



Australian Government
Financial Reporting Council

FRC ²⁰¹⁴/₂₀₁₅ ANNUAL REPORT

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Financial Reporting Council

Annual Report 2014-15

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29 September 2015

The Hon Scott Morrison 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 2015.

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. Section 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', written in a cursive style.

Michael Coleman
Deputy Chair

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CHAIR'S REPORT



In 2014-15, the Financial Reporting Council (FRC) continued to contribute to investor confidence in the Australian economy by overseeing the effectiveness of the financial reporting framework and thus being satisfied that financial information available to public and private investors was required to meet high quality accounting and auditing standards. The FRC was cognisant of the work being done internationally on a range of issues related to financial reporting and audit. The FRC will keep a watching brief on these broader issues as they are further developed so that the Australian financial reporting framework is robust and appropriate for businesses operating within Australia and also competing overseas.

Based on the activities outlined in this Annual Report, the FRC is satisfied that the current accounting and audit standards, and their respective standard-setting processes, are relevant and appropriate and that no specific action needs to be taken by the Minister at this time.

MANAGING COMPLEXITY

The FRC is aware of the constantly changing operating environment for Australian businesses and the importance of managing the complexity of the financial reporting framework. In response, the FRC's Financial Report Taskforce delivered a major piece of work this year, examining the diversity of financial reporting requirements for a wide range of entities. Among its findings were the significant divergences in reporting obligations between government jurisdictions, as well as many overlapping requirements. The Taskforce found these requirements were often not related to risk profile or accountability and should be the focus of sustained reform efforts over the coming years.

The FRC is considering the implementation of the Taskforce recommendations and will continue to work with the Australian Accounting Standards Board, regulators and governments to improve clarity and consistency in the financial reporting framework. I would like to thank the FRC members on the Taskforce as well as Mr Kevin Neville (Moore Stephens), Ms Susan Pascoe (Australian Charities and Not-for-profits Commission), and senior executives from PricewaterhouseCoopers who assisted the review.

Continuing its work on managing complexity, FRC members also provided advice to the Australian Government in determining deregulation priorities and identified future deregulation initiatives in relation to financial reporting.

STANDARDS OVERSIGHT

One of the FRC's key functions is to oversee the processes for setting accounting and auditing standards in Australia. The FRC acknowledges the considerable work undertaken by the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) during 2014-15. Their specific achievements and ongoing work are reported separately in their respective annual reports.

The FRC together with the AUASB is supporting the implementation of new international standards in Australia in response to the need for more useful and communicative auditor reporting. These standards are expected to be adopted into Australian use next year. The AUASB, with significant cooperation from the professional accounting and auditing bodies, has conducted extensive consultation on these changes. The FRC will continue to facilitate engagement and promote the benefits of these changes with industry.

The AASB continued to demonstrate Australia's influence in the development of international standards through its membership of the International Accounting Standards Board's prestigious Accounting Standards Advisory Forum. This engagement is critical to ensuring Australian standards are relevant, introduced in a timely manner and appropriate for our entities.

During the year we also welcomed to the FRC the new Chair and Chief Executive Officer of the AASB, Ms Kris Peach. Kris brings substantial knowledge of accounting standards setting and practical senior executive-level experience in major accounting firms. She is a highly valued member of the Council and we look forward to continuing to work effectively with the AASB and its board members.

STAKEHOLDER COLLABORATION

The FRC worked collaboratively with the key accounting and regulatory bodies this year to achieve some significant improvements to the overall financial reporting framework. The FRC supported and promoted work to encourage directors and audit committees to make use of transparency reports that are prepared by accounting firms as a means to assess the quality of their company's audit. In another joint project, the financial literacy of directors was enhanced by an on-line financial reporting quiz, which was overwhelmingly supported by participants as a useful tool to improve their understanding of their financial reporting obligations.

Members also continued their oversight of rigorous auditor inspection and review processes delivered by the Australian Securities and Investments Commission and the major accounting bodies.

LOOKING FORWARD

Next year, the FRC will be considering the update of our Strategic Plan 2013-2016 (www.frc.gov.au). It will be important for members to take stock of our objectives, activities and legislative obligations to ensure that our strategic direction continues to meet the needs of government, industry and other stakeholders. The Strategic Planning Committee has begun consideration of these issues and will provide further advice to the FRC next year.

ACKNOWLEDGEMENTS

The FRC is very grateful to the wide range of stakeholders who regularly provided reports to our meetings, assisting us to understand the changing demands on the financial reporting framework. The Council is grateful to: the Association of Superannuation Funds of Australia, the Australian Institute of Company Directors, the Australian Prudential Regulation Authority, the Australian Securities and Investments Commission, the Australian Securities Exchange, the Business Council of Australia, Chartered Accountants Australia and New Zealand, CPA Australia, the Department of Finance, the External Reporting Board of New Zealand, the Financial Services Council, the Group of 100, the Institute of Public Accountants and The Treasury.

I wish to warmly acknowledge the contributions of my fellow Council members, particularly Ms Jan West, Mr John Price, Mr Ian Purchas, Ms Jan Harris and Mr Ian Laughlin who ended their terms during this period, and to welcome new members, Mr William Edge, Mr David Nicol and Mr Graeme Mitchell, as well as Ms Kris Peach. All members discharged their duties in a highly professional and collaborative manner, including providing personal support to me in my leadership role.

Finally, I wish to acknowledge the sad passing earlier this year of Mr Tony Dale, Chief Executive of the External Reporting Board (XRB) of New Zealand. Tony was a highly valued contributor to the Council, driving significant financial reporting reform in New Zealand through his leadership role at the XRB and in Australia through his contributions to the FRC. His professionalism and friendship will be missed.



Michael Coleman
Deputy Chair of the Financial Reporting Council
29 September 2015

1. OVERSIGHT OF AUSTRALIAN STANDARDS SETTING

1.1 INTRODUCTION

The Financial Reporting Council (FRC) is the peak body responsible for overseeing the effectiveness of the financial reporting framework in Australia. Under Part 12 of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) one of the FRC's key functions is to provide 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 2014-15 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 audit quality;
- activities in relation to developments in Australia; and
- activities in relation to international developments.

These areas are discussed in the following chapters in conjunction with information about the FRC's performance of its functions.

The board members of the FRC as at 30 June 2015 are listed in Appendix A. This report is also available at www.frc.gov.au.

1.2 ACTIVITIES IN RELATION TO THE BOARDS

Under the ASIC Act the FRC has specific functions with respect to the two standards setting boards (the Boards) – the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB). The FRC responsibilities include appointing the members of the Boards (other than the Chairs, who are appointed by the Minister) giving them advice on certain areas and determining their broad strategic direction.

1.2.1 Appointment of members to the Boards

The ASIC Act provides that the members of the Boards (other than the Chairs) hold office on the terms and conditions determined by the FRC.

The Nominations Committee of the FRC is responsible for managing the appointments processes to the AASB and AUASB including interviewing and evaluating candidates.

The Nominations Committee makes recommendations to the FRC on final appointments. In coming to these recommendations the Committee considers the mix of skills and expertise required on the Boards to perform its functions now and going forward. The membership of the Nominations Committee as at 30 June 2015 is at Appendix B.

The Nominations Committee is also responsible for preparing and conducting the annual members' peer review for the AASB and the AUASB. These reviews assist the FRC's appointment processes and inform the assessment of Board performance.

During 2014-15, the FRC approved the following appointments and re-appointments to the Boards for terms commencing on 1 January 2015 and ending on 31 December 2017:

- AASB: appointment of Mr Michael Blake, Mr Andrew Kearnan and Ms Megan Wilson; and the re-appointment of Ms Carmen Ridley.
- AUASB: re-appointment of Ms Nonna Martinov-Bennie and Mr Colin Murphy.

The FRC acknowledged the contributions of retiring AASB members Mr Ian McPhee, Mr John O'Grady and Mr Brett Rix. The FRC also noted the valuable contribution made by the acting AASB Chair, Mr Angus Thomson and welcomed the incoming AASB Chair, Ms Kris Peach.

As at 30 June 2015, the AASB had 14 members while the AUASB had 12 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).

In 2014-15, the Chairs of the Boards provided regular written and oral reports on their activities to the FRC, providing members the opportunity to raise issues and questions about the activities of the Boards. The FRC provided comments on the Boards' respective corporate and strategic planning documents and acknowledged their efforts in comprehensive consultation with industry and other stakeholders.

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 strategic directions (www.frc.gov.au). The guidelines state 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 determinations 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.

The FRC is satisfied that the Boards have implemented these directions to the extent possible.

2. AUDIT QUALITY

2.1 INTRODUCTION

Australia has comprehensive legislative and professional requirements concerning audit with the main legislative requirements set out in the *Corporations Act 2001* (Corporations Act). The Australian Securities and Investments Commission (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 AUASB. The auditing standards 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: Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ); CPA Australia; and the Institute of Public Accountants (IPA).

Under the ASIC Act, the FRC is to provide strategic policy advice and reports to the Minister and professional accounting bodies in relation to the quality of audits conducted by Australian auditors. 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. These three areas are addressed in this Chapter.

The Audit Quality Committee (AQC) of the FRC is tasked with assisting the FRC to meet this function. The AQC meets quarterly and makes recommendations to the FRC in regard to: strategic issues and structural trends within the audit profession; non-case specific systemic audit quality issues; international developments in audit quality and related professional standards; audit practice, auditing standards and professional standards; and investigation and disciplinary procedures for Australian auditors. During 2014-15, the AQC highlighted a number of issues and reports for the attention of the FRC.

The FRC continued to actively monitor international developments in audit quality processes and assessed their potential impact on, and usefulness for, Australian practitioners and the financial reporting industry. During 2014-15, the FRC considered that the current Australian audit quality framework continued to be robust and that it was not necessary to propose changes to the Minister at this time. The FRC noted the considerable ongoing international work in this area and will continue to monitor any changes in other jurisdictions to assess whether subsequent amendments would be appropriate in Australia.

2.2 THE QUALITY OF AUDIT

The AUASB Chair is a Public Interest member of the International Auditing and Assurance Standards Board (IAASB) and a member of its Steering Committee. The Chair attends all IAASB meetings. This active involvement enables AUASB to contribute directly to international standard setting development and understand the implications of audit regulation in different jurisdictions. This places the FRC and its Australian constituents in a sound position to oversee AUASB activity and consider any advice that should be provided to the Minister. The role of the AUASB in influencing international standard setting is also discussed in Chapter 4.2.2.

Auditor reporting

The FRC, through the AQC, has closely monitored the new auditor reporting standards issued by the IAASB in January 2015 and the process to adopt these changes in Australia. The FRC noted the specific changes relating to: auditor reporting; auditor responsibilities relating to other information and financial statement disclosures; and conforming amendments to auditor reporting for special purpose financial statements. The FRC was regularly briefed by the Chair of the AUASB on how it is implementing the auditor reporting standards in Australia and supported its timetable for consultation. The AUASB has extensively consulted with Australian assurance practitioners, directors and industry on these new requirements. The FRC will continue to monitor and support the introduction of the new standards including facilitating engagement and understanding of the new requirements.

Other audit matters

The AQC and its members have actively engaged with ASIC and the audit profession on ASIC's Audit Inspection Program. While the next audit inspection report is not scheduled for release until December 2015, the AQC has discussed with ASIC its methodology for conducting inspections, including the use of an expert panel to provide advice, and the communication of the results of the inspection program. These issues will be further discussed in 2015-16.

The AQC has also discussed the transparency reports issued by certain audit firms. In 2012, the Corporations Act was amended to require auditors who audit ten or more certain types of entities to publish a transparency report providing information, among other things, on the internal quality control system of the auditor.

The AQC welcomed the release of the Chartered Accountants ANZ report '*Clearer Transparency – Assessing the Second Year of the Audit Firm Transparency Reports in Australia*'. The FRC noted the key findings that while all reports analysed met the prescribed information requirements, the larger network firms tended to go beyond the minimum requirements by including examples of actions taken to improve audit quality. The report also identified opportunities to communicate key quality messages more effectively and clearly. FRC members endorsed the release of a media statement to support the findings of the report and noted the ASIC information sheet *INFO 196: Audit quality – The role of directors and audit committees*, encouraging directors to consider the use of transparency reports.

2.3 STAKEHOLDER ENGAGEMENT

The FRC and the AQC consulted widely with the audit profession during 2014-15 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 standard setters and regulators and other audit stakeholders.

Australian Securities and Investments Commission

ASIC issued a new regulatory guide that fundamentally changed its approach to the resignation of company auditors. ASIC will now generally consent to the resignation of an auditor at any time of the year, subject to some conditions. Previously, ASIC only consented to the resignation of an auditor of a public company to take place at an annual general meeting unless there were exceptional circumstances.

In December 2014, ASIC launched a web-based financial reporting quiz to assist directors to understand their financial reporting responsibilities and to improve their knowledge. The quiz was developed by ASIC with Chartered Accountants ANZ, CPA Australia, IPA and the Australian Institute of Company Directors (AICD) and had over 2,000 respondents by 30 June 2015. Of those completing voluntary information on the quiz, 97 per cent found it useful and 90 per cent would recommend it to other directors. The FRC noted the significant value of this on-line tool in enhancing the financial literacy of directors and in raising awareness of the need for all directors to understand their financial reporting obligations.

ASIC has been working on a revised guide for the registration of company auditors, which is due for release in 2015-16 and has also released a new audit report for Australian Financial Services licensees to facilitate the accurate completion of the report.

Chartered Accountants Australia and New Zealand

Chartered Accountants ANZ reported its ongoing activities in relation to audit quality practices and for members.

During the year, Chartered Accountants ANZ focussed on discussions with firms and stakeholders on the application of standards, sharing experiences and highlighting expectations on matters relating to the conduct of audits. This occurred through formal meetings with stakeholders as well as through numerous meetings with members and other events. Chartered Accountants ANZ developed and published materials to support professionalism and quality in the audit professions, including:

- *Professional Scepticism on-line* tool to train and test professional scepticism for audit leaders;
- *Clearer Transparency* providing ideas on audit firms' quality control processes;
- *Audit Focus Areas* for 2015 year ends which includes issues arising from *Quality Reviews*, and *Year End Essentials* covering reporting other updates for 2015 year ends;
- updates of the *Audit Manual* for Small & Medium Entities and the *SMSF Audit Guide and Toolkit*;
- a new *Perspective* online series which explores specific reporting or auditing issues in more depth. ASIC have provided articles for this series including on their audit inspection program;
- fortnightly electronic newsletters providing regular and easy updates on changes to standards and regulations and upcoming areas of focus;
- regular updates summarising key objectives of auditing standards and mandatory requirements; and
- the *FutureInc* program, an on-line series which has included innovative options for considering financial statement disclosures, market advantages of the new audit reports and cyber security.

Chartered Accountants ANZ also commissioned detailed research from the University of Adelaide into auditor requirements in legislation. This research uncovered broader, serious issues in relation to understanding what accounts are required, what audit or review is necessary, and what qualifications an auditor requires. Chartered Accountants ANZ continued to support the removal of complicated and unnecessary legislative requirements including through its active participation in the FRC's Financial Reporting Taskforce and the FRC's Audit Quality Committee.

Effective auditor reporting was supported with the launch of the *Revolutionising Reporting* program which included a significant publication and associated events and activities to promote and support effective reporting. Chartered Accountants ANZ also supported the joint development and release of a financial literacy tool with ASIC and other professional bodies, with assessment of the activity currently being undertaken.

CPA Australia

CPA Australia reported policy and research initiatives that continue to contribute towards the improvement of Australia's audit framework based on international best practice standards and a robust legal and regulatory framework developed over many decades. Specific initiatives during the year included the following:

- CPA Australia provided feedback on Australian and international audit consultations throughout the year, including assistance to the AUASB in its outreach activities which including hosting an auditor reporting roundtable in May 2015;
- CPA Australia presented to the FRC's Audit Quality Committee in May 2015, providing an overview of its Quality Review programme and policy and research initiatives; and
- in May 2015, CPA Australia invited AUASB staff to participate in a workshop with the members of the CPA Australia External Reporting Centre of Excellence to identify and develop training and other resources in anticipation of the new auditor reporting standards.

CPA Australia also reported a broad range of activities designed to ensure the audit profession's continued compliance with laws, standards and other requirements that are in place to uphold and improve audit quality in Australia. CPA provided the following overview for 2014-15:

- an ongoing quality review program for all members in public practice (Registered Company Auditors (RCA) and Self-Managed Superannuation Fund (SMSF) Auditors are subject to review every three years);
- robust and contemporary audit education programmes for both aspiring and established CPA Australia members;
- ongoing requirements imposed on members including:
 - requirements to follow Australian auditing, assurance, professional and ethical standards; and
 - compliance with Continuing Professional Development requirements;
- resources and toolkits including guides, fact sheets, manuals and competency standards;
- online and face-to-face training products including workshops, webinars, e-learning modules and podcasts;

- policy setting initiatives and advocacy to assist with the development of laws, regulations, standards and other requirements in Australia and internationally; and
- regular liaison with ASIC, AUASB and other stakeholders that form the Australian co-regulatory framework to ensure the integrity of the Australian audit profession.

Institute of Public Accountants

The Institute of Public Accountants (IPA) continued to promote audit quality through their Continuing Professional Education (CPE) program and through their public practice program. In addition, the Public Practice Quality Assurance (PPQA) online review program was further refined with increased functionality. The IPA continued to communicate with members about developments and issues concerning audit quality. These included articles in professional journals and through fortnightly electronic newsletters. The IPA undertakes over 800 events every year relating to CPE including topics relating to audit and audit quality.

The IPA membership deals with audit matters relating to small firm/company audits, not-for-profits and SMSFs. There are very few RCAs in the IPA membership. Those who conduct audits are usually very small firms or sole practitioners.

During 2014-15, the Joint Accounting Bodies undertook a review of the *Auditing Competency Standard for Registered Company Auditors*, which has been submitted to ASIC for approval. This was the first time the Standard had been reviewed since 2004. The revised Standard will be communicated to members, incorporated into the CPE program and into the quality assurance program.

2.4 REVIEW PROCESSES

Australia's auditor regulatory regime involves cooperation between ASIC and the professional accounting bodies. Each organisation runs an inspection or review program which encompasses audit engagements. The programs are complementary to manage different participants and types of engagement and to maintain a focus on audit quality.

2.4.1 ASIC Audit Inspection Program

ASIC publishes its public audit inspection reports every 18 months to inform audit firms, the investing public, companies, audit committees and other interested stakeholders in the financial reporting chain of findings and areas of focus. The next report is due in December 2015.

ASIC inspects firms that audit significant public interest entities. ASIC also continues to inspect smaller firms where they are responsible for audits of publicly listed entities, or other public interest entities.

The audit areas reviewed for the report include impairment of assets and other significant areas involving significant estimates or judgements. For regulatory purposes, ASIC considers that audit quality concerns matters that contribute to the likelihood that the auditor:

- achieves the fundamental objective of obtaining reasonable assurance that the financial report as a whole is free of material misstatement; and
- ensures material deficiencies detected are addressed or communicated through the audit report.

In the most recent report (June 2014), 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 2014-15, ASIC continued to monitor action plans developed by the six largest accounting firms to improve audit quality and the consistency of audit execution. The results of these action plans are expected to be reflected in future ASIC reports.

2.4.2 Chartered Accountants ANZ Quality Review Program

The Quality Review Program is an integral component of Chartered Accountants ANZ's professional compliance framework. The program is designed to assess whether Australian members who hold a Certificate of Public Practice have implemented appropriate quality control policies and procedures in their practices. Where these policies and procedures are not sufficiently robust to maintain compliance with professional, technical and legislative requirements, Chartered Accountants ANZ actively works with individual practices to remediate problem areas. Chartered Accountants ANZ also uses the knowledge gained from this process to promote continuous improvement amongst members.

The program is a risk-based model with practices being reviewed:

- within one year if significant non-compliance issues are found during a practice's initial review. This enables prompt assessment of whether appropriate remedial action has been taken by the practice;
- once every three years where the practice signs off on audits requiring a RCA registration. This reflects the higher level of public interest incumbent in these audits; and
- once every five years for other practices.

The overall results from 2014-15 are summarised below:

	Percentage 2014-15
No departures from professional standards	3 %
Departures from professional standards, not classified as significant - practice is required to address the issues identified during the review	80 %
Significant departures from professional standards - practice is required to develop an action plan outlining how the issues identified will be addressed, and reviewer re-visits practice to assess whether remedial action has been taken by the practice	17 %

The percentage of practices with significant non-compliance issues decreased this year (2013-14: 21 per cent), reflecting the continuing efforts of members to implement effective quality control systems in their practices. The majority of re-reviews were required as a result of inadequate quality control procedures or insufficient documentation of audit evidence, or a combination of both.

As part of Chartered Accountants ANZ's overall objective of enhancing audit quality, the review approach for very small practices that conduct assurance engagements is being reviewed. This approach will use interactive online questionnaires tailored to the type and size of assurance engagements typically conducted by these practices.

Information regarding the quality review process is included in the Chartered Accountants ANZ 2015 Annual Report and the 2015 Quality Review Report. These reports will be provided to the FRC when issued.

2.4.3 CPA Australia Quality Review Program

CPA members who hold a public practice certificate are subject to a Quality Review (QR) Program. 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 an RCA or SMSF auditor are subject to review every three years;
- 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.

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 subject to quality reviews performed by qualified in-house staff rather than accredited contracted reviewers.

For the year to 30 June 2015 the results of the CPA Australia QR Program were:

- 27.1 per cent Accept Reports with no departure from professional standards identified;
- 62.4 per cent Assurance Reports with minor departures from professional standards identified; and
- 10.5 per cent Follow-Up Review Reports where there were multiple departures from professional standards or a breach of an audit standard was identified. Any breach of an auditing standard is automatically included in this category and requires a follow-up review the following year. Where breaches fail to be addressed, CPA Australia 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 CPA Australia QR Program relate to audits of SMSFs. Education has been provided to members about the importance of perceived and actual independence, particularly with compilation and audit engagements for SMSFs.

In the current review period (the 2015 calendar year) over 925 members are expected to complete a Quality Review and a further 144 follow-up reviews are expected to be completed from 2014 reviews.

2.4.4 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 RCA or a SMSF 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 to improve their work practices to best practice levels. This in turn ensures clients have confidence in 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 2015, all reviews were conducted using an online data collection program in relation to member practices and their client base. Reviews are now undertaken as a desk based online 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. The PPQA system has been further developed with the capability for reviewers to incorporate all comments directly into the system. Each year a further 500 to 600 members are put on the online system. It is also designed to provide a practice/business diagnostic so that members can improve their practice management and application of professional and ethical standards to the highest possible level.

During 2014-2015:

- 78.9 per cent of members reviewed met all professional standards and requirements and may have had minor non-compliance issues however they were resolved before the review was finalised;
- 21.1 per cent of members reviewed showed a level of non-compliance where follow-up action was required; and
- 16 members reviewed were self-managed superannuation fund auditors;
 - 15 of these members met all professional standards and requirements and may have had minor non-compliance issues, however they were resolved before the review was finalised; and
 - one member had a non-compliance issue relating to CPE requirements and the member is currently being monitored for compliance.

2.5 DISCIPLINARY PROCEDURES

Under the ASIC Act, the FRC is required to provide strategic policy advice and reports in relation to the investigation and disciplinary procedures of professional accounting bodies as those procedures apply to Australian auditors. During 2014-15, the FRC sought information on disciplinary procedures from ASIC and the professional accounting bodies.

ASIC

In addition to its regular inspections of firms, ASIC conducts surveillances where it is concerned that there may be significant deficiencies in an audit. In 2014-15 these surveillances led to two auditors agreeing to the cancellation of their registration as company auditors. Two other auditors had their registrations suspended by the Company Auditors and Liquidators Disciplinary Board for failing to comply with registration conditions.

ASIC also deregistered 373 SMSF auditors for not meeting a requirement to sit and pass a competency exam. Another two SMSF auditors were deregistered as a result of deficient audits.

The accounting bodies have provided the FRC with the following information concerning disciplinary matters for the year ended 30 June 2015.

Chartered Accountants ANZ

Chartered Accountants ANZ is responsible for disciplining members who breach the By-laws and Regulations of Chartered Accountants ANZ as well as the Code of Ethics, APES 110: Code of Ethics for Professional Accountants. Chartered Accountants ANZ's disciplinary arm, Professional Conduct, investigates conduct matters and may refer cases to the Professional Conduct Tribunal for independent hearing.

During the year ended 30 June 2015, 249 matters (arising from complaints against members and from limited surveillance activities) were brought to the attention of the Professional Conduct team regarding the conduct of Australian and International (outside New Zealand) members of Chartered Accountants ANZ (not limited to audit practitioners).

During 2014-2015 the Professional Conduct Tribunal heard one case concerning auditors. Details of the hearing were published in *Acuity* (the journal of Chartered Accountants ANZ) and on the Chartered Accountants ANZ website.

Information in relation to Chartered Accountants ANZ's disciplinary process is included in the *Chartered Accountants ANZ 2015 Annual Report* as well as the *Professional Conduct Report 2015*. These reports are being finalised and will be provided to the FRC when issued.

Chartered Accountants ANZ believes that as a professional body responsible for maintaining member standards, it is necessary to continually test the Professional Conduct function. In 2014 an independent review of Chartered Accountants ANZ's professional conduct function was undertaken. Key changes being introduced are:

- the formation of an independent Professional Conduct Oversight Committee;
- the formation of a Professional Conduct Committee, responsible for assessing complaints and other matters, assessing whether or not the matter should proceed to the Tribunal for hearing and entering into consent agreements with members in appropriate cases; and
- the appointment of an experienced independent lawyer to advise the Tribunals as required on legal issues.

CPA Australia

During 2014-15, two CPA members holding a company auditor registration were referred to a Disciplinary Tribunal. Twenty members holding a PPC were referred to a Disciplinary Tribunal and included the following issues: two insolvency; one derogatory conduct; six adverse findings by the Tax Practitioners Board; five failures to undertake QR; three failures to respond to CPA Australia; one breach of the *Trust Accounts Act 1973* (Queensland); and two adverse findings by statutory bodies.

The outcomes of CPA Australia Disciplinary Tribunal hearings are published on the CPA Australia website.

2.6 PROFESSIONAL AND BUSINESS ETHICS

The professional bodies have formal education and continuing professional development programs which provide the basis for teaching and maintaining professional and business ethics. During 2014-15, in addition to matters identified in section 2.3, these included the following activities.

CPA Australia promoted business ethics through regular articles in professional publications and industry conference presentations. The IPA supported professional and business ethics studies through formal modules as part of tertiary level studies at the Graduate Certificate and Masters level, as well as offering continuing professional education relating to audit. Chartered Accountants ANZ has a formal program as well as continuing professional development with specific requirements for auditors. The organisation also promotes ethics in its conference programs, online training and informal discussion groups.

3. MONITORING AND INFLUENCING AUSTRALIAN DEVELOPMENTS

3.1 INTRODUCTION

In addition to providing broad oversight of the process 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 objectives of Part 12 of the ASIC Act.

The Objectives 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 material in order to facilitate the Australian economy and to maintain investor confidence in the Australian economy.

3.2 FINANCIAL REPORTING COUNCIL ACTIVITIES

3.2.1 Financial Reporting Taskforce

In 2013, the FRC established the Financial Reporting Taskforce to provide policy advice on financial reporting regimes for the various types of reporting entities in Australia and to make recommendations regarding rationalisation (for example, through further deregulation).

In 2014-15, the Taskforce delivered its report to the FRC. The Taskforce identified that legislative requirements for the preparation of financial reports significantly differed between states and different types of organisations. These differences did not appear to be the result of different risk characteristics or due to the public interest in the reports of the entities. This creates complexity. The Taskforce also found that assurance requirements were similarly divergent between entity types.

The Taskforce identified that a very large range of entities are required to lodge financial reports on the public record and there was a lack of clarity or consistency in the reporting requirements that needed to be satisfied.

The Taskforce made a number of recommendations to the FRC to help reduce the complexity in the financial reporting framework. The FRC and the AASB are currently considering how a number of these recommendations can be progressed.

The FRC wishes to thank PricewaterhouseCoopers for the considerable assistance it provided to the Taskforce. The full report is at Appendix C.

3.2.2 Identification of deregulation priorities

To support the Government's deregulation agenda, portfolios established Ministerial Advisory Councils (MACs) to assist ministers to identify and prioritise deregulation opportunities. As the responsibilities of the Treasury portfolio ministers are so diverse, Treasury utilised a number of existing bodies to fulfil the role of MACs - including the FRC.

During 2014-15, the FRC assisted the Treasury with its stocktake of regulation within the Treasury portfolio. The stocktake was divided into two stages. The first stage grouped regulatory obligations which were then rated for intensity of burden and reform potential. The second stage selected a sample of these groups, costing the sample to estimate the total cost of Treasury portfolio regulation.

The FRC provided advice on the structure and ratings of Treasury financial reporting regulation, particularly in relation to the different populations to which obligations of different levels of intensity applied. The Treasury was able to make changes based on the FRC's advice.

The FRC also contributed ideas and assisted with priorities for future deregulation initiatives within the financial reporting framework. These discussions took place at the FRC meetings as well as out of session consideration of the regulation stocktake in November 2014.

The AUASB has put forward 34 standards for repeal in the October 2015 bulk repeal.

3.2.3 Memorandum of Understanding

The FRC agreed to enter into Memoranda of Understanding (MoU) with the key accounting professional bodies (CPA Australia, IPA and Chartered Accountants ANZ). These updated and replaced previous MoUs.

The purpose of the MoUs is to recognise respective roles in promoting a robust framework for accounting and audit quality in Australia. The MoUs provide for the parties to collaborate to support audit quality initiatives and promote open discussion. In general, the professional accounting bodies will provide the FRC with information about quality assurance reviews, investigation and disciplinary processes, training, professional requirements and other issues relating to audit quality. The FRC will consult with the professional bodies and share information on changes to the audit quality framework, issues related to audit systems and processes used by the professional bodies and ongoing steps to enhance audit quality.

3.2.4 Regulatory impact statements

The FRC formed a Sub-committee on Regulatory Impact Statements to discuss the application of best practice regulation requirements in regard to the adoption of international standards.

During the year the sub-committee, together with the AASB and AUASB and Treasury, met with the Office of Best Practice Regulation (OBPR) to discuss the application of the regulatory impact statement (RIS) process to accounting and auditing standards. The FRC had been concerned that the adoption of international standards should not be delayed unnecessarily by the application of government processes.

In discussions with the OBPR, it was identified that RIS requirements could be satisfied without duplication or causing delay to the adoption of international standards in Australia. The discussions were able to confirm that the proper scrutiny of the regulatory costs of any standard could be undertaken largely as part of the extensive consultation process in the development of international standards and their adoption in Australia.

3.2.5 Other issues

The FRC also discussed a number of other matters during the year.

The FRC discussed regular reports received from the Association of Superannuation Funds of Australia (ASFA), Australian Institute of Company Directors (AICD), Australian Prudential Regulation Authority (APRA), Australian Securities and Investments Commission (ASIC), Australian Securities Exchange (ASX), Business Council of Australia (BCA), Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ), CPA Australia, the Department of Finance, External Reporting Board of New Zealand (XRB), Financial Services Council, Group of 100 (G100), Institute of Public Accountants (IPA), and the Treasury.

The FRC appreciates the receipt of these reports as a way of understanding any connections between market regulatory or other changes and the financial reporting framework in Australia.

Among matters discussed, the FRC noted the latest results of the ASIC web-based financial reporting quiz. The quiz was developed in response to the FRC's survey on director financial literacy and it continues to be a valuable tool for directors. The FRC noted the significant number of respondents to the quiz and the very positive assessment of its usefulness.

The FRC also considered a report prepared by the G100 on a Benchmark Corporate Bond Discount Rate.

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 a 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'.

The FRC noted the importance of continuing to seek new ways to influence the development of international standards including developing and maintaining strategic relationships between organisations and individuals. To assist in this process, the Nominations Committee monitors international appointments of Australians to relevant international bodies to ensure that Australia maintains appropriate representation and influence in the development of international standards.

4.2 MONITORING AND INFLUENCING INTERNATIONAL AND REGIONAL CONVERGENCE

4.2.1 International accounting standards

In accordance with its governing legislation, the FRC seeks to support adoption of a single set of global financial reporting standards. The only internationally accepted set of accounting standards are the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) for use in the preparation of general purpose financial statements. 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. The FRC notes the importance of the AASB maintaining membership on the IASB's prestigious Accounting Standards Advisory Forum (ASAF), working with New Zealand, as a key means of influencing international accounting developments.

IFRS has been adopted by over 110 countries around the world, including all the members of the European Union and increasing numbers of countries in the Asia-Oceania region. Australia was one of the earliest adopters of IFRS, which has had force of law under the Corporations Act since 2005. Fourteen of the G20 countries require or permit the use of IFRS for all or most domestic listed entities and banks.

In a key change during 2014-15, the IASB and US Financial Accounting Standards Board ceased formally working together on convergence as it became clear the US would not be mandatorily or voluntarily permitting the use of IFRS for US domestic entities. The US decision does not detract from Australia's decision to adopt IFRS given the number of countries that have adopted or are in the process of adopting IFRS and those such as Japan where voluntary adoption is steadily increasing. In 2014-15, India commenced converging its accounting standards with IFRS, with limited exceptions. In 2015-16, the AASB will be conducting a post implementation review of Australia's decision to adopt IFRS.

The FRC continues to monitor and influence the appointments of Australian representatives to key international bodies. Ms Lynn Wood, former Chair of the FRC, was appointed as an IFRS Foundation Trustee for an initial period of three years from 1 January 2014. The IFRS Foundation Trustees oversee the work of the IASB. The FRC received regular reports from Ms Lynn Wood and Ms Joanna Perry, from New Zealand, Chair of the IFRS Advisory Council. Mr Charles Macek ended his term as Vice-Chair of the IFRS Advisory Council in December 2014.

4.2.2 International auditing standards

Australia uses the International Standards on Auditing (ISAs) issued by the International Auditing and Assurance Standards Board (IAASB) as the basis for Australian Auditing Standards (ASAs). Over 100 jurisdictions now use or are committed to using ISAs, including in our region China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, Republic of Korea and Thailand.

During 2014-15, the FRC received regular reports on international auditing and assurance activities from the Chair of the AUASB, Ms Merran Kelsall. The Chair is a member of the IAASB and of its Steering Committee and Innovation Working Group and is Chair of the IAASB's Integrated Reporting Working Group and Audit Quality Group. The AUASB also participates in the IAASB's National Standards Setters group providing an annual forum for the AUASB to inform and influence strategic international auditing and assurance developments.

During 2014-15, the key IAASB developments included:

- *New and Revised auditor reporting suite of auditing standards issued (15 January 2015).* This suite seeks to provide greater transparency about the audit that was performed by significantly enhancing the auditor's report disclosures.

Of particular note is the new requirement for auditors of listed entities to disclose 'key audit matters', being matters that the auditor considered most significant in the audit of the financial report, along with an explanation of how the matters were addressed through the audit process. The effective date of the changes is for audits of financial statements for periods ending on or after 15 December 2016; and

- *Revised auditing standard issued on the auditor's responsibilities relating to other information (financial and non-financial) included in an entity's annual report (8 April 2015).* Of particular note is the new requirement for enhanced disclosure in the auditor's report on the other information. The effective date of the changes is for audits of financial statements for periods ending on or after 15 December 2016.

The AUASB decided to adopt into Australian Auditing Standards changes proposed or issued by the IAASB, including those mentioned above. Consultation is currently occurring with the amendments expected to be issued in 2015-16.

Regionally, the New Zealand Auditing and Assurance Standards Board (NZAuASB) has maintained, wherever possible given legal and regulatory differences, consistent auditing and assurance requirements, through the policy of harmonisation.

The FRC considers Australia's involvement in international accounting and auditing standard setting forums to be appropriate and noted the importance of the continued need to be able to influence international standards development.

4.2.3 Regional relationships

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 Chair is a member of the XRB as part of the arrangement for cross-appointments between Australia and New Zealand. Mr Graeme Mitchell, Chair of the XRB, was appointed as a member of the FRC in 2014-15.

The New Zealand and Australian Boards work closely together to facilitate harmonisation of Trans-Tasman standard setting. The Chair of the AUASB continues to be a member of the NZAuASB and vice versa. The Chair of NZASB and AASB are also each a member of their counterpart board. The AASB and the NZASB also work closely on the IFRS' ASAF.

Regionally, the AASB also continues to closely work with the Asian Oceania Standard Setters Group (AOSSG).

4.2.4 ASIC

In 2014-15, ASIC continued to work 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.

In March 2015, IFIAR issued overall findings from the risk-based audit inspection programs of its members for the 12 months to 30 June 2015. Reported level and areas of findings were similar to those found in ASIC's inspection program.

Areas of findings in the IFIAR report included the auditing of fair values and impairment of assets, revenue recognition, substantive analytical procedures, group audits and internal control testing. The IFIAR report noted that the areas selected for inspection often are areas inherently more complex to audit. They further noted it would not be appropriate to extrapolate the results presented to broader conclusions about the frequency of deficiencies throughout firms' audit practices.

ASIC also actively participates in the consideration of initiatives to improve audit quality as a member of the Audit Quality Task Force and Auditing Sub-committee of the International Organization of Securities Commissions (IOSCO). The task force has initiatives concerning better communication on audit quality with other international regulatory groups such as IFIAR, the role of audit committees in relation to audit quality, and the public interest involvement in the setting of international auditing, ethical and education standards.

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

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 their adoption.

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; and
- 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 setting boards.

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 2015, the FRC had 14 members. During 2014-15, three members ended their terms on the FRC and four members were appointed. A full list of members during 2014-15 and their nominating stakeholders is at Appendix A. The FRC held three meetings during 2014-15.

5.3 CONSULTANTS

No consultants were engaged to perform work on behalf of the FRC in 2014-15.

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. Reports of each FRC meeting are published on the website. The website also includes information about FRC members, minutes of past meetings, published reports and procedural rules.

5.5 FINANCES

In 2014-15, the Australian Government provided funding through the Treasury to support the FRC. The FRC's Secretariat is provided by staff of the Treasury's Markets Group. Expenditures and performance of its functions are included in the Treasury's annual financial statements.

Funding of the AASB and AUASB (including the sources of that funding) is included in the 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 (www.frc.gov.au).

The FRC did not receive any applications for access to documents under the FOI Act during 2014-15.

5.7 REGULATORY IMPACT STATEMENTS

The FRC did not submit any Regulatory Impact Statements in 2014-15.

APPENDIX A — MEMBERS OF THE FINANCIAL REPORTING COUNCIL 2014 - 2015

Chair

Vacant

Deputy Chair

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 Chair 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

William (Bill) Edge**

Risk and Governance Professional, Melbourne

Nominated by Chartered Accountants Australia and New Zealand

Appointed from 29 July 2014 to 28 July 2019

Jan Harris

Executive Director, Markets Group, Australian Treasury, Canberra

Nominated by The Australian Government

Appointed from 4 April 2014 to 3 April 2017

Stein Helgeby

Deputy Secretary, Governance and Resource Management Group, Department of Finance, Canberra

Nominated by the Australian Government

Appointed from 24 February 2010 to 23 February 2013; reappointed from 24 February 2013 to 23 February 2016

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

Members (continued)

Merran Kelsall	Chair, 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 Chair, 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 Compliance 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
Graeme Mitchell**	Chair, External Reporting Board (New Zealand) Nominated by the New Zealand Minister of Commerce Appointed from 3 July 2014 to 28 February 2019
David Nicol**	Under-Treasurer of the ACT, Canberra Nominated by Heads of State and Territories Treasuries Appointed from 3 July 2014 to 7 March 2017
Kris Peach**	Chair, Australian Accounting Standards Board, Melbourne Nominated by the Australian Government Appointed from 3 November 2014 to 2 November 2019
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*	Executive Director, SV Partners, Sydney Nominated by the Institute of Public Accountants Appointed from 10 May 2012 to 10 May 2015
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

* Term expired during 2014-15

** Appointed during 2014-15

APPENDIX B — ATTENDANCE AT MEETINGS

FINANCIAL REPORTING COUNCIL

The FRC held three meetings during 2014-15. Members' attendance is shown in the table below:

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
M Coleman (Deputy Chair)	3	3	
R Barker	3	2	1
R Burrows	3	3	
M Coughlin	3	3	
W Edge	3	3	
J Harris	2	0	2
S Helgeby	3	2	1
N Kelleher	3	3	
M Kelsall	3	2	1
I Laughlin	3	3	
K Lewis	3	3	
D Nicol	3	2	1
K Peach	2	2	
J Price	3	2	1
I Purchas	3	3	
G Mitchell	3	3	

FRC NOMINATIONS COMMITTEE

The FRC Nominations Committee held five meetings in 2014-15. Members of the Committee as at 30 June 2015 are: Mark Coughlin (Chair), Michael Coleman, Bill Edge, Kris Peach, Andrew Fleming, Stein Helgeby and Merran Kelsall. Attendance is shown in the table below:

Members	Number of meetings/interviews		
	Eligible to attend	Attended	Apologies
M Coughlin (Chair)	5	4	1
M Coleman (FRC Deputy Chair)	5	4	1
W Edge	5	4	1
A Fleming	2	2	
S Helgeby	5	4	1
M Kelsall	5	5	
K Peach	1	1	
A Thomson	4	4	

FRC AUDIT QUALITY COMMITTEE

The Audit Quality Committee held three meetings in 2014-15. Members of the Committee as at 30 June 2015 are: Michael Coleman (Chair), Roger Burrows, Mark Coughlin, Bill Edge, John Price, Merran Kelsall and Ian Laughlin.

These members' attendance is shown in the table below:

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
M Coleman (Chair)	3	3	
R Burrows	3	1	2
M Coughlin	3	3	
W Edge	2	1	1
J Price	3	3	
M Kelsall	3	3	
I Laughlin	3	2	1

STRATEGIC PLANNING COMMITTEE

The Strategic Planning Committee held one formal meeting in 2014-15 to discuss the relevance of the 2013-16 Strategic Plan. This work is ongoing. Members of the Committee as at 30 June 2015 are: Michael Coleman (FRC Chair), Merran Kelsall, Ian Laughlin and Kevin Lewis.

These members' attendance is shown in the table below:

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
M Coleman (FRC Chair)	1	1	
M Kelsall	1	1	
I Laughlin	1	1	
K Lewis	1	1	

OTHER

Financial Reporting Taskforce

The Financial Reporting Taskforce held two meetings in 2014-15 to finalise their report. Members of the Taskforce were: Ross Barker (Chair), Andrew Fleming, Merran Kelsall, Ian Laughlin, Ian Purchas, Kris Peach and Kevin Stevenson. The non-FRC members of were Kevin Neville (Director and Head of External Audit and Assurance Division, Moore Stephens) and Susan Pascoe (Commissioner of the Australian Charities and Not for-profits Commission). Margot Le Bars, partner of PricewaterhouseCoopers and Masha Marchev, senior accountant at PricewaterhouseCoopers, also attended meetings as required.

Sub-committee on Regulatory Impact Statements

The Sub-committee on Regulatory Impact Statements met twice in 2014-15. The members were Michael Coleman (Chair), Kris Peach, Roger Burrows, Angus Thompson (non-FRC member), Paul McCullough (Treasury), Diane Brown (Treasury). Its work is now completed.

Integrated Reporting Committee/Public Sector Committee

These committees did not meet during 2014-15.

APPENDIX C — REPORT BY THE FINANCIAL REPORT TASKFORCE

FINANCIAL REPORTING — ISSUES, RECOMMENDATIONS AND SUMMARY OF OBSERVATIONS

Report by Financial Report Taskforce

Purpose

The purpose of the FRTF is to provide policy advice to the FRC in respect of the following:

To examine how the current financial reporting regimes for the various types of reporting entities in Australia can best be understood and, if needed, make recommendations regarding rationalisation of the regimes (for example, through better regulation of who needs to report and/or providing a vehicle for co-ordinating existing and new legislation).

Terms of Reference

The Terms of Reference were drawn to clarify the aims of the Taskforce. This helped shape the Taskforce's work plan. Terms of Reference was drafted by the Chair with comments and inputs from members. The document was finalised by the Secretary of the Task Force. Attachment A is the approved Terms of Reference.

Methodology

In order to examine the existing financial reporting requirements of the various types of reporting entities in Australia, the task force agreed to map out the various reporting schemes applicable to entities. These include requirements under the *Corporations Act 2001*, cooperatives financial reporting requirements, not for profit reporting requirements etc. The Secretary received information on the various reporting requirements that the members were aware of and consequently a mapping study of the various regulators, reporting regimes, and how they interrelate was undertaken. PricewaterhouseCoopers voluntarily assisted the work of the task force by undertaking the mapping exercise and reporting on progress during the project.

While undertaking the mapping study, it was noted that the various regulatory regimes often imposed overlapping reporting requirements on entities, which may or may not be tailored for the entities they apply to. It was suggested that one way to deal with this is to establish a platform which they can consult, prior to imposing reporting requirements on entities.

PricewaterhouseCoopers (PwC) also shared their observations relating to the mapping work being undertaken on reporting requirements, namely that there were divergent:

- reporting requirements across the different layers of Government;
- assurance requirements, especially in relation to the use of Registered Company Auditors; and
- accounting standard requirements, especially in relation to General Purpose Financial Reporting (GPFR);

... with no consistent justification, in terms of either entity risk profile or accountability.

The Taskforce agreed that addressing the complexity of financial reporting requirements would require long term action; however it remained important that the Taskforce consider how to streamline reporting requirements, such as:

- Managing complexity within legislation, such as through having a centralised reference point for guidance for legislators when they wish to include accounting and auditing requirements, to minimise the likelihood of inappropriate or inconsistent references;
- Streamlining existing reporting requirements; and
- Developing a framework for new regulation, defining appropriate reporting requirements depending upon an entity's risk profile and public accountability and the likely users of an entity's financial reports.

AASB's research findings: The Taskforce considered how it should recommend that the FRC respond to the AASB's research findings into the use of Special Purpose Financial Reporting (SPFR). The Committee was advised that ASIC has also done some research into this matter. A wide range of views were expressed about the nature, extent and significance of the problem relating to the use of accounting standards.

Key issues identified by the Financial Reporting Taskforce

There is often no clear basis for the divergent reporting requirements, particularly where legislative requirements differ between states and different types of organisations:

- There are a range of different size thresholds, across different entity types, with inconsistent reporting and audit requirements. Differences in these thresholds and reporting requirements do not appear to be the result of different risk characteristics, or public interest in the accounts of entities.

Assurance requirements are similarly divergent between entity type:

- Some reporting requirements may call for an audit or review by a Registered Company Auditor, others only an audit or review by a member of the Chartered Accountants ANZ, CPA Australia, or IPA.

It was often a complex task to draw out the relevant reporting requirements from legislation:

- Sometimes, reporting requirements are outlined in regulations, and it is not always easy to get an overview of the different requirements that apply to different tiers of entities required to report.

Legislative reporting requirements may be internally inconsistent:

- One instance was identified where legislation required GPFRs to be prepared, but prescribed reporting under a non-IFRS GAAP (Trade Unions whose income <\$100,000). Here, the legislation refers to GPFRs, but did not require compliance with AASBs, and set out an alternative set of accounting principles. These principles permit accrual or cash basis accounting to be adopted.

Government reporting legislation on its own does not always require accounts to be prepared in accordance with the accounting standards: sometimes, it is the Treasurer's directives that enforce accounting standards.

One particularly significant aspect of the current overarching reporting framework is that a very large range of entities is required to lodge financial reports on the public record. Those that are reporting entities must provide general purpose financial reports, complying with the appropriate accounting standards. Within this group, there are a large number which can use the reduced disclosure regime (for example, entities which are not listed or disclosing or governments), applying full recognition and measurement requirements with reduced disclosure. Other entities which do not regard themselves as reporting entities can lodge special purpose financial reports. There is currently confusion as to what measurement requirements must be followed, if any, in special purpose financial reports. There is another group of small entities specifically associations, charities and not-for-profit entities which are usually small in size and for which there is no clear accounting framework and for which general purpose financial reporting may be too onerous.

Recommendations to the Financial Reporting Council

1. That the Financial Reporting Council authorise the release of the mapping document and make provision for it to be kept up to date.

2. In order to provide consistency going forward to avoid the proliferation of even more complexity, that the Financial Reporting Council recommend that the Federal Government makes arrangements to establish an online one-stop-shop reporting requirements portal, including the mapping document, which outlines the possible reporting and assurance obligations to consider when determining requirements and which makes recommendations for different types of entities (including outlining tiers of reporting), and potentially cross-references back to current legislative requirements.
3. That the Financial Reporting Council perform a further exercise benchmarking the requirements of Australia against other jurisdictions; for example, New Zealand, Singapore, the US and Canada in determining reporting requirements for non-listed entities, to further inform the following recommendations.
4. As a short term project, to improve clarity and consistency of requirements, the Federal Government consider the current small/large thresholds with a view to determining the appropriate threshold level at which such entities should be required to lodge publicly available financial reports and would be required to prepare GPFs.
5. As a longer term project in order to respond to the existing complexity of the financial reporting arrangements that the Federal and State Governments jointly (possibly through a COAG process) be asked to undertake a project to consider the following policy issues regarding entities which need to lodge financial reports on the public record.
 - (a) Who is required to lodge formal financial reports on the public record both in terms of the nature of the organisation and the size, and what is the reason for which these financial reports need to be publicly available, and what level of attestation is appropriate (for example, audit or review or none).
 - (b) What is required to be reported on in these financial reports, with the expectation that those entities required to lodge publicly should lodge GPFs. This would remove the application of the reporting entity concept at the user level, providing greater clarity and consistency. This is also likely to mean the criteria for public lodgement should be based on objective criteria such as size and type of entity. If financial reports do not need to be lodged publicly then the financial reporting should be specific to the purpose for which the information is required. In the rare circumstances where some form of financial information is considered necessary to be publicly available, but GPFs are considered too onerous, what the reporting requirements might be.
 - (c) Where the appropriate level of assurance is a review who may perform such services.

6. The Financial Reporting Council thanks PricewaterhouseCoopers for its considerable pro bono assistance in furthering the work of the Financial Review Task Force.

ATTACHMENT A

TERMS OF REFERENCE

The key objective of the Taskforce is to provide policy advice to the Financial Reporting Council (FRC) in respect of the following:

To examine how the current financial reporting regimes for the various types of reporting entities in Australia can best be understood and, if needed, make recommendations regarding rationalisation of the regimes (for example, through better regulation of who needs to report and/or providing a vehicle for co-ordinating existing and new legislation).

The Taskforce may consider the following matters:

1. What are the financial reporting and assurance requirements that are currently in place in Australia as they apply to the different types of entities that are required to have publicly available reports (for example, companies, managed schemes, government departments and organisations, indigenous corporations, associations, unincorporated ventures, co-operatives, superannuation funds, trusts, charitable and not for profit organisations, trust funds etc.)?
2. How can these financial reporting and assurance requirements and the framework in which they rest be best categorised, understood and communicated?
3. Are there deficiencies and/or inconsistencies in the structure and content of these financial reporting and assurance obligations?
4. Are there any overlaps or duplication in the purpose or content of these financial reporting and assurance obligations?
5. Are there opportunities for improving and streamlining these financial reporting and assurance obligations to improve consistency and efficiency having regard to the objectives of financial reporting and assurance, as set out in the Australian Accounting Standards Board's Conceptual Framework underpinning general purpose financial reporting and the Auditing and Assurance Standards Board's explanatory framework for audit and assurance engagements?
6. Are there any improvements to policy and to the institutional oversight framework that can be recommended to ensure that changes to financial reporting and assurance obligations in the future take place consistently and efficiently, having regard to the Australian Accounting Standards Board's Conceptual Framework underpinning general purpose financial reporting and the Auditing and Assurance Standards Board's explanatory framework for audit and assurance engagements?

ABBREVIATIONS

The following abbreviations are used throughout this report:

AASB	Australian Accounting Standards Board
AICD	Australian Institute of Company Directors
AOSSG	Asian-Oceanian Standard Setters Group
APESB	Accounting Professional and Ethical Standards Board
ASA	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>
AQC	Audit Quality Committee
AUASB	Auditing and Assurance Standards Board
Corporations Act	<i>Corporations Act 2001</i>
Chartered Accountants ANZ	Chartered Accountants Australia and New Zealand
CPA	CPA Australia
CPP	Certificate of Public Practice
FOI Act	<i>Freedom of Information Act 1982</i>
FRC	Financial Reporting Council
G100	Group of 100
GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IESBA	International Ethical Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards

Abbreviations

IPA	Institute of Public Accountants
IOSCO	International Organization of Securities Commissions
ISA	International Standard on Auditing
NZASB	Accounting Standards Board (of New Zealand)
NZAuASB	Auditing and Assurance Standards Board (of New Zealand)
OBPR	Office of Best Practice Regulation
PPC	Public Practice Certificate
PPQA	Public Practice Quality Assurance Review
RCA	Registered Company Auditor
RIS	Regulatory Impact Statement
SMSF	Self-Managed Superannuation Fund
SPC	Strategic Planning Committee
Treasury	Australian Treasury
XRB	External Reporting Board (of New Zealand)