RCA;

- Anthony Hyndman in relation to the audits of Hargraves Secured Investments Limited, Webster Dolilta Finance Limited and Win Securities Limited. Mr Hyndman has been deregistered as a RCA;
- Wayne Wessels formerly of PKF's East Coast Practice in relation to the audit of Kleenmaid Corporate Pty Limited. Mr Wessels was suspended as a RCA for 3 years;
- Martin Thompson and Alan Kwok of Wong and Mayes in relation to the audit of Boulder Steel Limited. Messrs Thompson and Kwok undertook to have an independent review of independence systems and staff training, and an independent review of three audits by Mr Thompson; and
- Warren Sinnott in relation to the audits of Banksia Securities Limited and related companies. Mr Sinnott has been deregistered as a RCA.

ASIC has also made arrangements to pass any of its 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.

The accounting bodies have provided the FRC with the following information concerning disciplinary matters for the year ended 30 June 2014:

- The ICAA Professional Conduct Tribunal heard five cases concerning auditors. Details are as follows, and subsequently will be made available on the ICAA website:
 - 1 member, acting as the auditor of a public listed company, was referred to the Professional Conduct Tribunal after entering into an enforceable undertaking with ASIC.
 - 2 members, acting as the external examiner of a legal trust account, were referred to ICAA by the Queensland Law Society.
 - 1 member, acting as the auditor of a real estate trust account, was referred to ICAA by the Queensland Office of Fair Trading.
 - 1 member, was referred to the Professional Conduct Tribunal following a decision of the Companies Auditors and Liquidators Disciplinary Board.
- No CPA Australia members holding a company auditor registration were referred to a Disciplinary Tribunal for audit breaches during the reporting period.

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 former FRC Chairman met regularly with key stakeholders during 2013-14 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 attended a number of public fora where issues of relevance to the FRC have been discussed and made three public presentations to the financial reporting community.

In January 2014 the then FRC Chairman and FRC Secretary met the then Assistant Treasurer (AT), Senator the Hon. Arthur Sinodinos to discuss a number of issues,

including financial reporting. The Chairman also had meetings with a number of Treasury officials. During 2013-14 she also met the Chairmen of:

- the AASB (Kevin Stevenson), attended a AASB meeting and a AASB roundtable;
- the AUASB (Merran Kelsall), made a presentation to an AUASB meeting and attended an AUASB roundtable; and
- ASIC (Greg Medcraft) as well as ASIC Commissioner John Price and members of ASIC staff.

The FRC Chairman met a variety of stakeholders during the period, including Ian Laughlin (Deputy Chairman APRA); the ICAA (including Lee White); CPA Australia (including Alex Malley); and IPA (including Andrew Conway); stakeholders at KPMG and PwC, and the Chairs of the audit committees of a number of listed companies.

In July 2013 the then FRC Chairman made a presentation to the Corporate Finance Leaders Forum in Sydney on the topic *The Imprecise World of Accounting*. In March 2014 the then FRC Chairman gave an address at the CFO Summit in the Gold Coast where she outlined the role of the FRC and the policy issues facing the financial reporting community. Later in March 2014 she was part of a panel at the ASIC Annual Forum in Sydney considering 'Assuring the quality of audits – what is the solution'. Papers from most of these events are available on the FRC website (FRC website: Media>Speeches and Lectures).

3.3 STRATEGIC ACTIVITIES

In 2013-14 the FRC continued to work with the 2013-16 Strategic Plan adopted in June 2013. The Strategic Plan is reproduced in Appendix A and is available on the FRC website (FRC website: About the FRC>Strategic Plans>Strategic Plan 2013-16). The FRC notes the suggestion of the Parliamentary Joint Committee on Corporations and Financial Services that the FRC include in this annual report analysis and commentary on changes to the strengths and weaknesses in the FRC's SWOT analysis underlying its strategic plan. In 2013-14 there was no change to the FRC's 2013-16 Strategic Plan.

3.3.1 Strategic Planning Committee

This previously named Strategic Plan Committee was renamed as the Strategic Planning Committee, primarily to reflect that its work had covered not just the new Strategic Plan but other issues such as a review of the Memoranda of Understanding with stakeholder bodies, and the FRC Performance of Functions document.

3.3.2 Financial Reporting

The Financial Report Taskforce was established in February 2013 to follow up on the first recommendation of the Managing Complexity Taskforce report, which was to

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. The key objective of the Taskforce is to support the FRC in responding to this recommendation and, if warranted, develop proposals regarding rationalisation of the regime and/or providing a vehicle for co-ordinating existing and new legislation.

During 2013-14 the Taskforce, assisted by input from PwC, considered a large number of examples of financial reporting requirements in Australia, and made initial progress in drawing conclusions and recommendations regarding these reporting requirements.

3.3.3 Public sector financial reporting

The FRC has a mandate not just for financial reporting within the private sector, but also in the not-for-profit and public sectors, reflecting Australia's sector neutral approach to financial reporting. In April 2014 the FRC made a submission to the International Public Sector Accounting Standards Board (IPSASB) Governance Review Group regarding the future governance of IPSASB. As in its 2012 submission, the FRC remains of the view that a model for the oversight and monitoring bodies for IPSASB, which is compatible with a goal of convergence between the IASB and IPSASB is the most appropriate objective. This submission was ably assisted by the members of the currently dormant Public Sector Committee, most notably Dr Stein Helgeby.

3.3.4 Integrated reporting

Much of the focus on integrated reporting is global in nature reflecting the work of the International Integrated Reporting Council (IIRC). The Integrated Reporting Taskforce supported the FRC's submission, in July 2013, on the consultation draft of the International Integrated Reporting framework issued by the IIRC. The submission highlighted the FRC's belief that for integrated reporting to achieve the IIRC's ambition of market-led adoption, that it is critically important that the market accepts either:

- that integrated reporting will in fact deliver on the promise to produce better, rather than more, reporting; or
- if it is perceived that integrated reporting is likely to require additional reporting, that the business case for the additional reporting is cogent and compelling and that the benefits are seen clearly to outweigh the burdens.

The FRC made it clear that integrated reporting is unlikely to be mandated in Australia, and its adoption will be a function of market acceptance of the value of integrated reporting.

Full compliance with the principles of Integrated Reporting would require forward looking disclosures. Company directors continue to be concerned about the inherent uncertainty of forward looking disclosures and whether there are appropriate and adequate protections for corporations and directors when making these disclosures.

They argue further protections are needed for directors to be able to make more meaningful forward looking disclosures.

The current 'business judgment rule' in the Corporations Act does not provide comprehensive protection to directors. The 'business judgement rule' is only a defence to the directors' duty of care and diligence, it is not available as a defence to allegations of false or misleading forward looking statements or any other reporting requirement in the Corporations Act.

In November 2013 the IIRC wrote a specific response to the FRC submission, reflecting the importance of the FRC's views. The response seeks to address each of the substantive issues raised by the FRC and to address the way in which integrated reporting could work in Australia's regulatory environment. The response is available on the FRC website (FRC Website: Documents>Submissions>FRC submission to the International Integrated Reporting Council on Integrated Reporting).

The Integrated Reporting Taskforce is currently dormant.

3.3.5 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 its findings (FRC website: Documents>Publications>Results of Survey of the Financial Literacy of Australian Directors).

There have been three areas of follow-up activity during 2013-14, which involved a considerable amount of work from the FRC's stakeholder bodies:

1. ASIC has developed a webpage on financial literacy for directors with links to appropriate courses on financial literacy for directors provided by Chartered Accountants Australia and New Zealand (formerly ICAA), CPA Australia, IPA and the AICD.
2. A free directors' financial literacy app is being developed by a working group of the same organisations so that directors will be able to self-test their financial literacy and take appropriate education if warranted; and
3. The AICD has developed and released a publication called Financial Fundamentals for Directors. This follows the AICD introducing compulsory continuous professional development requirements for all directors. These require directors to keep up to date with developments affecting directors, including changes to financial reporting requirements, accounting standards and regulatory expectations.

In addition the Parliamentary Joint Committee on Corporations and Financial Services recommended that the FRC implement regular surveys of the financial literacy of directors and to subsequently publish the results. Although the FRC acknowledges the

importance of this recommendation it does not independently have the capacity to conduct this type of survey. In addition various methodological limitations of the approach have been drawn to the FRC's attention, which it believes compromises the effectiveness of such surveys to provide the information regarding the level of director financial literacy sought by the Parliamentary Joint Committee.

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 set 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'.

4.1.1 Stakeholder engagement

During 2013-14, key engagements with the international standard setter community included:

- The Chairman of the International Accounting Standards Board, Hans Hoogervorst, presented the 2014 Ken Spencer Memorial Lecture, with the title *'Building Trust in Financial Markets: Accounting and Moral Hazard'* on 10 April 2014 in Sydney.
- Attendance by Monsieur Michel Prada, Chairman of the Trustees of the IFRS Foundation, at the 11 April 2014 FRC meeting, following on from chairing the first ever meeting of the IFRS Foundation Trustees held in Australia. He briefed the FRC on international developments relating to the adoption of IFRS globally, the IASB move to deal with standard setters multilaterally, the focus on implementation of IFRS, and the management of the IFRS institutions. Monsieur Prada also discussed the IFRS Foundation's relationship with work on international public sector accounting standards.
- Meeting with Ian Mackintosh on 9 August 2013 to discuss: updates on Australia and IASB; the April 2014 meeting of the IFRS Trustees; the Ken Spencer Memorial Lecture; the G20; integrated reporting and Public Sector Reporting. Mr Mackintosh also attended the Ken Spencer Memorial Lecture and the 11 April 2014 FRC meeting.

- Meeting with Jorgen Holmquist IESBA Chairman on 19 September 2013.
- Meeting with Fayez Choudhury CEO of International Federation of Accountants (IFAC) on 25 September 2013.

4.1.2 Monitoring and influencing global convergence

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. Fourteen of the G20 jurisdictions have adopted IFRS for all or most companies in their public capital markets. Of the remaining G20 jurisdictions:

- three permit IFRSs on a limited voluntary basis for domestic and/or foreign issuers (India, Japan, United States);
- one (Saudi Arabia) requires IFRS on a limited basis (banks and insurance companies only);
- one (China) has substantially converged its national standards to IFRS; and
- one (Indonesia) has adopted some IFRS but has not announced a plan or timetable for full adoption, although it has announced plans to increase the pace of convergence with IFRS.

On 1 January 2014 the then FRC Chairman, Lynn Wood, commenced her appointment as an IFRS Foundation Trustee for an initial period of three years. The IFRS Foundation Trustees oversee the work of the IASB. The FRC looks forward to working with Ms Wood over coming years. Ms Wood succeeded Jeffrey Lucy AM, also a former FRC Chairman, as an IFRS Foundation Trustee. The FRC would also like to record its appreciation of the work of Mr Lucy as a Trustee, and notes his role in having the Trustees meet in Australia for the first time in 2014.

Australia also uses the IAASB's International Standards on Auditing (ISAs) as the basis for Australian Auditing Standards (ASAs). Over 90 jurisdictions now use or are committed to using in the near future ISAs, including the following jurisdictions in our region: China; Hong Kong; India; Indonesia; Japan; Malaysia; New Zealand; Philippines; Singapore; Republic of Korea; and Thailand. Merran Kelsall, AUASB Chairman, and an FRC member, is also a member of the IAASB.

4.1.3 Monitoring and influencing regional convergence

IFRS Regional Policy Forum

The IFRS Regional Policy Forum was hosted by India in March 2014, and attended by then FRC member, Kevin Stevenson (in his capacity as AASB Chairman). The Forum heard presentations from many speakers, including Hans Hoogervorst (IASB Chairman).

The Forum is the one of the most important international events for policy makers, regulators, national standards setters, preparers and users to share their experiences and discuss IFRS-related policy issues. It also provides a platform to the policy makers in the region to keep abreast of the developments in IFRS with a view to facilitate smooth implementation and convergence with the IFRS in the region.

Asian-Oceanian Standards Setters Group (AOSSG)

The 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 AOSSG is a member of the Accounting Standards Advisory Forum (ASAF) of the IASB.

The AOSSG has been very active in 2013-14 in making submissions to the IASB on a variety of exposure drafts, and is one of the key recognisable regional groupings of standards setters, lending greater weight to the views of the region.

4.1.4 Trans-Tasman harmonisation

New financial reporting framework

In New Zealand the External Reporting Board's (XRB) structure contains three entities, the Board of the XRB and two standards 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 former Chairman of the XRB, Kevin Simpkins was a long-standing member of the FRC and finished his term as an FRC member at the end of February 2014. Graeme Mitchell is now the Chairman of the XRB, and has been appointed as a member of the FRC.

During 2013-14, the FRC Chairman attended two XRB meetings by teleconference, and attended two XRB meetings in person. To facilitate harmonisation of Trans-Tasman standard setting, the Chairman of NZASB and AASB are each a member of their counterpart board, as is the Chairman of NZAuASB and AUASB.

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 standards 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 has not been active during 2013-14.

Cross-memberships with NZ 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 more 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.

4.1.5 Key International Meetings

FRC Chairman

Date	Location	Meeting/Event
1 August 2013	Union Club, Sydney	Meeting with Sir David Tweedie (Former IASB Chairman, Chairman of the Board of Trustees of the International Valuation Standards Council) and Michael Coleman
29 August 2013	Teleconference	XRB Meeting
5 November 2013	Sydney	Stephen Haddrill, CEO FRC(UK)
21 November 2013	Sydney	Paul Druckman and Jonathan Labrey (International Integrated Reporting Council)
9 December 2013	Wellington	XRB Meeting
18 February 2014	Teleconference	XRB Meeting
1 April 2014	Wellington	XRB Meeting

FRC Secretary

Date	Location	Meeting/Event
7 November 2013	Canberra	Stephen Haddrill, CEO FRC(UK) Erin Flynn (FRC Secretariat), Diane Brown (Treasury) and David Woods (Treasury)
9 December 2013	Wellington	XRB Meeting

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 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.

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 standards 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 2014, the FRC had 15 members. During 2013-14, four members left the FRC and four members were appointed or re-appointed. A full list of members during 2013-14, and the stakeholders who nominated them, is in Appendix B.

Three meetings of the FRC were held during 2013-14.

5.3 CONSULTANTS

During 2013-14, no consultants were engaged to perform work on behalf of the FRC.

5.4 COMMUNICATION AND CONSULTATION

The FRC uses its internet website (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 2013-14, 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 2013-14.

5.7 REGULATORY IMPACT STATEMENTS

The FRC did not submit any Regulatory Impact Statements in 2013-14.

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 ASIC 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 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 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 European Union) 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;
 - 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 FINANCIAL REPORTING COUNCIL 1 JULY 2013 TO 30 JUNE 2014

Chairman

Lynn Wood Nominated by the Australian Government, Sydney
Appointed from 11 March 2011 to 10 June 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
Appointed part-time Chairman from 11 June 2014 until 10 September 2014; with an
extension from 11 September 2014 until 10 December 2014

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

Jan Harris Executive Director, Markets Group, Australian Treasury, Canberra
Nominated by The Australian Government
Appointed from 4 April 2014 to 3 April 2017

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; resigned 25 October 2013

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

Members (continued)

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
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
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 Supervision Officer, Australian Securities Exchange, Sydney Nominated by the Australian Securities Exchange Appointed from 14 March 2011 to 13 March 2014; reappointed from 14 March 2014 to 3 April 2017
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 4 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	Principal, RMG Partners Business Solutions, 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 three meetings during 2013-14. Members' attendance is shown in the table below:

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

* Chaired one meeting

** Resigned on 4 July 2013

*** Resigned on 25 October 2013

FRC NOMINATIONS COMMITTEE

The FRC Nominations Committee held three formal meetings in 2013-14, and held interviews on two days. Members of the Committee as at 30 June 2014 are: Mark Coughlin (Chairman), Michael Coleman, Jan West AM, Andrew Fleming, Stein Helgeby, Merran Kelsall and Kevin Stevenson. The Secretary for most of 2013-2014 was Marcus McKillop.

These members’ attendance is shown in the table below:

Members	Number of meetings/interviews		
	Eligible to attend	Attended	Apologies
M Coughlin (Chairman)	5	4**	1
A Fleming	5	5	
S Helgeby	5	5	
M Kelsall	5	4	1
K Stevenson	5	5	
J West AM	5	2*	3
L Wood (former FRC Chairman)	5	4	1
M Coleman (FRC Chairman)	0	0	
Secretary: M McKillop, K Tuckerman	5	5	

* Chaired one formal meeting of the Committee

** Chaired two formal meetings of the Committee

FRC AUDIT QUALITY COMMITTEE

The Audit Quality Committee held four formal meetings in 2013-14. Members of the Committee as at 30 June 2014 are: Michael Coleman (Chairman), Roger Burrows, Mark Coughlin, John Price, Merran Kelsall, Ian Laughlin, Rob Ward (non-FRC member), Liz Stamford (non-FRC member) and Doug Niven (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)	4	4	
R Burrows	4	1	3
M Coughlin	4	3	1
J Price	4	3	1
M Kelsall	4	4	
I Laughlin	4	4	
Rob Ward (non-FRC member)	1	1	
Chartered Accountants ANZ			
L White (non-FRC member)	3	0	3
Chartered Accountants ANZ			
D Niven (non-FRC member)	3	3	
ASIC			
L Stamford (non-FRC member)	4	4	
Chartered Accountants ANZ			
Secretary E Flynn	4	4	

STRATEGIC PLAN COMMITTEE

The Strategic Plan Committee held one formal meeting in 2013-14. Members of the Committee as at 30 June 2014 are: Michael Coleman (FRC Chairman), Merran Kelsall, Ian Laughlin, Kevin Lewis and Kevin Stevenson. The Secretary was Diane Brown.

These members' attendance is shown in the table below:

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
L Wood (Chairman)	1	1	
M Coleman	1	1	
M Kelsall	1	0	1
I Laughlin	1	1	
K Lewis	1	1	
K Stevenson	1	1	
Secretary D Brown	1	1	

FINANCIAL REPORT TASKFORCE

This Taskforce held three formal meetings in 2013-14. Members of the Committee as at 30 June 2014 are: Ross Barker (Chairman), Andrew Fleming, Merran Kelsall, Ian Laughlin, John Price, Ian Purchas, Kevin Stevenson, Kevin Neville (non-FRC member) and Susan Pascoe (non-FRC member). The Secretary for most of 2013-14 was Bruce Donald.

These members' attendance is shown in the table below:

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
R Barker (Chairman)	3	3	
A Fleming	3	2	1
M Kelsall	3	1	2
I Laughlin	3	2	1
I Purchas	3	3	
J Price	2	2	
K Stevenson	3	3	
Kevin Neville (non-FRC member) - Moore Stephens	3	2	1
Susan Pascoe (non-FRC member) - ACNC	3	0	3
Secretary: B Donald	3	3	

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)
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
AUASB	Auditing and Assurance Standards Board
Audit Enhancement Act	<i>Corporations Legislation Amendment (Audit Enhancement) Act 2012</i>
Corporations Act	<i>Corporations Act 2001</i>
CPAB	Canadian Public Accountability Board
CPP	Certificate of Public Practice
EC	European Commission

ABBREVIATIONS (CONTINUED)

EU	European Union
FRC	Financial Reporting Council
FRC-UK	Financial Reporting Council (of the UK)
G100	Group of 100
GAAP	Generally Accepted Accounting Principles
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
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
ISA	International Standard on Auditing
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)
PPC	Public Practice Certificate
PPQA	Public Practice Quality Assurance Review
QR	Quality Review
RCA	Registered company auditor
SEC	Securities and Exchange Commission (of the USA)
SMSF	Self-Managed Superannuation Fund

ABBREVIATIONS (CONTINUED)

TTAASAG	Trans-Tasman Accounting and Auditing Standards Advisory Group
Treasury	Australian Treasury
UK	United Kingdom
USA	United States of America
XRB	External Reporting Board (of New Zealand)

