



# MINUTES

**DATE:** Friday 10 December 2021

**TIME:** 10 am – 4 pm

**LOCATION:** WebEx

All agenda items except item 1 were discussed in public.

ITEM	AGENDA ITEM	
	<b>NON-PUBLIC SESSION</b>	
<b>1</b>	<b>MATTERS FOR NON-PUBLIC SESSION</b>	
	This agenda item was discussed in private.	
	<b>PUBLIC SESSION</b>	
<b>2</b>	<b>INTRODUCTION</b>	
	Members confirmed that there were no conflicts of interest raised by agenda items for this meeting.	
2.A	<b>ATTENDEES AND APOLOGIES</b>	
	<b>Members in attendance:</b>	<b>Observers:</b>
	Lawrie Tremaine (Chair)	Vaishali Dave (Treasury)
	Dr Keith Kendall (AASB Chair)	Alex Mahdavi (Treasury)
	Bill Edge (AUASB Chair)	Paul Buckingham (Treasury)
	Suzanne Bell	Emily Morrison (Treasury)
	Michele Embling	Greg Yanco (ASIC)
	Stewart Walters	Doug Niven (ASIC)
	Cameron McDonald	Thea Eszenyi (ASIC)
	Tracey Carroll	April Mackenzie (XRB)
	<b>Guests:</b>	<b>Apologies:</b>
	Dr Kim Langfield (Langfield-Smith Consulting)	Sean Hughes (ASIC)
	Claire Grayston (CPA Australia)	Tom Dickson (Treasury)
	Anne Waters (AUASB)	Matthew Bowd (Treasury)
	Justin Williams (AASB)	Kathleen John (AASB)
		Julie Huo (XRB)

2.A	<p><b>REGISTER OF INTERESTS</b></p> <ul style="list-style-type: none"> <li>Tracey Carroll advised that she is currently acting in Deputy Secretary role.</li> <li>The Chair noted that while Suzanne Bell is employed by KPMG, she does not represent KPMG at FRC meetings and members and attendees should be aware of this when discussing KPMG related issues.</li> </ul>
<b>3</b>	<b>MATTERS FOR NOTING/ACTION</b>
3.A	<p><b>MINUTES OF THE PREVIOUS MEETING – 22 SEPTEMBER 2021</b></p> <p>Members noted the minutes from the FRC meeting on 22 September 2021 which had been approved out-of-session.</p>
3.B	<p><b>MATTERS ARISING</b></p> <ul style="list-style-type: none"> <li>The Chair advised most action items from the last meeting have been completed, except for item 4 of the matters arising, relating to audit quality, which Bill Edge will address at item 5A of the agenda.</li> <li>The Chair noted Members previously agreed to consider ‘emerging strategic issues’ impacting the financial reporting system as a standing agenda item, and to develop an action plan. An action item from the previous meeting was for the Chair to consider how to address emerging strategic issues at the meeting, and this will be further discussed during the meeting.</li> <li>The Chair noted with respect to item 6 of the matters arising, relating to AASB / AUASB recruitment, Members agreed the Chairs of the AASB and AUASB would reach out to unsuccessful candidates of the 2021 AASB and AUASB recruitment rounds. The Chair requested feedback from the AASB and AUASB Chairs on this process. <ul style="list-style-type: none"> <li>Keith Kendall and Bill Edge advised they have contacted the unsuccessful candidates. Keith Kendall noted his conversations were productive and the AASB is actively seeking ways to keep unsuccessful candidates involved in the AASB. Keith Kendall also noted he is yet to contact one candidate (whom he is hoping to meet in person).</li> </ul> </li> <li>Members agreed to remove the ongoing items from the matters arising and rather set up reminders of these periodically as proposed in meeting paper 3B.</li> </ul> <p><b>Action:</b></p> <ul style="list-style-type: none"> <li>FRC Secretariat will remove items highlighted in red in meeting paper 3B from the ongoing items list ahead of the next FRC meeting.</li> <li>FRC Secretariat will maintain a record of the items recorded under ‘Public Sector Issues’ in meeting paper 3B and will raise these matters with the FRC Chair on a periodic basis.</li> </ul>
<b>4</b>	<b>OVERSIGHT OF AUSTRALIAN STANDARDS</b>
4.A	<p><b>ACCOUNTING STANDARDS</b></p> <p>Keith Kendall provided an update on the AASB’s key priorities since the last FRC meeting including that:</p> <ul style="list-style-type: none"> <li>The AASB is currently seeking comments on its draft Position Statement relating to Extended External Reporting (EER). The statement addresses institutional arrangements discussed by the Chairs of the FRC, AASB and AUASB regarding the development of EER reporting and assurance requirements, at least in the immediate term. Keith Kendall noted the proposed</li> </ul>

	<p>approach in the Position Statement diverged from the international approach of establishing a separate specialist board for sustainability reporting matters. The invitation to comment is open for feedback until 28 January 2022, which will give the AASB sufficient time to consider any feedback before its February board meeting. In considering this update, members discussed the interaction between the AASB’s position statement and the approach which may be adopted by the International Sustainability Standards Board (ISSB). Members also discussed insights and learnings from the New Zealand experience with respect to developing climate reporting standards.</p> <ul style="list-style-type: none"> <li>• Members discussed other elements of the AASB Chair report at meeting paper 4A, including the AASB’s review of executive remuneration.</li> </ul>
<p>4.B</p>	<p><b>POST-IMPLEMENTATION REVIEW OF AASB 1049</b></p> <p>Dr Kim Langford provided an overview of the post-implementation review of AASB 1049 <i>Whole of Government and General Government Sector Financial Statements</i>, including that:</p> <ul style="list-style-type: none"> <li>• Respondents in the review were strongly of the view AASB 1049 has achieved its objectives.</li> <li>• Most respondents commented on an erosion of harmonisation between the Government Finance Statistics (GFS) and the Generally Accepted Accounting Principles (GAAP). Notably it was observed the treatment of leases under AASB 16 (leasing standard) will over time lead to a divergence in fiscal aggregates reported across jurisdictions.</li> <li>• Respondents queried the utility of some specific requirements in AASB1049, including the reconciliation of key differences between GFS and the GAAP with key fiscal aggregates. Dr Langford noted she has not recommended a change in the requirement.</li> <li>• The compliance cost to governments of producing financial statements is significant, although only two respondents provided indicative estimates of the cost of complying with AASB 1049 specifically.</li> </ul> <p>Members supported the findings and recommendations of the post-implementation review, and recognised recommendations to the AASB will be actioned over time.</p>
<p>4.C</p>	<p><b>AUDITING STANDARDS</b></p> <p>Bill Edge provided an update on the AUASB’s key priorities since the last FRC meeting including that:</p> <ul style="list-style-type: none"> <li>• The AASB and AUASB have established a Project Advisory Panel on extended external reporting (EER) and have issued guidance in Australia on EER.</li> <li>• Based on ASIC’s audit inspection findings, the AUASB has suggested revising standards and simplifying existing standards.</li> <li>• The AUASB has issued three significant quality management standards concerning the impact, systems and processes in audit firms. The AUASB has also released guidance on the new standards to raise awareness of key elements.</li> <li>• The AUASB is consulting on the International Auditing and Assurance Standards Board proposed standard for audits of less complex entities, as well as on other matters relevant to smaller audit firms and clients.</li> <li>• The AUASB is seeking to improve its stakeholder communications. Including through the release of short educational videos on key issues.</li> </ul>

	<ul style="list-style-type: none"> <li>The AUASB is prepared to respond and action relevant recommendations of the Parliamentary Joint Committee on Corporations and Financial Services (PJC) in its inquiry into the regulation of audit in Australia, once the Government responds to the PJC's reports.</li> </ul>
<b>5.</b>	<b>OVERSIGHT OF AUDIT QUALITY PER s225(2B) TO s225(2C)</b>
<b>5.A</b>	<p><b>PROPOSED AUDIT QUALITY SURVEY</b></p> <ul style="list-style-type: none"> <li>Members discussed the proposal for the FRC to engage an academic to conduct a survey and supplementary interviews and analysis of Audit Committee Chairs and professional investors as input to the FRC's assessment of audit quality.</li> <li>Bill Edge noted the AUASB is engaging with academics to develop targeted survey questionnaires, with a view to conducting the surveys in early 2022.</li> <li>Members discussed the inclusion of public sector chairs and auditors in the proposed surveys and interviews.</li> <li>The FRC Chair noted the importance of having a current and up-to-date contact list of targeted survey respondents.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>Seek a current list of relevant contacts for the proposed survey and supplementary interviews from ASIC if permitted under appropriate laws.</li> <li>Stewart Walters and Bill Edge to further discuss inclusion of public sector representation in the proposed audit quality survey and supplementary interviews.</li> </ul>
<b>5.B</b>	<p><b>AUDIT DISCIPLINARY PROCESSES</b></p> <ul style="list-style-type: none"> <li>Members discussed the relationship between concerns regarding audit quality and the number of auditor disciplinary actions taken by relevant bodies. Members also considered the role of the FRC and of professional accounting bodies with respect to auditor disciplinary matters.</li> <li>Members discussed whether further clarity was required on what constituted a 'disciplinary matter' and noted there may be potential gaps and overlaps in the responsibilities of ASIC, the Companies Auditors Disciplinary Board (CADB), and the professional accounting bodies.</li> <li>Members discussed the FRC's approach to outreach to various bodies with respect to auditor disciplinary matters including whether to clarify the FRC's expectations about what matters will be reported to it.</li> <li>Members discussed the need for greater data and transparency with respect to auditor disciplinary matters, including whether the FRC should track individual cases and data from international jurisdictions.</li> <li>ASIC noted the challenges associated with providing details of current investigations, although it noted it would consider whether it could provide data to give the FRC a sense of what was happening on auditor discipline. This information could be derived from ASIC's monitoring activities.</li> <li>ASIC undertook to consider what could be useful to provide to the FRC from its international auditor survey data.</li> </ul>

	<p><b>Action</b></p> <ul style="list-style-type: none"> <li>• FRC to better utilise its stakeholder reporting to request that appropriate stakeholders specifically report on their disciplinary matters and disciplinary actions, disciplinary matters referred to them, and what happens after such referrals.</li> <li>• Thea Eszenyi (ASIC) to separately call the FRC Chair regarding ASIC’s regulatory and enforcement activities and to provide an overview of auditor disciplinary matters.</li> <li>• ASIC to provide links to public reports by the International Forum of Independent Audit Regulators (IFIAR) on IFIAR’s surveys of international enforcement regimes.</li> <li>• ASIC to provide a copy of its response to a question on notice by the PJC with respect to auditor enforcement.</li> </ul>
5.C	<p><b>EMERGING ISSUES, INCLUDING STRATEGIC THEMES AND STRATEGIC RISKS TO THE FINANCIAL REPORTING SYSTEM</b></p> <p>Members discussed issues which could influence the financial reporting systems such that they should be included as agenda items for the FRC. In particular members identified the following themes:</p> <ul style="list-style-type: none"> <li>• Resourcing, capability and attractiveness of the profession: Members noted talent attraction and retention is an increasing challenge both for preparers of financial reports and audit profession more broadly and is a particular challenge in the public sector. Members discussed the drivers of this issue including immigration and the attractiveness of the accounting profession, as well as the need to stress test the resilience of the financial system.</li> <li>• Cyber security</li> <li>• Impact investing: Members noted the fast and growing emerging area of impact investing, which could require amendment or reinterpretation of accounting and auditing standards as impact investing has different investment styles and objectives to traditional investment objectives.</li> <li>• Global economic environment, COVID-19 recovery and impact on supply chains: Members noted trends in global inflation data and supply chain concerns may have implications of the financial reporting system, and the profession may have a role in responding, including through the standard setting mechanism and greater education.</li> </ul> <p>Members discussed actions the FRC could take with respect to the identified themes:</p> <ul style="list-style-type: none"> <li>• Members considered the need for more data to determine whether there was a current or anticipated future problem in relation to the resourcing, capability and attractiveness of the profession. Relevant data could include data on university students choosing relevant fields of study, stakeholder perspectives, the initiatives undertaken by professional accounting bodies, and the number of relevant professionals and level of seniority. Data could be sourced from universities, professional accounting bodies and accounting firms.</li> <li>• Members noted auditing and accounting standards do not generally deal with cyber risk. Members noted the FRC continued to support the PJC’s recommendation with respect to internal controls. Members acknowledged a need to rationalise the type of disclosure required in relation to cyber risk, which should encourage companies to establish controls to manage cyber risks and report accordingly.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• Members with access to relevant data sources on resourcing, capability and attractiveness of the profession to share it with other members.</li> </ul>

	<ul style="list-style-type: none"> <li>Members agreed to consider potential FRC activities with respect to identified themes of impact investing and global economic environment at the next meeting.</li> <li>Members agreed to consider a strategy for communicating its views, including on the need for companies to establish controls to manage cyber risk.</li> <li>FRC to customise stakeholder reports to seek specific and targeted input from relevant stakeholders from time to time.</li> </ul>
<b>6</b>	<b>MONITORING AND INFLUENCING INTERNATIONAL DEVELOPMENTS</b>
6.A	<p><b>STAKEHOLDER REPORTS</b></p> <p>Members reviewed reports from 11 stakeholders.</p>
6.B	<p><b>DIGITAL FINANCIAL REPORTING</b></p> <ul style="list-style-type: none"> <li>Doug Niven (ASIC) introduced digital financial reporting, noting that while ASIC has supported digital financial reporting since 2010, no company has ever lodged a digital financial report.</li> <li>Members agreed to support mandatory digital financial reporting in-principle.</li> <li>Members noted the AASB’s existing and planned future investigation into the barriers facing greater uptake of digital financial reporting in Australia.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>Members provided in-principle support for mandatory digital financial reporting.</li> <li>FRC to work with ASIC, through the AASB, to support digital financial reporting.</li> </ul>
<b>7</b>	<b>MONITORING AND INFLUENCING AUSTRALIAN DEVELOPMENTS</b>
7.A	<p><b>INTERNATIONAL DEVELOPMENTS</b></p> <p>The Chair advised the meeting of the following recent international appointments:</p> <ul style="list-style-type: none"> <li>Bill Edge was appointed to the International Auditing and Assurance Standards Board</li> <li>Channa Wijesinghe (CEO, Accounting Professional &amp; Ethical Standards Board) was appointed to the International Ethics Standards Board for Accountants</li> <li>Kris Peach (Interim CEO, Permanent Care and Adoptive Families) was appointed to the Public Interest Oversight Board Standard Setting Boards’ Nominations Committee.</li> </ul>
7.B	<p><b>REPORT BY EXTERNAL REPORTING BOARD (XRB)</b></p> <p>Michelle Embling provided an update on the key activities of the XRB including:</p> <ul style="list-style-type: none"> <li>The XRB’s mandate has been formally extended to include the development of sustainability standards and non-binding guidance on non-financial information.</li> <li>The XRB has issued its first discussion paper on a mandatory climate reporting regime and received 68 formal submissions and over 100 comments from climate reporting entities, international reporting bodies, sustainability organisations, advisers and public sector regulators.</li> <li>The Chair of the New Zealand Auditing and Assurance Standards Board will retire on 30 June 2022. A recruitment process is currently underway for a new Chair.</li> </ul>

	<ul style="list-style-type: none"> <li>The XRB is considering potential gaps, interdependencies and overlaps between the assurance requirements required under the proposed climate related disclosure standards and existing auditing and assurance standards.</li> </ul>
<b>8.</b>	<b>PEER REVIEW SURVEY</b>
8.A	<p><b>FRC PEER REVIEW SURVEY RESULTS</b></p> <ul style="list-style-type: none"> <li>Members expressed support for the peer review survey process and questions.</li> <li>Members considered and discussed the survey results.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>FRC to develop and implement a plan to respond to, and address issues raised in FRC peer review survey results.</li> </ul>
8.B	<p><b>AASB PEER REVIEW SURVEY RESULTS</b></p> <ul style="list-style-type: none"> <li>The AASB Chair provided insights into the results of the AASB peer review survey.</li> </ul>
8.C	<p><b>AUASB PEER REVIEW SURVEY RESULTS</b></p> <ul style="list-style-type: none"> <li>The AUASB Chair provided insights into the results of the AUASB peer review survey.</li> </ul>
<b>9</b>	<b>OTHER BUSINESS</b>
9.A	<p><b>EXTENDED EXTERNAL REPORTING UPDATE</b></p> <ul style="list-style-type: none"> <li>Members discussed international developments at the COP26 UN Climate Change Conference (COP26), at which the International Sustainability Standards Board (ISSB) was announced under the IFRS Foundation and prototype disclosure requirements were published.</li> <li>The Chair provided an update on his recent engagement with the Minister’s Office and Treasury.</li> <li>Member discussed the role of the AASB / AUASB EER advisory panel in providing input on the AASB and AUASB’s EER proposals.</li> <li>Members discussed the stakeholder report received from the Australian Business Reporting Leaders Forum (BRLF), which included recommendations to Government and Treasury.</li> <li>Members discussed the FRC/AASB/AUASB Position Statement on Extended External Reporting and Assurance jointly published by the FRC, AASB and AUASB in November 2021.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>Members agreed to seek further information on the Value Reporting Foundation’s Integrated Reporting Framework referenced by the BRLF at the next FRC meeting.</li> <li>Members agreed the FRC should work with ASIC to progress (initially through the AASB and AUASB) the development of climate related reporting standards. The domestic standards would modify the international standards developed by ISSB for Australian conditions as required.</li> <li>Members agreed the FRC would seek to identify candidates for the ISSB, while recognising there is already an Oceania representative on the IFRS Foundation Board of Trustees.</li> <li>The Chair to share his correspondence with Treasury with other members after confirming this approach with the FRC Secretariat.</li> </ul>

9.B	<p><b>FRC WEBSITE STATISTICS</b></p> <p>Members noted the data on website statistics.</p>
9.C	<p><b>FRC MEETING DATES FOR 2022</b></p> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• Members agreed to FRC meetings on 2 June 2022 and 8 September 2022</li> <li>• FRC Secretariat to circulate a further doodle poll to identify suitable meeting dates in or around March or December 2022.</li> </ul>
10	<p><b>NEXT MEETING AND CLOSE</b></p>
10.A	<p>Next meeting date to be confirmed.</p>