



Financial Reporting Council Communiqué

The Financial Reporting Council (FRC) held a meeting on 28 February 2019 and the key matters considered are outlined below:

FRC Audit Quality Action Plan

The FRC considered and updated its [FRC Audit Quality Action Plan](#) noting in particular:

- ASIC Audit Inspection Findings for 2017-18
- the release of the IOSCO Report on Good Practices for Audit Committees Supporting Audit Quality
- results of the Investor Survey (see below)
- APPC, CA ANZ and CPA initiatives (see below)

The FRC noted the results of the ASIC Audit Inspection Program, and the Investor Survey, should be considered in light of the other evidence regarding audit quality, and consistent with previous FRC views, indicate that there is further work to be done to improve audit quality in Australia.

Review into the adequacy of auditor disciplinary functions

The Parliamentary Joint Committee (PJC) [Report on the 2016-17 annual reports of bodies established under the ASIC Act](#) included one recommendation - for the Government to review the adequacy of auditor disciplinary functions. The Government identified the FRC as the suitable body to lead this work.

The FRC discussed the draft 'Auditor Disciplinary Processes: Review' and will present the report to the Minister in early March 2019.

Investor Survey

As part of the FRC's Audit Quality Action Plan, the FRC and AUASB conducted a survey to gather professional investors' views on their perceptions of audit quality, the value of audit and the influences.

The survey results indicated that 60 per cent of investors agreed that audit quality was above average, however, 33 per cent consider it is average and 7 per cent believe it is below average.

The final report will be issued in March 2019.

Financial Reporting

The FRC discussed the AASB's deliberations on the submissions to ITC39 [Applying the IASB's Revised Conceptual Framework and Solving the Reporting Entity and Special Purpose Financial Statement Problems, user and preparer research, academic research and results of 160 targeted discussions](#).

The FRC noted that at the 19 February AASB meeting, the Board decided to develop an Exposure Draft proposing to remove the ability for for-profit entities to self-assess and prepare SPFS, and require for-profit entities that have to publicly lodge their financial statements to prepare some form of GPFS. The new proposed second tier will be based on IFRS for SME's disclosures.

The FRC noted the current vacancies on the IFRS Interpretations Reporting Committee for corporate preparers and encouraged members to identify possible Australian applicants.

APPC, CA ANZ and CPA Initiatives

The FRC noted that in response to the audit quality issues noted above, the Australian Public Policy Committee, CA ANZ and CPA Australia have jointly produced two publications to stimulate improvement:

- [An External Auditor's Guide to Improving Audit Quality Using Root Cause Analysis](#). This is a non-authoritative guide developed by CA ANZ that defines root cause analysis (RCA) and explains how audit practitioners can use it to identify and address the root causes of review and inspection findings.
- [An External Auditor's Guide to Improving Audit Quality Using an Individual Recognition and Accountability Framework](#). This is a non-authoritative guide developed by CPA Australia that describes best practices in developing a recognition and accountability framework for audit practice leaders, audit engagement leaders and audit engagement quality control reviewers.

Both publications are available on both CA ANZ and CPA Australia websites.

PJC Report

The FRC noted and supported the recommendation of the Parliamentary Joint Committee on Corporations and Financial Services in February 2019 that ASIC devise and conduct, alongside with its current Audit Inspection Program, a study which will generate results which are comparable over time to reflect changes in audit quality.

Stakeholder Reports

The FRC reviewed reports from 13 stakeholders and matters of note included:

- Submissions to AASB Consultation Paper ITC 39.
- Release of the fourth edition of ASX [‘Corporate Governance Council’s Principles and Recommendations’](#).
- AASB Discussion Paper [‘Improving Financial Reporting for Australian Public Sector’](#).

Submission on Modernising Business Registers Program

The FRC noted [FRC, AASB and AUASB’s submission to the Modernising Business Registers Program](#).

Next Meeting

The next FRC meeting will be held on Wednesday 22 May 2019.

