



MINUTES

DATE: Friday 15 June 2018

TIME: 10:00am – 4:00pm

LOCATION: ASIC Offices, Sydney

| ITEM | AGENDA ITEM | | | | | | | | | | | | | | | | | | | | | | | | |
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| 1 | INTRODUCTION | | | | | | | | | | | | | | | | | | | | | | | | |
| | <p>The Chair noted that Jackie Callaway had accepted a position as the Chief Financial Officer for Devro in the United Kingdom and would be resigning from the FRC. The Chair acknowledged Jackie’s valuable contribution to the FRC and the Nominations Committee. The Chair also noted that Lay Wee Ng from the New Zealand External Reporting Board (XRB) was retiring and acknowledged her contribution to the FRC.</p> <p>The Chair welcomed Adam Bogiatzis from Treasury and noted that guests Andrew Yates, Mike Wright and Regina Fikkers would attend the Audit Quality discussion.</p> | | | | | | | | | | | | | | | | | | | | | | | | |
| 1.A | ATTENDEES AND APOLOGIES | | | | | | | | | | | | | | | | | | | | | | | | |
| | <table border="1"> <thead> <tr> <th>Members in attendance:</th> <th>Observers:</th> </tr> </thead> <tbody> <tr> <td>Bill Edge – Chair</td> <td>John Price, Doug Niven – ASIC</td> </tr> <tr> <td>Kris Peach – AASB Chair</td> <td>Warren Allen – XRB</td> </tr> <tr> <td>Roger Simnett – AUASB Chair</td> <td>Kate O’Rourke, Adam Bogiatzis – Treasury</td> </tr> <tr> <td>Kevin Lewis – ASX</td> <td>Sue Piper, Alyce Reid – FRC Secretariat</td> </tr> <tr> <td>Judith Downes – Bank Australia</td> <td>Guests:</td> </tr> <tr> <td>Stein Helgeby – Department of Finance</td> <td>Damian Paull – AASB/AUASB</td> </tr> <tr> <td>David Nicol – HoTARAC</td> <td>Anne Waters, Rene Herman – AUASB</td> </tr> <tr> <td>Graeme Mitchell – XRB</td> <td>Andrew Yates - KPMG</td> </tr> <tr> <td>Apologies:</td> <td>Mike Wright - EY</td> </tr> <tr> <td>Noelle Kelleher – Vision Super</td> <td>Regina Fikkers - APPC</td> </tr> <tr> <td>Jackie Callaway</td> <td></td> </tr> </tbody> </table> | Members in attendance: | Observers: | Bill Edge – Chair | John Price, Doug Niven – ASIC | Kris Peach – AASB Chair | Warren Allen – XRB | Roger Simnett – AUASB Chair | Kate O’Rourke, Adam Bogiatzis – Treasury | Kevin Lewis – ASX | Sue Piper, Alyce Reid – FRC Secretariat | Judith Downes – Bank Australia | Guests: | Stein Helgeby – Department of Finance | Damian Paull – AASB/AUASB | David Nicol – HoTARAC | Anne Waters, Rene Herman – AUASB | Graeme Mitchell – XRB | Andrew Yates - KPMG | Apologies: | Mike Wright - EY | Noelle Kelleher – Vision Super | Regina Fikkers - APPC | Jackie Callaway | |
| Members in attendance: | Observers: | | | | | | | | | | | | | | | | | | | | | | | | |
| Bill Edge – Chair | John Price, Doug Niven – ASIC | | | | | | | | | | | | | | | | | | | | | | | | |
| Kris Peach – AASB Chair | Warren Allen – XRB | | | | | | | | | | | | | | | | | | | | | | | | |
| Roger Simnett – AUASB Chair | Kate O’Rourke, Adam Bogiatzis – Treasury | | | | | | | | | | | | | | | | | | | | | | | | |
| Kevin Lewis – ASX | Sue Piper, Alyce Reid – FRC Secretariat | | | | | | | | | | | | | | | | | | | | | | | | |
| Judith Downes – Bank Australia | Guests: | | | | | | | | | | | | | | | | | | | | | | | | |
| Stein Helgeby – Department of Finance | Damian Paull – AASB/AUASB | | | | | | | | | | | | | | | | | | | | | | | | |
| David Nicol – HoTARAC | Anne Waters, Rene Herman – AUASB | | | | | | | | | | | | | | | | | | | | | | | | |
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| Noelle Kelleher – Vision Super | Regina Fikkers - APPC | | | | | | | | | | | | | | | | | | | | | | | | |
| Jackie Callaway | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1.B | DECLARATIONS OF INTEREST Members noted their Declarations of Interest. | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 | MATTERS FOR APPROVAL | | | | | | | | | | | | | | | | | | | | | | | | |
| 2.A | MINUTES OF THE PREVIOUS MEETING Members noted the minutes from the FRC meeting on 27 February 2018 which had been approved out-of-session. | | | | | | | | | | | | | | | | | | | | | | | | |

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| 2.B | <p>MATTERS ARISING</p> <p>The Chair noted that matters raised at the February FRC meeting had been completed or were on the current agenda and that ongoing matters would be discussed during the public sector discussion.</p> |
| 3 | <p>OVERSIGHT OF AUDIT QUALITY</p> |
| 3.A | <p>FRC AUDIT QUALITY ACTION PLAN</p> <p>Representative Lead Assurance Partners Andrew Yates, KPMG and Mike Wright, EY and Chair of the Australian Public Policy Committee, Regina Fikkers, presented to the FRC on collaborative best practice initiatives regarding audit quality. They emphasised that audit quality was a priority for the Big 4 accounting firms and that they were working with ASIC to improve audit inspection results, as well as developing frameworks for accountability and root cause analysis.</p> <p>Members discussed the status of the FRC Audit Quality Action Plan. In particular, they noted that:</p> <ul style="list-style-type: none"> • The FRC/AUASB Audit Committee Chair (ACC) Survey on Audit Quality was distributed on 1 June 2018 and would close on 2 July 2018; • The FRC would compare the results of the ACC Survey with the findings of an international survey of investment professionals regarding audit quality which were released by the CFA Institute, a global association of investment professionals; • AUASB had met with ASIC, accounting bodies and the Big 6 on the application of auditing standards; and • FRC would develop a survey of the investment community to gather their views on audit quality and suggestions for improvements. <p>The Chair noted that a mailing list would need to be created to carry out the survey of the investment community and sought members’ feedback on who should be surveyed.</p> <p>Members discussed the regulation of financial reports and audits of superannuation funds and recommended that the AASB should write to the Minister of Revenue and Financial Services to recommend a review of financial reports and audits.</p> <p>Members also discussed how to capture the work they have done regarding audit quality in the Annual Report and in a letter to the Minister.</p> |
| 3.B | <p>AUDIT QUALITY BACKGROUND READING</p> <p>Members discussed existing papers on audit quality. The Chair highlighted five papers for background reading including:</p> <ul style="list-style-type: none"> • ‘CFA Institute Member Survey Report’ (2018) • ‘FEE Overview of Audit Quality Indicators Initiatives’ (2016) • ‘Understanding Audit Quality: Insights from Audit Professionals and Investors’ (2014) • ‘Audit Quality: Insights from the Academic Literature’ (2013) • ‘Sharing Experiences on Audit Quality’ (2013) <p>Members requested a summary of the findings from the literature to be circulated out-of-session.</p> |
| 4. | <p>NOMINATIONS COMMITTEE UPDATE</p> |

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| 4.A | <p>The Chair of the Nominations Committee, Stein Helgeby, noted that seven terms (for three members of the AASB and for four members of the AUASB) would end in December 2018 and that the process for filling them would commence in August 2018.</p> <p>Mr Helgeby noted that the AASB/AUASB Peer Reviews had commenced and that the Nominations Committee were discussing potential changes to the Nomination Committee Charter which would be presented to the FRC for discussion at the September meeting.</p> |
| 5 | <p>OVERSIGHT OF AUSTRALIAN STANDARDS (ACCOUNTING AND AUDITING)</p> |
| 5.A | <p>ACCOUNTING STANDARDS</p> <p>Kris Peach provided an update on the AASB's key priorities from March to June 2018 noting that they were in line with the AASB's Strategy no.2, which is to play a role, with the AUASB, in reshaping the Australian reporting framework. Some of the key priorities discussed included:</p> <p>AASB ITC 39</p> <p>The AASB published a consultation paper, <i>ITC 39 Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems</i> in May 2018 which proposed a two-phased approach to apply the IASB's revised Conceptual Framework in Australia. Ms Peach sought feedback on the two problems that the ITC was seeking to address and the two-phased approach proposed by the AASB to address these problems. Ms Peach also asked members to encourage stakeholders to respond to specific matters for comment in the ITC.</p> <p>Members supported the consultation paper and were comfortable with AASB commencing due diligence. AASB agreed to develop an overall summary of the long term plan for the Australian Financial Reporting Framework project and to send it to the FRC for comment ahead of the next meeting. AASB noted that they are working with the ACNC and state and territory not-for-profit regulators (likely through Consumer Affairs Australia and New Zealand) to discuss the possibility of greater national consistency in reporting requirements for the not-for-profit sector as well as engaging with HoTARAC, parliamentary accounts committees and other public sector stakeholders to determine how to set up the framework for the public sector.</p> <p>AASB's approach to IPSASs</p> <p>Ms Peach presented an updated policy document on the AASB's approach to adopting IPSASB standards for application to public sector entities in Australia. Ms Peach sought feedback on the updated policy document and whether to expose it for public comment for three months.</p> <p>Members suggested adding more information about which other countries had adopted IPSASB and what had been done in this area over the last five years. Members discussed either adding a preliminary assessment to the appendix or removing the appendix completely before the document is released for consultation. Members agreed that the paper should be released for public comment and suggested that stakeholders be alerted to the document to ensure they fully engaged.</p> |
| 5.B | <p>AUDITING STANDARDS</p> <p>Professor Roger Simnett provided an update on the AUASB's key priorities from March to June 2018 highlighting that the AUASB were working with national standard setters and trying for greater international co-ordination. Professor Simnett mentioned that the AUASB had been working with the AASB on issues and processes where they could collaborate more such as external reporting and the impact of data analytics.</p> <p>The AUASB was working with the FRC Chair to broaden the discussion on audit quality, including the Audit Committee Chair Survey. Professor Simnett stated that the results of the ACC survey would be</p> |

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| | <p>benchmarked against the FRC (UK) survey results. Professor Simnett also noted that the AUASB would be working with ASIC to further understand the ASIC Audit Inspection Program results and how they relate to audit standards.</p> <p>Professor Simnett noted that a new standard on auditing of accounting estimates was due for release which would have significant implications for auditors.</p> <p>Professor Simnett provided an overview of an AUASB paper on the audits of superannuation entities. He also noted that Monitoring Group Consultations were being held in Melbourne on Thursday 21 June 2018 and Sydney on Friday 22 June 2018.</p> <p>Members noted their support (which had been provided out-of-session) for Professor Simnett's nomination to the IAASB.</p> |
| 5.C | <p>PUBLIC SECTOR UPDATE</p> <p>Stein Helgeby provided an update on the status of the five public sector action items which had been set in September 2017.</p> <p>Mr Helgeby noted that the <i>Independent Review of the PGPA Act 2013 and Rule</i> was open for comment until 22 June 2018. The report made specific reference to the AASB, AUASB and Executive Remuneration. The Chair indicated that if the AASB and AUASB found issues of concern or interest, they should respond to the report.</p> <p>Mr Helgeby noted that the next step for the FRC public sector working group was to meet and discuss the direction of harmonisation of GFS and GAAP.</p> <p>Mr Helgeby drew members' attention to the AASB Research Report 6 <i>Financial Reporting Requirements Applicable to Public Sector Entities</i> and congratulated the AASB on the quality of the report.</p> |
| | <p>MONITORING AND INFLUENCING AUSTRALIAN DEVELOPMENTS</p> |
| 6.A | <p>STAKEHOLDER REPORTS</p> <p>Members reviewed reports from ten stakeholders and discussed key issues and priorities noting that many of the issues raised had already been discussed during the meeting. Other specific matters included:</p> <ul style="list-style-type: none"> • APRA's review of CBA; • The ACNC legislative review; • Remuneration reporting in both public and private sectors; and • The proposed fourth edition of ASX Corporate Governance Principles and Recommendations. |
| 6.B | <p>REPORT BY XRB</p> <p>Graeme Mitchell provided an update on the key achievements and priorities of the XRB from February to June 2018 noting:</p> <ul style="list-style-type: none"> • At the next XRB meeting scheduled for Wednesday 20 June, Extended External Reporting was expected to be discussed extensively ; • XRB member, Todd Beardsworth, is on a short term appointment to IPSASB. |
| 6.C | <p>EXTERNAL REPORTING</p> <p>Members discussed the FRC's Position Statement on External Reporting based on a draft document</p> |

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| | <p>which had been circulated on 1 June 2018. Members agreed to make further minor amendments to the document out-of-session before loading it to the FRC website.</p> <p>Members also discussed the FRC, AASB and AUASB mandates and to what extent they covered external reporting.</p> |
| 6.D | <p>ASX CORPORATE GOVERNANCE COUNCIL CONSULTATION PAPER</p> <p>Kevin Lewis reminded members that the ASX Corporate Governance Council’s Consultation Paper was open for consultation until 27 July 2018.</p> <p>It was noted that the AASB and AUASB would be preparing submissions.</p> |
| 7. | MONITORING AND INFLUENCING INTERNATIONAL DEVELOPMENTS |
| 7.A | <p>INTERNATIONAL APPOINTMENTS</p> <p>Members discussed upcoming international appointments.</p> |
| 7.B | <p>INTERNATIONAL DEVELOPMENTS</p> <p>Warren Allen provided an update on International developments, particularly concerning disruption including regulator interference, firm dynamics, technology impacts, external reporting and changes in standard setting.</p> <p>Members also discussed the following:</p> <ul style="list-style-type: none"> • Monitoring Group proposals for IAASB/IESBA reforms; • Dialogue in the UK regarding Big 6 audit firm competition and the role of the UK FRC; and • Findings from the IFIAR’s sixth annual survey of audit inspection findings. <p>It was noted that Graeme Mitchell, Warren Allen and Roger Simnett would attend the World Congress in Sydney from 5-8 November 2018.</p> |
| 7.C | <p>IFRS FOUNDATION TRUSTEES</p> <p>The Chair provided an update on the IFRS Foundation Trustees based on briefing from Lynn Wood.</p> |
| 7.D | <p>EU CONSULTATION DOCUMENT</p> <p>Members noted that the European Commission had issued a Consultation Document ‘Fitness Check on the EU Framework for Public Reporting by Companies’. Kris Peach stated that the AASB would be preparing a submission.</p> <p>The FRC agreed that they would not prepare a submission but would support the AASB’s submission. The FRC also supported AASB writing to G100 requesting that members who were dual listed in Australia and Europe prepare a response.</p> |
| 8. | OTHER BUSINESS |
| 8.A | <p>FRC ANNUAL REPORT</p> <p>Members noted the proposed contents and timeline for preparing the 2017-18 FRC Annual Report, including approval of the report at the September FRC meeting. The Chair asked members to review their headshots and biographies and send updates to the FRC Secretariat as necessary.</p> |
| 8.B | IFRS FOUNDATION CONTRIBUTION |

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| | Members strongly supported continuation of the Australian Government’s contribution to the IFRS Foundation. |
| 8.C | <p>ROYAL COMMISSION INTO FINANCIAL SERVICES</p> <p>Members discussed the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services and that noted that there were several themes applicable to the Financial Reporting Council including:</p> <ul style="list-style-type: none"> • Compliance with the law; • Regulator relationships; • Capability of risk and compliance in organisations; • Importance of trust; and • Risk culture. |
| 8.D | <p>FRC APPOINTMENTS</p> <p>Kate O’Rourke provided an update on the FRC terms which would be ending over the next 12 months and stated that Treasury had commenced proceedings for the Minister to write to industry organisations seeking nominations.</p> |
| 9. | NEXT MEETING AND CLOSE |
| | The next FRC meeting will be held on Thursday 6 September 2018 in Canberra. |