



Australian Government
Financial Reporting Council

Financial Reporting Council

ANNUAL REPORT
2019–20



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ISSN 2204-0935 (Print)

ISSN 2204-0943 (Online)

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Financial Reporting Council

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25 September 2020

The Hon Michael Sukkar MP
Minister for Housing
Assistant Treasurer
Parliament House
CANBERRA ACT 2600

Dear Minister

I have pleasure in presenting the annual report of the Financial Reporting Council (FRC) for the year ended 30 June 2020.

The report has been prepared in accordance with section 235B of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) for tabling 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.

As required by subsection 235B(2), the report includes details of advice the FRC provided to the Australian Accounting Standards Board and Auditing and Assurance Standards Board over the year. Subsection 225(2B) of the ASIC Act further requires the FRC to provide strategic policy advice and report on the quality of audits conducted by Australian auditors.

Subsection 235B(4) of the ASIC Act requires the report to be tabled in each House of the Parliament as soon as practicable.

Yours sincerely

A handwritten signature in black ink, appearing to read 'B. L. Edge'.

Bill Edge
Chair



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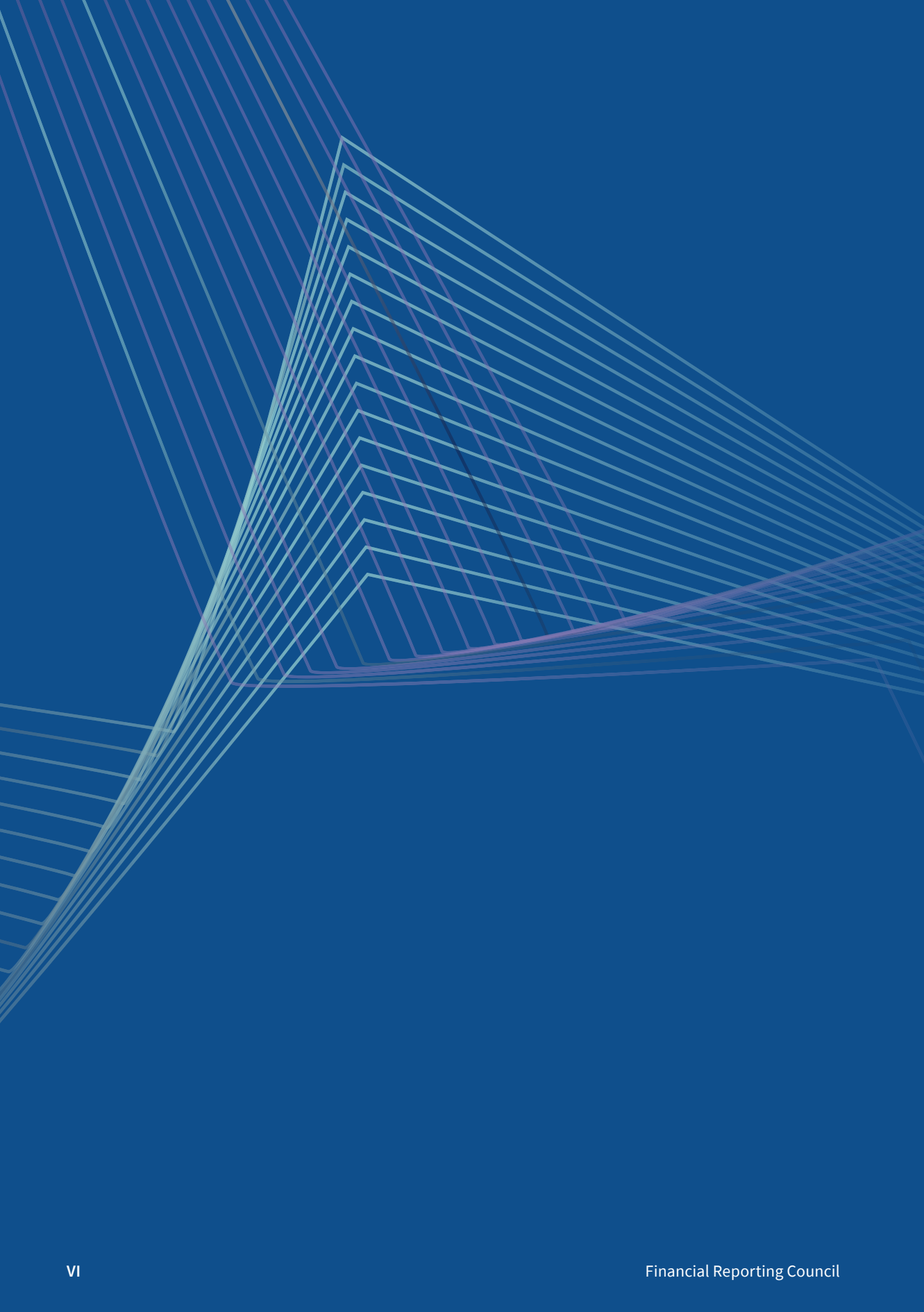
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A snapshot of key and ongoing initiatives

COVID-19

COVID-19 has had a dramatic impact on the health and well-being of many Australians and of the Australian economy. It also has had a substantial impact on the Australian financial reporting system.

Accordingly, in March 2020 the Financial Reporting Council (FRC) established an FRC COVID-19 Working Group to ensure a coordinated response by regulators and standard-setters, and to ensure such a response was timely.

The FRC COVID-19 Working Group is chaired by the FRC Chair and comprised senior representatives from:

- Australian Securities and Investments Commission (ASIC);
- Australian Securities Exchange (ASX);
- Australian Prudential Regulation Authority (APRA);
- Australian Accounting Standards Board (AASB);
- Auditing and Assurance Standards Board (AUASB);
- Accounting Professional and Ethical Standards Board (APESB); and
- Treasury.

Its purpose is to continuously monitor the financial reporting and auditing issues and consequent regulatory implications of COVID-19.

Key guidance on matters such as extension of reporting deadlines, timing of Annual General Meetings (AGMs), continuous disclosure obligations and going concern and related assessments, was monitored by the FRC COVID-19 Working Group and issued by the representative organisations.

The FRC established a page on its website with links to key guidance of the representative organisations. The FRC also communicated with stakeholders to ensure they were aware of this process and the FRC received and actioned issues requiring resolution.

Inquiry into Regulation of Auditing

On 1 August 2019, the Senate referred several matters pertaining to the regulation of auditing to the Parliamentary Joint Committee on Corporations and Financial Services (PJC) for inquiry and report by 1 March 2020. Throughout this annual report it is referred to as the PJC Inquiry.

The Senate extended the reporting date to 1 September 2020, and then subsequently to 2 December 2020.

The PJC Inquiry received 112 submissions and held public hearings on four separate days. The FRC, AASB and AUASB each made a submission, and the respective Chairs attended a public hearing.

On 27 February 2020 the PJC issued an interim report including recommendations. The interim recommendations specify proposed action to be taken by the FRC. These matters are covered in detail in Section 3 of this annual report.

Accordingly, the FRC has commenced preparatory work to understand the implications of the interim recommendations should they be included in the final recommendations and supported by the Government.

A number of the interim recommendations specify proposed action to be taken by ASIC, AASB, AUASB, Accounting Professional and Ethical Standards Board (APESB) and Treasury. The FRC is liaising with those bodies with respect to similar preparatory work being conducted by them.

Audit quality

The FRC considers that the results of recent ASIC Audit Inspection Programs indicate that further work to improve audit quality is needed. The FRC has therefore, with the assistance of the AUASB, been implementing its FRC Audit Quality Action Plan.

Audit quality, and the FRC Audit Quality Action Plan, are discussed at length in Section 3 of this annual report.

The Australian Financial Reporting Framework Project

The FRC continues to support the Australian Financial Reporting Framework Project being progressed by the AASB with support from the AUASB. The project involves collaborating with Federal, State and Territory regulators to develop objective criteria on:

- who prepares financial reports;
- what needs to be reported; and
- the nature and extent of assurance required on financial reports.

The project is aimed at improving the comparability, transparency, and consistency of financial statements prepared in accordance with Australian Accounting Standards (AAS).

Two key accounting standards were issued in March 2020 with respect to this project:

- *AASB 2020-2 Amendments to the Australian Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Entities*; and
- *AASB 1060 General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-For-Profit Tier 2 Entities*.

Public sector reporting and auditing

The FRC continues to monitor financial reporting and auditing issues relevant to the public sector, and has established an FRC Public Sector Working Group to progress work in this area. The Working Group is chaired by Stein Helgeby and comprises the Chair of the AASB, the Chair of the AUASB and the Chair of the Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC).

AASB research (Research Report No 6: *Financial Reporting Requirements Applicable to Public Sector Entities* and AASB Discussion Paper: *Improving Financial Reporting for Australian Public Sector*) has identified that financial reporting in the public sector appears to be more complex than necessary to meet user needs.

Accordingly, the FRC Public Sector Working Group has prepared a Project Plan with three phases:

- initial consultations (to 2020);
- detailed discussions and further design work (to 2021); and
- review, acceptance and approval (to 2024).

The FRC has agreed that the FRC Public Sector Working Group should lead an independent review of AASB 1049 *Whole of Government and General Government Financial Sector Reporting* and the FRC directive on GFS Harmonisation.

The FRC also continues to oversee the AASB's approach to International Public Sector Accounting Standards (IPSAS).

Extended external reporting

In June 2018, the FRC issued an *FRC Position Statement on External Reporting* stating that the FRC supports voluntary adoption of Extended External Reporting (EER) and will continue to monitor developments.

Significant developments since then are:

- the International Accounting Standards Board (IASB) expects to issue an exposure draft of a revised IFRS Practice Statement *Management Commentary* in the second half of 2020;
- the International Auditing and Assurance Standards Board (IAASB) issued a Consultation Paper on Proposed Non-Authoritative Guidance *Extended External Reporting Assurance* for public comment by 13 July 2020;
- the ASX Corporate Governance Council introduced Recommendation 4.3, which recognises broader corporate reporting and requires listed entities to disclose the process by which the entity has satisfied itself that such reporting is materially accurate, balanced and provides investors with appropriate information to make informed investment decisions, and which has an effective date of 31 December 2020; and
- following the New Zealand Government's indication that it aims to make climate-related financial disclosures mandatory for many businesses, the External Reporting Board (XRB) has indicated its interest to include climate change disclosures in a new set of integrated reporting standards for New Zealand businesses.

Stakeholder engagement

The FRC considers it essential that regular contact be maintained, and communication continually strengthened with all stakeholders interested in or affected by financial reporting.

We thank those stakeholders who communicate with us, particularly:

- Association of Superannuation Funds of Australia (ASFA);
- Australian Charities and Not-for-profits Commission (ACNC);
- Australian Council of Superannuation Investors (ACSI);
- Australian Institute of Company Directors (AICD);
- Australian Institute of Superannuation Trustees (AIST);
- Australian Public Policy Committee (APPC);
- Australian Prudential Regulation Authority (APRA);
- Australian Securities and Investments Commission (ASIC);
- Australian Securities Exchange (ASX);
- Australian Shareholders' Association (ASA);
- Business Council of Australia (BCA);
- Chartered Accountants Australia and New Zealand (CA ANZ);
- CPA Australia;
- Commonwealth Department of Finance;
- Corporate Reporting User Forum (CRUF);
- External Reporting Board of New Zealand (XRB);
- Financial Services Council (FSC);
- Governance Institute of Australia (GIA);
- Group of 100 (G100);

- Heads of Treasuries Accounting and Reporting Advisory Committee (HoTARAC)
- Institute of Internal Auditors-Australia (IIA);
- Institute of Public Accountants (IPA); and
- The Commonwealth Treasury.

The number of organisations listed above indicates the broad range of stakeholders affected by the financial reporting system.

International developments

The FRC continues to monitor International developments to ensure international best practice is considered for adoption in Australia.

Key developments during the year included:

- The Monitoring Group presented in July 2020 its recommendations *Strengthening the International Audit and Ethics Standard-Setting System*.
- The United Kingdom (UK) FRC announced in July 2020 its principles for operational separation of the audit practices of the Big Four accounting firms.

The FRC is also particularly interested in the UK Government's response to:

- *Independent Review of the Financial Reporting Council* (FRC) led by Sir John Kingman in December 2018;
- UK Competition and Markets Authority (CMA) Final report *Statutory audit services market study* in April 2019; and
- *Report of the Independent Review into the Quality and Effectiveness of Audit* by Sir Donald Brydon in December 2019.

Objectives of the FRC

The financial reporting system

Part 12 of the ASIC Act establishes Australia's financial reporting system.

As outlined in section 224 of the ASIC Act, the objectives of the financial reporting system include:

- developing accounting standards that require the provision of information that is relevant, reliable, easy to understand, allows users to make and evaluate financial decisions, and assists directors to fulfil their statutory financial reporting obligations;
- developing auditing and assurance standards that provide Australian auditors with relevant and comprehensive guidance in determining whether financial reports comply with statutory requirements, and require auditors' reports to be reliable and readily understood by users;
- facilitating the Australian economy; and
- maintaining investor confidence in the Australian economy.

The FRC notes that, under Part 12 of the ASIC Act, the core objectives for the financial reporting system in Australia are to facilitate the Australian economy by:

- reducing the cost of capital;
- enabling Australian entities to compete effectively overseas; and
- having accounting and auditing standards that are clearly stated and easy to understand.

Functions of the FRC

The FRC is the peak body responsible for overseeing the effectiveness of the financial reporting system in Australia.

The FRC functions include providing broad oversight of the accounting and auditing standard setting processes for private and public sectors, giving the Minister reports and advice about such matters, and establishing appropriate consultative mechanisms.

Of specific interest in the current environment, the FRC functions include giving strategic policy advice and reports to the Minister and professional accounting bodies in relation to the quality of audits conducted by Australian auditors.

'The FRC is the peak body responsible for overseeing the effectiveness of the financial reporting system in Australia.'

Statutory obligations

Each year the FRC conducts a review of its performance against the obligations required of it under the ASIC Act. The review this year confirmed that the FRC continues to satisfy all its statutory obligations.

Oversight of Australian standard setting

FRC's role

The FRC's role, as set out in the ASIC Act includes:

- determining the broad strategic direction of the AASB and AUASB;
- appointing members of the AASB and AUASB (other than the Chairs);
- monitoring the operation of accounting and auditing standards and the effectiveness of consultative arrangements of the AASB and AUASB;
- giving advice or feedback to the Boards and their offices on priorities, business plans and procedures, budget and staffing arrangements; and
- monitoring the development of international standards.

The FRC works to promote the development of a single set of both accounting and auditing standards for world-wide use and promotes

'The FRC ... promotes the continued adoption of international best practice standards in the Australian standard setting processes.'

the continued adoption of international best practice standards in the Australian standard setting processes.

The ASIC Act expressly limits the FRC's ability to direct the AASB or AUASB in relation to the development, or making, of a particular standard. The FRC does not have the power to veto a standard made, formulated or recommended by the AASB or AUASB.

Determining strategic direction

Since its establishment, the FRC has made three determinations concerning the broad strategic direction of the AASB and AUASB:

- to require the AASB to work towards the adoption of accounting standards that are the same as those issued by the IASB (Direction approved 5 September 2002);
- to require the AASB to pursue the harmonisation of Government Financial Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting (Direction approved 12 December 2002); and
- to require the AUASB to use auditing standards issued by the IAASB as a base from which to develop the Australian standards, to develop auditing and assurance standards other than for historical financial information,

and to participate in audit research that is conducive to the AUASB's standard-setting activities (Direction approved 4 April 2005).

Each of these directions is still current and the FRC continues to monitor their appropriateness. The FRC is satisfied that the AASB and the AUASB (the Boards) have implemented these directions to the extent practicable.

Monitoring the operation of accounting and auditing standards

The FRC monitors the operation of Australian accounting and auditing standards to assess their continued relevance and effectiveness in achieving their objectives in respect of both the private and public sectors in the Australian economy. Based on the reports of the Chairs of the AASB and AUASB and the FRC members' knowledge of how the standard setting processes and standards themselves operate in practice, the FRC is satisfied that:

- the AASB and AUASB have incorporated International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) within reasonable timeframes in accordance with the Strategic Directions;
- the AASB and AUASB have adequate post implementation review processes to assess the effectiveness of new standards and guidance, and regular agenda consultation processes identify existing accounting and auditing standards where further guidance is necessary; and

- the AASB and AUASB consult appropriately before issuing new standards or guidance and that such mechanisms appropriately include roundtables, targeted outreach, education sessions, webinars, podcasts, LinkedIn and Twitter.

Giving advice or feedback to the Boards and their offices

The FRC continues to encourage alignment of plans, projects and activities of the AASB and AUASB wherever practicable.

The Chairs of the AASB and AUASB provided written and oral reports on the activities of the AASB and AUASB to each FRC meeting in 2019-20 which included progress on:

- the aligned AASB and AUASB Strategy for 2017-21;
- the aligned AASB and AUASB Corporate Plan for 2019-20.

Jointly the AASB and AUASB prepared two documents which provide guidance to preparers and auditors on reporting and auditing considerations arising as a result of COVID-19:

- *The Impact of Coronavirus on Financial Reporting and the Auditor's Considerations*; and
- *The Impact of COVID-19 on Going Concern and Related Assessments*.

Other specific matters or documents considered by the FRC during 2019-20 included:

AASB

- AASB 2020-2 *Amendments to Australian Accounting Standards – Removal of Special Purpose Financial Statements for Certain For-Profit Entities*, which removes the ability of certain For-Profit Entities to prepare Special Purpose Financial Statements (SPFS) from 1 July 2021 and AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*, which introduces new disclosure requirements for Tier 2 entities;
- AASB Research Report 11 *Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities* presenting findings regarding the extent to which charities producing SPFS are currently complying with recognition, measurement and disclosure requirements in Australian Accounting Standards;
- AASB Research Report 12 *Financial Reporting Practices* analysing the application of the reporting entity concept and the adoption of SPFS;
- AASB Research Report 13 *Parent, Subsidiary and Group Financial Reporting* concluding that additional disclosures are required for for-profit parent/subsidiary structures and this conclusion will be advised to the IASB; and
- AASB Research Report 14 *Literature Review: Service Performance Reporting for Not-for-Profits*, which provides a review of academic literature regarding reporting of service performance information.

AUASB

- AUASB's series of additional Frequently Asked Questions (FAQs) with detailed guidance to support auditors in applying the auditing standards during COVID-19;
- ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*;
- ASA 315 *Identifying and Assessing the Risks of Material Misstatement*;
- GS 005 *Evaluating the Appropriateness of a Management's Expert's Work*;
- GS 009 *Auditing Self-Managed Superannuation Funds*;
- ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*;
- Exposure Draft 01/20: ASRS 4400 *Agreed-Upon Procedures Engagements*;
- Consultation Paper on the IAASB's Exposure Draft ISA 600 *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*;
- AUASB Research Report 3: *Audit Market Structure and Competition in Australia: 2012-2018*;
- AUASB Research Report 4: *The Provision of Non-Audit Services by Audit Firms in Australia*; and
- AUASB's response on the IAASB's Exposure Drafts (ED) for Quality Management at the Firm and Engagement Level, including Engagement Quality Reviews.

Monitoring the development of international standards

In accordance with the ASIC Act, the FRC's functions include furthering the development of a single set of accounting standards and a single set of auditing standards for world-wide use.

The international accounting standards with the most widespread adoption are the IFRS Standards issued by the IASB. These have been adopted in over 100 countries.

The FRC notes that the AASB also monitors the work of the International Public Sector

'... the FRC's functions include furthering the development of a single set of accounting standards and a single set of auditing standards for world-wide use.'

Accounting Standards Board (IPSASB) and where appropriate, utilises their guidance to modify IFRS for the not-for-profit sector. The FRC and the AASB reassess regularly whether the use of IASB rather than IPSASB standards as a base for the Australian public sector continues to be appropriate. The AASB issued *The AASB's Approach to International Public Sector Accounting Standards* in October 2019, which sets out the appropriate criteria that need to be met for the AASB to consider adoption of IPSAS

and addresses the degree of interaction of the AASB with the IPSASB if not adopting IPSAS.

The international auditing standards with the most widespread adoption are those issued by the IAASB. These have been adopted in over 120 countries. AUASB Chair, Professor Roger Simnett is a member of the IAASB.

Both IAASB and AUASB auditing standards are designed to be sector neutral and apply equally to private and public sector audits, with application guidance specific to the audits of public sector entities included where appropriate in AUASB auditing standards.

Additionally, the AASB and AUASB regularly report to the FRC their activities to build and enhance key relationships with both global and national standard setters designed to monitor and influence international developments.

International appointments

During the year Professor Simnett was appointed as a member of the IAASB's Extended External Reporting Working Group. He also Chairs the IAASB's Working Group investigating issues relating to Audits of Less Complex Entities.

Regional relationships

Australia and New Zealand continue to work closely together to facilitate harmonisation of Trans-Tasman standard setting.

In New Zealand the XRB's structure contains three entities: the Board of the XRB and two standard 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 and the XRB Chair is a member of the FRC as part of the arrangement for cross-appointments between Australia and New Zealand. The Chairs of the AASB/AUASB and the NZASB/NZAuASB are also each a member of their counterpart board.

The AASB continues to work closely with the Asian Oceania Standards Setters Group (AOSSG), and as Chair of the Financial Instruments Working Group maintains a presence at the IASB's Accounting Standards Advisory Forum (ASAF).

The AUASB and NZAuASB continue to work closely together on international and common projects, with the technical staff from both boards communicating regularly on common projects and work plans. Additionally, the AUASB and NZAuASB are leading members of the IAASB's National Standards Setters group (NSS) where they work closely with the IAASB, as well as working with prominent auditing and assurance standard setters from the world's largest economies on common interests.

This has resulted in, for example, the update of Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, with NZAuASB, and the issuing of Guidance Statement GS 005, taking into account the expert feedback from the various jurisdictions. The benefits of working collaboratively and leveraging off the expertise and activities of the NSS was also identified by the IAASB, which put together a coalition of NSS to support and share experiences around their COVID-19 initiatives.

'Australia and New Zealand continue to work closely together to facilitate harmonisation of Trans-Tasman standard setting.'

Audit quality

Background

Australia has comprehensive legislative and professional requirements concerning audit, with the main legislative requirements set out in the *Corporations Act 2001* (Corporations Act). ASIC is the key regulator under the Corporations Act and has responsibility for the surveillance, investigation and enforcement of the financial reporting requirements of the Corporations Act, including the regulation of audit requirements.

The Corporations Act gives legal effect to the auditing standards developed by the AUASB. The auditing standards require that auditors adhere to the relevant ethical standards issued by the APESB. The professional accounting bodies (CA ANZ, CPA Australia and IPA) also enforce professional standards.

FRC's role

Under the ASIC Act, the FRC's functions include giving 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 provisions of the Corporations Act, auditing standards or codes of conduct and matters relating to the quality assurance reviews carried out by the professional accounting bodies.

FRC Audit Quality Action Plan

In February 2018 the FRC developed an Audit Quality Action Plan:

- to engage with users of financial reports to better understand their views on audit quality;
- to undertake appropriate actions on the learnings of the ASIC Audit Inspection Program to contribute to the continuous development of best practice programs to assess audit quality; and
- to engage with professional accounting bodies, firms providing audit services, and other stakeholders to support initiatives that improve audit quality.

Implementing this action plan is an ongoing process that relies on and involves many stakeholders, particularly ASIC, the accounting firms and the professional accounting bodies, to achieve the desired level of improvement in audit quality.

'The FRC agrees that the ASIC Audit Inspection Program results suggest that further work, and in some cases new or revised strategies are still needed to improve audit quality.'

The FRC agrees that the ASIC Audit Inspection Program results suggest that further work, and in some cases, new or revised strategies, are still needed to improve audit quality.

The FRC's audit quality remit extends to considering whether issues noted by ASIC in its Audit Inspection Program may have had an impact on the desired outcomes of maintaining trust and confidence in financial reports. ASIC's financial reporting surveillance program continues to indicate that 5 per cent of financial reports reviewed result in a material misstatement that requires correction. The FRC's assessment, after consultation with stakeholder organisations, is that external audits continue to assist in maintaining trust and confidence in financial reports.

The FRC has been progressing further work on the FRC Audit Quality Action Plan and progress on the key elements is set out below.

A key objective of the FRC Audit Quality Action Plan is to survey users of financial information to better understand their views on audit quality.

The FRC and the AUASB conducted Surveys of Audit Committee Chairs (ACCs) in 2018 and of Investors in 2019. In their responses to the question asking for an overall view of the external auditor, 38 per cent of ACCs responded 'excellent' and 54 per cent responded 'above average'. To the same question to Investors, 60 per cent responded 'above average' and 33 per cent responded 'average'.

It was intended that both surveys be replicated in 2020, but the impact of COVID-19 has delayed that process until after the date of this annual report.

'The FRC also supports ... ASIC's Report 649 ... which includes a broad group of audit quality measures, indicators and other information to supplement ASIC's audit inspection findings. This report includes the results of the above surveys of ACCs and Investors.'

CA ANZ released in September 2019 the results of a survey which captured the views of just over 1000 retail investors in Australia. Results showed that 87 per cent of retail investors have confidence in the audited financial reports produced by Australian public companies and auditors were seen as the most trusted group in advancing investor protection, followed by government regulators.

The FRC also supports and was consulted on ASIC's Report 649 *Audit quality measures, indicators and other information: 2018-19* released in December 2019 which includes a broad group of audit quality measures, indicators and other information to supplement ASIC's audit inspection findings. This report includes the results of the above surveys of ACCs and Investors.

The AUASB responded to areas of improvement in guidance on auditing raised by ASIC by updating in March 2020 Guidance Statement 005 *Evaluating the Appropriateness of Management's Expert's Work*, and reissuing in February 2020 ASA 315 *Identifying and Assessing Risks of Material Misstatement* by the AUASB.

Inquiry into Regulation of Auditing

As previously mentioned, the PJC is conducting an *Inquiry into Regulation of auditing in Australia* (PJC Inquiry) with particular reference to:

- the relationship between auditing and consulting services and potential conflicts of interests;
- other potential conflicts of interests;
- the level and effectiveness of competition in audit and related consulting services;
- audit quality, including valuations of intangible assets;
- matters arising from Australian and international reviews of auditing;
- changes in the role of audit and the scope of audit products;
- the role and effectiveness of audit in detecting and reporting fraud and misconduct;
- the effectiveness and appropriateness of legislation, regulation and licensing;
- the extent of regulation relief provided by ASIC through instruments and waivers;
- the adequacy and performance of regulatory, standards, disciplinary and other bodies;
- the effectiveness of enforcement by regulators; and
- any related matter.

The FRC made a submission on 29 October 2019 which included the following initial recommendations pending the inquiry outcomes:

- PJC to support collective action by all stakeholders in the financial reporting system as key to improving audit quality.
- PJC to make recommendations for any legislative change subject to commissioning of appropriate research/evidence collation regarding costs/benefits and unintended consequences, and to delegate to the FRC the role to oversee such research.
- PJC to support the FRC, AASB and AUASB in continuing to obtain evidence regarding the need for mandatory accounting and auditing requirements relating to EER.
- PJC to support further examination by ASIC of the reasons and impact of the reduction in the number of Registered Company Auditors (RCAs).
- PJC to support the FRC in requesting the three Professional Accounting bodies collaborate with each other and with ASIC to enable sharing of best practices of audit inspection programs.

- PJC to support the FRC's *Auditor Disciplinary Processes: Review* recommendations which were agreed by the Government.
- PJC to support the Government giving ASIC power to undertake surveillance of the financial reports of Regulated Superannuation Entities (RSEs) and to inspect the audits of those reports.
- PJC to support:
 - lodging of financial reports with ASIC in a digital format; and
 - access to financial reports lodged with ASIC being free of charge to the FRC, AASB and AUASB.

The PJC issued an Interim Report in February 2020, with the following specific recommendations applicable to the FRC:

“Recommendation 3

The committee recommends that the Financial Reporting Council, in partnership with ASIC, by the end of the 2020-21 financial year, oversee consultation, development and introduction under Australian standards of:

- defined categories and associated fee disclosure requirements in relation to audit and non-audit services; and
- a list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity.

Recommendation 6

The committee recommends that the Financial Reporting Council, by the end of the 2020-21

financial year, oversee the revision and implementation of Australian standards to require audited entities to disclose auditor tenure in annual financial reports. Such disclosures should include both the length of tenure of the entity's external auditor, and of the lead audit partner.

Recommendation 8

The committee recommends that the Financial Reporting Council oversee a formal review, to report by the end of the 2020-21 financial year, of the sufficiency and effectiveness of reporting requirements under the Australian standards in relation to:

- the prevention and detection of fraud; and
- management's assessment of going concern.”

The FRC has commenced preparatory work to understand the implications of the interim recommendations should they be included in the final recommendations and be supported by the Government.

Initiatives by the accounting profession

The FRC continues to encourage the professional accounting bodies to introduce initiatives to improve audit quality in Australia, including collaborating to achieve improvements.

During 2019-20:

- CA ANZ, CPA Australia and AICD jointly published *COVID-19 Impacts on Annual*

Reporting Disclosures: A guide for directors, preparers and auditors; and

- CA ANZ, CPA Australia, IPA and APESB jointly updated and reissued the *Independence Guide*.

‘The FRC continues to encourage the professional accounting bodies to introduce initiatives to improve audit quality in Australia, including collaborating to achieve improvements.’

Other notable initiatives during 2019-20 include:

CA ANZ

- Developing the *CA ANZ Comprehensive Plan for Audit and Risk in Australia* through extensive stakeholder outreach. The plan puts forward 15 actionable policies addressing public confidence in auditing and independence, relevance and risk coverage, oversight of audit quality and tackling fraud with several key aspects reflected in the PJC’s recommendations.
- Informing the PJC Inquiry through developing and providing comprehensive plain language and diagrammatic background information on Australia’s audit framework and relevant international policy developments in an early submission requested by the PJC.
- During COVID-19, facilitating a regular dialogue and progress on key technical matters central to audit quality by hosting fortnightly technical forums involving the ASIC, AASB, AUASB, and ASX together with audit and accounting firms.
- Providing extensive guidance and support to help auditors, directors and accountants navigate the impacts of the pandemic on audit quality and financial reporting including a webinar series, simplified guide to COVID-19 impacts, videos, articles and podcasts and disseminating the guidance and focus areas from standard setters and regulators to a large audience of Australian practitioners.
- Developing and publishing research on multidisciplinary firms and audit quality, investor confidence in audited financial reporting, emerging technology in audit, the role of audit committees, future of financial reporting and digital reporting and Australian financial reporting framework reform.
- Hosting audit conferences and member training focused on audit quality for a large audience of Australian practitioners, including new training programs in the areas of professional scepticism and impairment.
- Ongoing engagement with regulators and standard setters, facilitating connection with the profession and disseminating audit quality messages through regular updates, training and focused resources.
- Outreach and engagement with Chartered Accountants across Australia and internationally to support the development of high quality standards and guidance.

CPA Australia

- During COVID-19, providing resources including:
 - Complimentary webinars covering regulatory relief, specific impacts on not-for-profits, challenges for year-end financial reporting and auditing and technological solutions for auditors.
 - Publication of numerous articles on the regulatory relief, going concern considerations and the experiences of auditors on CPA Australia's External Reporting Centre of Excellence in dealing with COVID-19.
 - Maintaining close communication with regulators, sharing guidance from standards-setters and regulators with members and escalating issues to Treasury's, regulators' and FRC's attention as necessary.
- Advanced potential reforms to address audit quality concerns to the PJC Inquiry through a detailed submission, evidence at a hearing, conference presentations and articles. Similarly, advanced reforms in a submission to the Brydon Review in the UK.
- Revised *Guide to Understanding Audit and Assurance for listed companies in Australia* to assist shareholders, investors and other stakeholders, including policy makers, to better understand the auditor's role and the auditor's report, and the related *Guide to Understanding Annual Reports for Australian listed companies*.
- Developed a Quality Control tool for public practitioners to aid their compliance with documentation of policies and procedures to evidence their firm's system of quality control.
- Identified risks and opportunities for audit quality in available technology through member outreach and research, and shared insights through a two-part podcast, webinar, articles and a submission to the UK FRC, and through membership of the AUASB's Technology Project Advisory Group.
- Promoted Self-Managed Superannuation Fund (SMSF) auditor compliance and independence through contributing to the Australian Taxation Office's (ATO's) SMSF Professional Auditor User Group liaison, publishing a podcast on the ATO's compliance program findings and focus areas, sharing ATO guidance with members and conducting a Workshop between ATO compliance team, ASIC enforcement team and CPA Australia Quality Review team to improve consistency of oversight and share insights to improve audit quality.
- Worked with Federal, State and Territory regulators to promote audit quality, which in addition to on-going liaison with ASIC, ACNC, ATO and APRA on auditors' reports and audit quality, involved podcasts and webinars with ASIC on inspection findings and audit quality measures, IAASB on strategy and AUASB on new standards. Successfully advocating for reforms to rectify the inherent and long-term conflict of interest created by the Queensland Building and Construction Commission's requirements for practitioners to both prepare and audit licensees' financial statements.

IPA

- Responded to COVID-19 by advising and guiding members on audit related matters, including changes to financial reporting relating to asset values, solvency and going concern assessments and disclosures. IPA has also focused on the essential role of accountants, tax agents and auditors in the economic and financial impact of COVID-19, including the Government stimulus measures and the economic recovery.
- IPA Deakin SME Research Centre made a submission to the PJC Inquiry in October 2019.
- Focused on SMSF audits including providing member education and training at different levels from beginner to advanced; holding SMSF retreats, workshops, webinars and providing members with specialised tools and resources.
- Attended and contributed to the ATO's SMSF Auditors Professional Association Stakeholder Group, including to the SMSF Auditors Report.
- Completed the annual updating of *Who Can Audit What* member guidance based on state legislation, Quality Control Manual and the Professional Practice Program, which includes sections on audit quality, with a focus on independence.
- Additional human and technology resources have been provided to the assurance and compliance function to improve the overall professionalism of IPA members, especially those holding a practicing certificate and statutory registration such as RCAs and SMSF auditors.

- Ongoing communication across all IPA channels on issues, topics and concerns relating to audit quality and audit generally.

Review processes

In February 2020, the International Forum of Independent Audit Regulators (IFIAR) released its eighth annual survey of inspection findings arising from its member regulators' individual inspections of audit firms affiliated with the six largest global audit firm networks. While encouraged by the downward trend, IFIAR urges the Global Public Policy Committee (GPPC) networks and their member firms to continue efforts to achieve improved audit performance as the current inspection findings remain high.

Australia's auditor regulatory regime includes complementary work by ASIC and the professional accounting bodies.

Each organisation conducts an inspection or review program which encompasses audit engagements.

Each of the programs is different and complementary to manage different risks, participants and types of engagement, and to

'Australia's auditor regulatory regime includes complementary work by ASIC and the professional accounting bodies.'

maintain a focus on audit quality. Accordingly, statistics gathered by each organisation may not be comparable.

During the year CA ANZ and CPA Australia commenced a project to identify ways to collaborate on their quality review programs and share findings with each other and their respective members. Both organisations remain committed to this project.

ASIC Audit Inspections

The objective of ASIC's audit firm inspections is to promote the improvement and maintenance of audit quality. ASIC inspects audit firms that audit listed entities and significant public interest entities. All audit partners reviewed are RCAs.

In December 2019, ASIC released the results of audit firm inspections for the 12 months to 30 June 2019 (ASIC Report 648 *Audit inspection report for 2018–19*). The results are summarised in the table below:

Table 1: ASIC Audit Inspection Results

	18 months to 31 December 2016	18 months to 30 June 2018	12 months to 30 June 2019
Audit firms reviewed	23	20	19
Audit files reviewed	93	98	58
Key audit areas reviewed	390	347	207
Key audit areas with findings ¹	25%	24%	26%

¹Key audit areas with findings means that the auditor did not obtain reasonable assurance the financial report as a whole was free of material misstatement.

The largest six accounting firms voluntarily published on their own websites the firm's individual ASIC audit inspection reports for 2018-19.

ASIC said in its *Audit inspection report for 2018-19* that while audit firm action plans remain important in improving audit quality, these have not been sufficient alone to reduce the level of adverse inspection findings.

ASIC adopted a more intensive supervisory, regulatory and enforcement approach to audit. ASIC's new regulatory initiatives introduced during the year include:

- implementing ASIC's 'why not litigate' approach to auditor conduct matters;
- an audit firm governance review looking at how conflicts of interest are managed within firms, firm culture and accountability mechanisms on audit quality, and firm talent for quality audits;

- reviewing the analysis of root causes by large firms on selected material changes to financial reports identified from ASIC's financial reporting surveillance program;
- increased transparency by publishing the level of adverse findings for large audit firms, and
- publishing a broader group of audit quality measures and indicators.

ASIC's findings do not necessarily mean that the financial reports audited were materially misstated. Rather, in ASIC's view, the auditors do not have sufficient basis to support their opinion on the financial report. ASIC's inspections look at a limited number of files and focus on higher risk audit areas and so caution is needed in generalising the results across the entire market. ASIC generally selects some of the more complex, demanding and challenging audits, and some more significant or higher risk areas of the financial reports.

Auditors are primarily responsible for audit quality. ASIC believes that sustainable improvements in audit quality require a focus on governance, accountability, culture and talent by audit firms. In particular:

- all partners and staff should embrace the need to improve audit quality and the consistency of audit execution;
- partners and staff should understand and be accountable for their roles in conducting quality audits, and
- firm leadership should give strong, genuine and consistent messages to partners and staff that audit quality is not negotiable,

and this should be supported by holding engagement partners and other individuals to account for inadequate audit work.

Directors are primarily responsible for the quality of the financial report. Audit quality supports financial reporting quality and ASIC believes it is in the interests of directors and audit committees to support the audit process. Among other matters, directors and audit committees should, in ASIC's opinion, consider:

- non-executive directors recommending audit firm appointments and setting audit fees;
- reviewing the resources devoted to the audit, including the amount of partner time;
- assessing the level of professional scepticism exhibited by the auditor in challenging estimates and accounting policy choices, and
- ensuring independence of the auditor.

ASIC activities to support audit quality also include its financial reporting surveillance program, auditor surveillances not related to their inspections, investigations into corporate collapses and addressing matters from complaints and other intelligence.

ASIC also works with securities and audit regulators in other countries to promote audit quality, including meeting with the global leadership of the six largest firms on improving audit quality.

ASIC's financial reporting surveillance program, which is risk-based surveillance of the financial reports of listed entities and other public interest entities, led to material changes to about 5 per cent of these financial reports

reviewed for financial reporting periods ended 30 June 2010 to 30 June 2019.

ASIC updated Information Sheet 224 *ASIC audit inspections*, which provides further information on its audit inspection process.

The next ASIC report on inspections of audits in the 12 months to 30 June 2020 will be issued in late 2020, after the date of this annual report.

Audit quality measures, indicators and other information

ASIC also issued a report of audit quality measures, indicators and other information (ASIC Report 649 *Audit quality measures, indicators and other information: 2018–19*) to supplement its audit inspection findings. This report is intended to promote:

- discussion on the measures and indicators that might be used by auditors and audit committees in monitoring initiatives to improve audit quality, and
- good behaviours by auditors and audit committees that support audit quality.

The measures and indicators presented in this supplementary report are likely to change in future years as:

- ASIC reassesses the relevance and usefulness of each measure and indicator, and
- more information to support new measures becomes available.

Changes and trends in the measures, indicators and other information over time may also provide useful additional information in the future.

CA ANZ Quality Review Program

As at 30 June 2020, CA ANZ had approximately 27,500 Australian members in public practice; of whom approximately 15,000 are principals responsible for the delivery of services and engagements, including audits, to their clients. Approximately 2,500 of these members have advised CA ANZ they are RCAs.

The Quality Review Program (the program) is an integral component of CA ANZ's professional compliance framework. The objective of a review is to assess whether a firm has implemented an appropriate system of quality control as set out in *APES 320 Quality Control for Firms and ASQC 1 Quality Control for Firms that Perform Audits and Reviews of Financial Reports and Other Financial Information, and Other Assurance Engagements and Related Services*. In contrast to the ASIC Audit Inspection Program, quality reviews are not designed, or intended to, assess the appropriateness of the opinions issued, or the advice provided, by members, nor does it seek to review higher risk engagements.

CA ANZ members in public practice are eligible to be selected for a review. Firms providing audit services are eligible for a review more frequently.

The program has an educational focus and CA ANZ works with individual firms to remediate non-compliance issues within a reasonable time-frame. CA ANZ assists members achieve compliance by providing them with tools and resources (training, manuals, checklists and mentoring).

COVID-19 had a significant impact on the number of reviews completed during the year. Due to government travel restrictions and social distancing rules CA ANZ reviewers were unable to visit firms to conduct quality reviews. CA ANZ recently introduced greater flexibility into the review process, including remotely conducted reviews.

During the year, CA ANZ completed reviews of 152 firms, including audit firms, non-audit firms and mixed firms.

Large firms

Three large firms were reviewed during the year. CA ANZ's focus is to obtain an understanding of the firm's system of quality control, including risk management, and the results of regulatory and network review programs and action plans.

Other firms

The review of these firms included 145 members providing audit services and 195 audit engagement files. The results for firms providing audit services are summarised in the table below:

Table 2: CA ANZ Quality Review Program Results

	2017/18	2018/19	2019/20
Satisfactory	79%	76%	77%
Re-review required in 12 months	21%	22%	22%
Unsatisfactory	0%	2%	1%

The 2019/20 reviews revealed that the majority of reviewed practices had adequate quality controls in place. The majority of re-reviews and unsatisfactory reviews were due to inadequate

quality control procedures and/or insufficient documentation of audit evidence.

CA ANZ encourages firms providing audit services to focus on adequately documenting audit evidence.

Areas identified as requiring improved documentation, include:

- subsequent events;
- analytical review not performed as part of risk assessment procedures;
- analytical review applied and/or documented at the final stage of the audit;
- performance materiality; and
- presumption of risk of material misstatement due to fraud in revenue recognition.

These findings are consistent with those identified by ASIC.

CPA Australia Quality Review Program

For the health and safety of its members and employees, CPA Australia postponed its Quality Review Program in March 2020 due to the outbreak of COVID-19. CPA Australia finalised 443 quality reviews in 2020 – 414 Standard Reviews and 29 Follow-Up Reviews. Of those, 28 were related to audit and assurance engagements – 15 Standard Reviews and 13 Follow-Up Reviews. The breakdown of the findings for reviews of audit and assurance engagements are in Table 3.

Table 3: CPA Australia Quality Review Program Results

Outcome of Review	Standard Reviews			Follow up Reviews		
	2018 Calendar Year	2019 Calendar Year	6 months to 30 June 2020	2018 Calendar Year	2019 Calendar Year	6 months to 30 June 2020
‘Compliant’ reports – no departures identified	16.9%	22.2%	60.0%	3.7%	4.2%	0.0%
‘Minor departure’ reports – no serious departures identified	63.4%	56.4%	33.3%	88.9%	89.6%	100.0%
‘Follow-up’ reviews – significant departures identified	19.7%	21.4%	6.7%	7.4%	6.3%	0.0%

CPA Australia decided to undertake a review of its current Quality Review Program to evaluate if the program was still considered fit for purpose, provided value to its members and protected the public interest. CPA Australia worked to benchmark its Quality Review Program against international best practice.

CPA Australia is now designing a program with a member support model at its core, focusing on protecting the public interest, providing value to its members and enhancing their experience through continuing business improvement. By adopting a risk-based model, CPA Australia believes it can articulate the outcomes to be achieved to protect the public interest, take a proactive and evidence-based approach to assessing the risks of achieving these outcomes, constantly monitor performance, and be prepared to change priorities as needs arise in the profession. CPA Australia will collaborate with multiple stakeholders leading up to the launch of its new program in 2021.

IPA Quality Review Program

COVID-19 has caused changes to IPA’s Quality Review Program in a number of ways including taking a more flexible approach to compliance activities by allowing members more time to complete reviews. IPA also had to suspend face-to-face reviews; and will undertake a more extensive program throughout 2021. New technology has been implemented and Disciplinary Tribunal hearings are now virtual.

In 2019 IPA commenced a comprehensive review of the member compliance framework with a view to becoming more effective in IPA’s co-regulatory role, of which the Quality Review Program is a major component. IPA also engaged experts to ‘overhaul’ the Quality Review Program and to ensure that it is based on best practice. Part of this has been to introduce new technology to streamline the process and to drive efficiencies, conduct root cause analysis and introduce a risk rating system.

The current requirements to conduct member quality assurance reviews every three to six years (three years for RCAs), translates into

approximately 750 IPA member reviews each year. The new Quality Review Program will enable IPA to conduct well in excess of this number and IPA has scheduled approximately 900 online practice reviews in the next 12 months. Face-to-face reviews are still part of the process for members who have been referred by the Disciplinary Tribunal, refuse to undertake an online review or who have had other issues and require a higher level of assistance.

The new system has increased functionality for data analysis and reporting as well as providing capacity to exceed the International Federation of Accountants (IFAC) quality assurance review requirements. There is also improved integration with other IPA systems which will enable greater use of data to improve insights and decision-making.

The new system is based on an educative approach with more emphasis on preparing the members for the review in advance, equipping them with more targeted resources and tools, providing more relevant communications through a range of channels and emphasising the role of the trusted adviser serving the public interest. IPA's Quality Control Manual and Professional Practice Program as well as other resources and tools are updated at least annually or when major changes occur. The objective is to raise member awareness, compliance and professionalism, rather than activating the IPA's member disciplinary processes to achieve member compliance.

In early 2020 IPA completed a successful pilot of the new Quality Review Program with

350 members, the results of which have been reported below in Table 6.

The IPA has 114 RCAs and 685 SMSF Auditors.

Results of IPA quality assurance reviews are as follows:

Table 4: IPA - All quality assurance reviews (old program)

	2018 Calendar year	2019 Calendar year	2020 Calendar YTD
Fully compliant	72%	54%	N/A
Compliant after assistance	26%	42%	N/A
Disciplinary action or follow up required	2%	4%	N/A

Table 5: IPA - Reviews of auditors only (old program)

	2018 Calendar year	2019 Calendar year	2020 Calendar YTD
Fully compliant	81%	55%	N/A
Compliant after assistance	18%	42%	N/A
Disciplinary action or follow up required	1%	3%	N/A

'Compliant after assistance' includes members who were identified during the review as having issues but who subsequently achieved compliance by the end of the review. 'Disciplinary action' includes forfeiture of membership or where IPA is monitoring follow up action required by the member.

It is noted that the percentage of members/ auditors for ‘Compliant after assistance’ in 2019 is higher than 2018 which may be attributed to changes in classification of identified issues requiring action, and improvements in recording of such matters.

Members are referred for disciplinary action under IPA Pronouncement 12 – *Administration of Member Compliance* where they fail to complete the review or provide information and/or undertake actions as requested to finalise the review. This may result in suspension or forfeiture of membership.

A report of review outcomes is produced periodically to assist with identifying common issues and implementing measures to improve compliance and the processes. The work IPA undertakes relating to the Professional Standards Council’s scheme also contributes to IPA’s overall assurance and compliance function, outcomes and improvements.

Table 6: IPA - All quality assurance reviews (new program)

	2019 Calendar YTD
Fully compliant	77%
Non-compliant (before IPA assistance)	17%
Disciplinary action or follow up required	6%

There were no RCAs or SMSF Auditors included in the 350 members selected for the review under the new program.

The ‘Compliant after assistance’ line item has not been included in the new program table above as member assistance is currently being actioned and the results are yet to be finalised.

The six per cent of members reported above for disciplinary action represents the 19 members who did not complete the new program review by the due date.

Review of Adequacy of Auditor Disciplinary Functions

The FRC presented a report *Auditor Disciplinary Processes: Review* to the Government in March 2019.

It included 18 recommendations, of which the Government agreed or supported all but one.

The recommendations related to:

- ASIC detection, investigation and enforcement processes, including that ASIC outline how their ‘why not litigate’ enforcement strategy will apply to misconduct by RCAs;
- Companies Auditors Disciplinary Board (CADB) processes, including adopting a less formal and more timely approach to the carriage of CADB matters;
- ASIC’s Audit Inspection Program, including publishing the results of audit inspections in greater detail, in particular naming firms, and for ASIC to be given the power to compel remediation of defective audits; and

- Professional accounting bodies processes, including formalising processes for advising each other and the FRC of their disciplinary proceedings.

During 2020, the FRC followed up with each of these organisations to monitor their responses.

FRC overall view on audit quality

The FRC will continue to monitor the results of the ASIC Audit Inspection Review Program and the programs of the accounting bodies, and will continue to execute the FRC Audit Quality Action Plan.

The FRC also supports ASIC continuing to provide a broad group of audit quality measures, indicators and other information to supplement its audit inspection findings.

Key to achieving continuous improvement of audit quality is collective action by all stakeholders in the financial reporting system.

The FRC acknowledges the ASIC inspection findings continue to indicate that improvements in audit quality are needed. Nothing has come to the FRC's attention from the other evidence to date from user surveys and targeted consultations that indicates external audits are not, overall, continuing to assist in maintaining trust and confidence in financial reports.

'Nothing has come to the FRC's attention ... that indicates external audits are not, overall, continuing to assist in maintaining trust and confidence in financial reports.'

FRC Nominations Committee

Operations of the FRC Nominations Committee

During 2019-20, the FRC Nominations Committee:

- reviewed the composition of, and criteria for appointment to, the AASB and the AUASB;
- made recommendations to the FRC for the appointment of members to the AASB and AUASB;
- reviewed the succession needs of the AASB and AUASB; and
- considered and reported to the FRC on the performance of the AASB and AUASB members including through peer review.

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.

During 2019-20 the FRC approved the following appointments and reappointments to the Boards for terms commencing in 2020:

AASB

- David Holland (appointment); and
- Stephen Taylor (reappointment).

AUASB

- Gareth Bird (reappointment);
- Robert Buchanan (reappointment);

- Andrew Porter (appointment); and
- Justin Reid (reappointment).

The FRC acknowledges the contributions of retiring Board members:

- AASB: Taryn Rulton and Kimberley Crook.
- AUASB: Robin Low.

Attendance at FRC Nominations Committee meetings

The FRC Nominations Committee held seven meetings in 2019-20. Members of the FRC Nominations Committee as at 30 June 2020 were: Stein Helgeby (Chair), Bill Edge (Chair FRC), Keith Kendall (Chair AASB), Professor Roger Simnett AO (Chair AUASB) and Lawrie Tremaine. Kris Peach's term expired on 2 May 2020 and Keith Kendall was appointed commencing 3 May 2020.

Members' attendance is shown in the table below.

Table 7: FRC Nominations Committee Meeting Attendance in 2019-20

Member	No. meetings attended/ No. eligible to attend
S Helgeby (Chair)	7 of 7
B Edge (Chair FRC)	6 of 7
K Peach (Chair AASB) (until 2 May 2020)	5 of 7
R Simnett (Chair AUASB)	7 of 7
L Tremaine	4 of 7

Other matters



Communication and consultation

The FRC uses its website (www.frc.gov.au) and meetings with stakeholders and other interest groups as its primary means of communication and consultation. Key stakeholders are invited to prepare a Stakeholder Report for each FRC meeting. An FRC Communique from each FRC meeting is published on the website and distributed to key stakeholders. The website also includes information about FRC members, minutes of meetings, published reports and procedural rules.

Finances

In 2019-20, the Australian Government provided funding through the Treasury to support the FRC. The FRC's Secretariat is provided by staff of Treasury's Markets Group. Expenditure and performance of its functions are included in the Treasury's annual financial statements.

Information about the funding of the AASB and AUASB (including the sources of that funding) is included in the annual report of the AASB and AUASB.

Information Publication Scheme

Agencies subject to the *Freedom of information Act 1982* (FOI Act) are required to publish information as part of the Information Publication Scheme. This requirement is in Part II of the FOI Act. Each agency must display a plan on its website showing what information it publishes in accordance with the Information Publication Scheme requirements. All information published by the FRC can be accessed from links on the home page of the FRC's website (www.frc.gov.au).

Regulation Impact Statements

The FRC did not submit any Regulation Impact Statements in 2019-20.

Membership of the FRC

FRC members

Members of the FRC are appointed on a part-time basis by the Minister, typically for a term of three years.

During the year the following new members were appointed:

- Michele Embling (appointed 10 October 2019);
- Keith Kendall (appointed 3 May 2020);
- Cameron McDonald (appointed 4 April 2020); and
- Stewart Walters (appointed 26 March 2020).

Bill Edge was reappointed as Chair of the FRC for a further 3 years from 29 July 2019.

The following members' terms expired:

- Kevin Lewis (term expired 3 April 2020);
- David Nicol (term expired 23 March 2020); and
- Kris Peach (term expired 2 May 2020).

We thank them for their significant contributions.

The FRC has processes to manage conflicts of interest of members, with interests required to be disclosed:

- on appointment; and
- at the commencement of and during FRC meetings.

A Register of Interests is maintained.

The membership of the FRC during 2019-20 was as follows:



Mr Bill Edge
Chair

Bill is a retired partner of PwC, having been a partner for 18 years. For his last eight years he led the PwC Australia Risk and Quality

Group, which was responsible for risk management and quality control, including methodologies and technologies, across all of the firm's business units. He served on PwC's Global and Asian Risk and Quality Leadership Teams. He also spent six years leading the PwC Australian Professional Standards Group responsible for the firm's financial reporting and auditing policies and advice. He was also previously Chair of the Australian Auditing and Assurance Standards Board.

Bill was appointed Chair on 29 April 2016, was reappointed on 29 July 2019, having been a member of the FRC since 29 July 2014.

His term expires on 28 July 2022.



Dr Stein Helgeby
Deputy Chair

Stein joined the Department of Finance in February 2010 as the Deputy Secretary of the former Financial

Management Group. In October 2015 Stein was appointed Deputy Secretary of Governance and APS Transformation. Prior to this, Stein enjoyed a lengthy period in the Victorian Department of Treasury and Finance.

Stein was appointed to the FRC from 24 February 2010 to 23 February 2013; reappointed from 24 February 2013 to 23 February 2016; reappointed from 29 April 2016 to 28 April 2019; with an extension from 29 April 2019 to 28 April 2022. Stein was appointed Deputy Chair of the FRC on 22 May 2019.



Dr Keith Kendall
Chair
AASB

Keith joined the AASB as Chair in May 2020. Prior to his appointment, he was a Partner at Rigby Cooke

Lawyers, a Victorian barrister, and a Senior Lecturer at La Trobe University.

His experience across law, academia, accounting, and government (as a member of the Administrative Appeals Tribunal), allows him to bring a well-rounded perspective to the AASB's strategic direction and relevant projects.

Keith was appointed to the FRC on 3 May 2020 and his term expires on 2 May 2025.



Ms Kris Peach

Chair
AASB

Kris has extensive experience in accounting standard setting having previously served on the

AASB as both a member and as the Deputy Chair and as a member of the Australian Urgent Issues Group.

Kris was previously a partner in KPMG's International Standards Group and Australia's Department of Professional Practice, interpreting complex technical accounting issues for a wide range of public and private entities. She also had a number of international financial reporting leadership roles within the firm.

Kris was appointed to the FRC on 3 November 2014 and her term expired on 2 May 2020.



Professor Roger Simnett AO

Chair
AUASB

Roger is also Scientia Professor of Auditing, UNSW Sydney where he

has been Head of the School of Accounting and Associate Dean Research of the Australian Business School.

He has extensive experience in the auditing industry including significant involvement on international committees and advisory panels relating to auditing and assurance.

Roger is currently a member of the IAASB. He is also a Fellow of the Academy of the Social Sciences in Australia.

Roger was appointed to the FRC on 1 April 2017 and his term expires on 31 March 2022.



Ms Michele Embling
Chair
XRB

Michele has extensive experience in standard setting being a member of the XRB since 2011

and was appointed Chair in 2019. She was the inaugural Chair of the New Zealand Accounting Standards Board and a former member of the Australian Accounting Standards Board.

Michele is the Chair of PwC in New Zealand; a senior audit partner specialising in financial services and the public sector; and previously led the National Assurance practice for 3 years.

She is the Co-Chair of Champions for Change, a group of over 50 of New Zealand's leading CEOs and Board Chairs committed to diversity and inclusion.

Michele was appointed to the FRC on 10 October 2019 and her term expires on 30 April 2024.



Ms Suzanne Bell

Suzanne has over 25 years' experience with KPMG, focused on providing audit and advisory services to a broad range of clients from start-ups to some of Australia's

largest global companies. Suzanne's experience also includes international transfers, secondments to KPMG's technical department, leading KPMG's Consumer and Industrial Markets Group (Melbourne audit) and Partner in Charge of People, Performance and Culture (Melbourne audit).

She is a former board member of Plan International Australia and the Melbourne Fringe Festival.

Suzanne has also been a senior member of the Australian Davos Connection's Future Summit project team and a former Chair of the Future Summit Leadership Awardee program.

Suzanne was appointed to the FRC on 29 April 2019 and her term expires on 28 April 2022.



Mr Kevin Lewis

Kevin was the Chief Compliance Officer of the ASX and a member of the ASX Corporate Governance Council from July 2010 until June 2020.

Prior to joining ASX, Kevin was a lawyer for 30 years, specialising in financial services, mergers and acquisitions and corporate matters. He held a number of senior positions with law firms and as in-house counsel.

Kevin was also an Adjunct Professor with Sydney University Law School teaching financial services law until 2017.

Kevin was appointed to the FRC on 14 March 2011 to 13 March 2014, reappointed from 14 March 2014 to 3 April 2017, with an extension from 4 April 2017 to 3 April 2020.



Mr Cameron McDonald

Cameron is the Head of Research for Evans and Partners (E&P). In addition to overseeing the research team, Cameron also

utilises his extensive experience within the transport and infrastructure sectors to make investment recommendations on securities within those sectors.

Prior to joining E&P, Cameron's most recent role was at Hastings Funds Management as Director and Deputy Portfolio Manager for The Utilities Trust of Australia, a multi- billion-dollar unlisted infrastructure fund of global assets. As part of this role he also served as a non-executive director on the board of Perth Airport.

He also spent more than ten years at Deutsche Bank where he was Director and Head of Transport and Infrastructure Research. In his earlier career he also held other roles within Westpac Institutional Bank, Shell and BHP.

Cameron was appointed to the FRC on 4 April 2020 and his term expires on 3 April 2023.



Mr David Nicol

David, as Under Treasurer, Treasury and Economic Development Directorate of the ACT Government, advises the ACT Treasurer on the management of the Territory's budget, covering

strategic issues of financial management, economic policy, revenue and tax policy and federal financial relations. David's responsibilities also cover matters of workers compensation, compulsory third party insurance and other insurances, and the shared corporate services provider for the ACT Public Service.

David was Chair of HoTARAC until March 2020 and he has extensive experience in public budgeting and financial reporting and in public policy areas of social welfare and income support, government service delivery, industry, labour market and education.

David was appointed to the FRC on 3 July 2014 to 7 March 2017 and reappointed from 24 March 2017 to 23 March 2020.



Mr Lawrie Tremaine

Lawrie joined Origin Energy in June 2017 and holds the position of Chief Financial Officer. He leads the teams responsible for all finance activities, strategy, mergers and acquisitions,

procurement and investor relations.

He has over 30 years' experience in financial leadership, predominantly in the resources and minerals processing industries.

Prior to joining Origin, Lawrie held senior positions during his 10 years at Woodside Petroleum including Chief Financial Officer for over 6 years. Prior to Woodside, Lawrie worked at Alcoa for 17 years culminating in 5 years in Tokyo and Beijing.

Lawrie was appointed to the FRC on 29 April 2019 and his term expires on 28 April 2022.



Mr Stewart Walters

Stewart joined NSW Treasury in 2016 and is a member of the Treasury leadership team.

The portfolio spans all State financial reporting including Budget aggregates, reporting analytics, supports the budgeting platform that underpins the data, provides advice and leadership to the sector on financial and accounting policies matters and the provision of Internal Audit and Risk for Treasury.

Stewart has worked as a CFO and COO in various global service delivery organisations as well on successful teams bidding for Public Private Partnership infrastructure projects in Australia, New Zealand and SE Asia.

He is the current Chair of HoTARAC.

Stewart was appointed to the FRC on 26 March 2020 and his term expires on 12 March 2022.

Attendance at FRC meetings

The FRC held four meetings during 2019-20 in September, November, March and May. Members' attendance is shown in the table below.

Table 8: FRC Meeting Attendance in 2019-20

Member	No. meetings attended/ No. eligible to attend
B Edge (Chair)	4 of 4
S Helgeby (Deputy Chair)	4 of 4
K Kendall (Chair AASB) (from 3 May 2020)	1 of 1
K Peach (Chair AASB) (until 2 May 2020)	3 of 3
R Simnett (Chair AUASB)	4 of 4
S Bell	4 of 4
M Embling (Chair XRB) (from 10 October 2019)	3 of 3
K Lewis (until 3 April 2020)	2 of 3
C McDonald (from 4 April 2020)	1 of 1
D Nicol (until 23 March 2020)	2 of 3
L Tremaine	4 of 4
S Walters (from 26 March 2020)	1 of 1

Abbreviations

AAS	Australian Accounting Standards
AASB	Australian Accounting Standards Board
ACC	Audit Committee Chair
ACNC	Australian Charities and Not-for-profits Commission
ACSI	Australian Council of Superannuation Investors
AGM	Annual General Meeting
AIST	Australian Institute of Superannuation Trustees
AICD	Australian Institute of Company Directors
AOSSG	Asian Oceania Standard Setters Group
APESB	Accounting Professional and Ethical Standards Board
APPC	Australian Public Policy Committee
APRA	Australian Prudential Regulation Authority
ASA	Australian Shareholders' Association
ASAF	Accounting Standards Advisory Forum
ASFA	Association of Superannuation Funds of Australia
ASIC	Australian Securities and Investments Commission
ASIC Act	<i>Australian Securities and Investments Commission Act 2001</i>
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AUASB	Auditing and Assurance Standards Board
BCA	Business Council of Australia
CA ANZ	Chartered Accountants Australia and New Zealand
CADB	Companies Auditors Disciplinary Board
CMA	Competition and Markets Authority (UK)
Corporations Act	<i>Corporations Act 2001</i>

CRUF	Corporate Reporting User Forum
ED	Exposure Draft
EER	Extended External Reporting
FAQ	Frequently Asked Question
FOI Act	<i>Freedom of Information Act 1982</i>
FRC	Financial Reporting Council
FSC	Financial Services Council
G100	Group of 100
GAAP	Generally Accepted Accounting Principles
GFS	Government Financial Statistics
GIA	Governance Institute of Australia
GPPC	Global Public Policy Committee
HoTARAC	Heads of Treasuries Accounting and Reporting Advisory Committee
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IFAC	International Federation of Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors - Australia
IPA	Institute of Public Accountants
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
NSS	National Standards Setters
NZASB	New Zealand Accounting Standards Board
NZAuASB	New Zealand Auditing and Assurance Standards Board
PJC	Parliamentary Joint Committee on Corporations and Financial Services
RCA	Registered Company Auditor
RSE	Regulated Superannuation Entity
SMSF	Self-Managed Superannuation Fund
SPFS	Special Purpose Financial Statement
UK	United Kingdom
XRB	External Reporting Board of New Zealand



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