



# MINUTES

**DATE:** Thursday 2 June 2022  
**TIME:** 10 am – 4 pm  
**LOCATION:** Melbourne / Videoconference

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>	
2.A	<b>INTRODUCTION OF NEW CHAIR</b> The new Chair, Andrew Mills, opened the meeting and introduced himself.	
2.B	<b>ATTENDEES AND APOLOGIES</b>	
	<b>Members in attendance:</b>	<b>Observers:</b>
	Andrew Mills (Chair)	Matthew Bowd (Treasury)
	Keith Kendall (AASB Chair)	Michael Bartlett (Treasury)
	Bill Edge (AUASB Chair)	Vaishali Davé (Treasury)
	Suzanne Bell	James Zhou (Treasury)
	Tracey Carroll	Greg Yanco (ASIC)
	Michele Embling (XRB Chair)	Sean Hughes (ASIC)
	Cameron McDonald	Doug Niven (ASIC)
	Lawrie Tremaine	Thea Eszenyi (ASIC)
	<b>Guests:</b>	April Mackenzie (XRB)
	Michael Bray (ABRLF)	Nikole Gyles (AASB)
	Justin Williams (AASB)	Matthew Zappulla (AUASB)
	Anne Waters (AUASB)	John Ngiam (CA ANZ)
		Nadee Dissanayake (CPA Australia)
		Tiffany Tan (CPA Australia)

2.C	<p><b>REGISTER OF INTERESTS</b></p> <p>Members confirmed the agenda items for this meeting did not give rise to a conflict of interest for any member.</p>
<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 10 December 2021 which had been approved out-of-session.</p>
3.B	<p><b>MATTERS ARISING</b></p> <p>Members reviewed the Matters Arising (document 3B of the document pack for the 2 June 2022 meeting).</p> <ul style="list-style-type: none"> <li>• Bill Edge provided a progress update on the proposed Audit Quality Survey and supplementary interviews of Audit Committee Chairs (item 1 of document 3B).</li> <li>• The Chair provided an update on engagement with the Australian Securities and Investments Commission (ASIC) regarding auditor disciplinary processes and responses to the FRC’s request for further information from key stakeholders regarding auditor disciplinary processes (item 2 of document 3B).</li> <li>• Members discussed access to relevant data sources on resourcing, capability and attractiveness of the accounting and auditing profession (item 3 of document 3B).</li> <li>• Keith Kendall provided a progress update on the AASB’s digital financial reporting work (item 4 of document 3B).</li> <li>• Bill Edge and Keith Kendall provided an update on the AASB and AUASB’s work to progress climate related disclosure and reporting standards (item 6 of document 3B).</li> <li>• Members discussed and agreed on an approach to setting future meeting dates, including for 2023 (item 7 of document 3B). The FRC Secretariat will seek to set meetings in the first week of each quarter.</li> <li>• Later in the meeting, members discussed rotating the location of in-person FRC meetings. The Chair also raised the possibility of inviting stakeholders to upcoming FRC meetings based on the state in which the FRC meeting is held and where the stakeholders are based.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• Anne Waters (AUASB) to reach out to members to request contact details for Audit Committee Chairs for the audit quality survey and supplementary interviews.</li> <li>• Keith Kendall to confirm the AASB’s approach to seeking stakeholder input on digital financial reporting.</li> </ul>
<b>4</b>	<b>OVERSIGHT OF AUSTRALIAN STANDARDS</b>
4.A	<p><b>PROPOSED AMENDMENTS TO AASB AND AUASB CHARTER</b></p> <ul style="list-style-type: none"> <li>• Members discussed the proposed amendments to the AASB and AUASB Charter, particularly the proposed increase in each board’s membership from 12 to 14 members.</li> </ul>

	<ul style="list-style-type: none"> <li>• Members discussed the identified need for greater climate and sustainability reporting capacity at the AASB and AUASB.</li> <li>• Members noted that while the Charter does not specify the additional members on each board must have experience in sustainability related reporting, it is intended to appoint board members with this expertise.</li> <li>• Members noted the AASB and AUASB intended to absorb the cost of expanding their respective board memberships (being only the sitting fees for the new members) within their existing appropriations.</li> <li>• Members observed that any sustainability reporting processes adopted in Australia would likely give rise to significant costs. Members suggested the AASB and AUASB consider these well in advance and seek additional funding if necessary. Representatives from the AASB noted the AASB would continue to revisit its funding needs as part of its conversations with Treasury ahead of future budget rounds.</li> <li>• The Chair of the FRC Nominations Committee, Lawrie Tremaine, noted the Committee supported the amendments.</li> <li>• Members endorsed the changes to the Charter as set out in document 4A and agreed the following additional amendments: <ul style="list-style-type: none"> <li>– clause 4.5 be amended to clarify performance reviews are conducted in respect of the relevant Board as a whole</li> <li>– clause 5.8 to be amended to explicitly refer to ‘sustainability’ as a capability for board membership.</li> </ul> </li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• Keith Kendall and Bill Edge to revise the AASB and AUASB Charter to include the proposed amendments to clauses 4.5 and 5.8.</li> <li>• The Nominations Committee to review and endorse the proposed additional changes to the Charter.</li> </ul>
4.B	<p><b>ACCOUNTING STANDARDS</b></p> <ul style="list-style-type: none"> <li>• Members discussed the report of the AASB Chair (document 4B). <ul style="list-style-type: none"> <li>– The AASB is currently conducting stakeholder roundtables in relation to its proposed five year work agenda for 2022 to 2026.</li> <li>– The AASB intends to conduct further reviews of AASB 16 <i>Leases</i> following concerns raised by stakeholders in the context of the post-implementation review of AASB 1049 <i>Whole of Government and General Government Sector Financial Statements</i>. The AASB will engage with the Public Sector Working Group (PSWG) on the review.</li> <li>– The AASB has received extensive feedback in response to its exposure draft consultation on the ISSB IFRS S1 <i>General Requirements for Disclosure of Sustainability-related Financial Information</i> and IFRS S2 <i>Climate-related Disclosures</i>.</li> </ul> </li> </ul>

<p>4.C</p>	<p><b>AUDITING STANDARDS</b></p> <ul style="list-style-type: none"> <li>• Bill Edge provided an update on the AUASB’s key priorities. <ul style="list-style-type: none"> <li>– The AASB and AUASB received preliminary legal advice about the scope of their legislative mandate to develop and implement sustainability related reporting standards before the establishment of the International Sustainability Standards Board (ISSB).</li> <li>– The AUASB is currently undertaking consultation on its proposed five year work agenda for 2022 to 2026</li> <li>– The AUASB is issuing guidance to auditors on the use of technology in audits.</li> <li>– The AUASB has issued guidance on its new and revised Quality Management Standards.</li> </ul> </li> <li>• Bill Edge advised he is attending a meeting of the International Auditing and Assurance Standards Board (IAASB) in June. It was noted the IAASB has not yet issued a sustainability assurance standard but was likely to do so in the near future.</li> <li>• Members and other attendees also discussed the following matters: <ul style="list-style-type: none"> <li>– The mandate (if any) of the FRC, AASB and AUASB with respect to climate and sustainability related reporting.</li> <li>– Implementing sustainability standards for assurers who are not members of accounting bodies working under different regimes.</li> <li>– Stakeholders involved in providing assurance in sustainability reporting, and the risk of fragmentation between sustainability reporting practitioners (such as engineers and biodiversity specialists) and financial reporting practitioners.</li> <li>– The need to establish a set of common requirements in relation to sustainability reporting (for example, level of education and code of ethics).</li> </ul> </li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• Members to consider whether to seek legal advice about the FRC’s mandate as it applies to extended external reporting.</li> </ul>
<p>5.</p>	<p><b>OVERSIGHT OF AUDIT QUALITY PER S225(2B) TO S225(2C)</b></p>
<p>5.A</p>	<p><b>AUDITOR DISCIPLINARY PROCESSES</b></p> <ul style="list-style-type: none"> <li>• Lawrie Tremaine provided a summary of the FRC’s work on auditor disciplinary matters so far.</li> <li>• Members noted that the FRC did not have sufficient evidence to conclude there was an audit quality issue in Australia. <ul style="list-style-type: none"> <li>– However, members also noted the FRC lacks visibility and granular data on auditor disciplinary tools and actions and auditor disciplinary outcomes (including enforceable undertakings).</li> <li>– Members noted stakeholder reports in response to FRC requests for information suggest few reported matters result in significant disciplinary action against auditors.</li> <li>– Members noted ASIC’s response to a question on notice by Senator O’Neill in a hearing of the Parliamentary Joint Committee on Corporations and Financial Services on 26 November 2021.</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>• Members agreed the FRC should refresh its 2019 <i>Auditor Disciplinary Processes: Review</i> in 2022 or 2023, to assess the gaps in the auditor disciplinary system. The review could consider auditor disciplinary processes in other jurisdictions.</li> <li>• Members discussed the issue of attracting skilled workers to the auditing profession and whether the FRC should additionally ask stakeholders about their work to address this issue.</li> <li>• Members discussed ASIC’s audit inspection reports and audit surveillance program, noting the reports (as well as disciplinary processes triggered by complaints) are not a proxy for overall audit quality.</li> <li>• Members noted that audits represent only one aspect of the financial reporting system, and audit quality is a product of other factors (including the quality of inputs into financial statements). <ul style="list-style-type: none"> <li>– Members discussed assessing the health of the entire financial reporting system, which would require considering factors such as management activities.</li> </ul> </li> <li>• Members agreed the FRC will change its expectations around stakeholder engagement, by requesting detailed reports on auditor disciplinary matters, tools and outcomes, particularly with respect to less egregious matters. <ul style="list-style-type: none"> <li>– Members discussed the potential for the FRC to use its statutory information gathering powers to collect further information from stakeholders.</li> </ul> </li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• FRC to routinely submit targeted requests for information to stakeholders in relation to auditor disciplinary processes.</li> <li>• FRC to refresh its 2019 review of auditor disciplinary processes, with support from the AUASB, which will conduct the review under the strategic oversight of the Chair and Lawrie Tremaine.</li> </ul>
6	<b>MONITORING AND INFLUENCING AUSTRALIAN DEVELOPMENTS</b>
6.A	<p><b>STAKEHOLDER REPORTS</b></p> <ul style="list-style-type: none"> <li>• Members reviewed reports from 10 stakeholders.</li> <li>• Members reconsidered the questions it poses to stakeholders. It was suggested the FRC send out a standard set of questions with an additional set of thematic questions. Using stakeholder responses, the FRC can then track this information over time to find patterns.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• Bill Edge to contact Michael Bray to discuss the Australian Business Leaders Reporting Forum’s plans to establish an ISSB hub in Australia.</li> <li>• FRC to develop a standard set of stakeholder questions and a set of questions developed according to a particular topic, to be sent out before the next FRC meeting.</li> </ul>
6.B	<p><b>SUPPLEMENTARY INFORMATION</b></p> <ul style="list-style-type: none"> <li>• Members reviewed reports from 5 stakeholders in response to the FRC’s request for supplementary information.</li> <li>• Members discussed a range of issues arising from the supplementary information including: <ul style="list-style-type: none"> <li>– support by Chartered Accountants Australia and New Zealand (CA ANZ) for a separate sustainability standards board in Australia</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>– CA ANZ’s talent survey</li> <li>– the desire for greater interaction with, and better recognition by, the FRC expressed by the Institute of Internal Auditors (IIA)</li> <li>– concerns about the capability and capacity of internal auditors, who may not have the necessary skillset and training to identify ‘red flags’, which could result in internal assurance breakdown</li> <li>– the Australian Business Reporting Leaders Forum proposal to establish an ISSB ‘hub’ in Australia</li> <li>– the sample size and risk filters used in the review by the Australian Charities and Not-for-profit Commission (ACNC) of its charity audits / review reports.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• FRC Secretariat to draft targeted stakeholder questions to be circulated to stakeholders ahead of the next meeting.</li> <li>• FRC Secretariat to prepare cover sheet of stakeholders who did and did not respond to stakeholder questions, and to track stakeholder response rates over time.</li> <li>• Bill Edge to further investigate the findings of the CA ANZ talent survey.</li> <li>• The Chair to contact the ACNC to enquire about the sample size and risk filters it used in its audit reviews.</li> </ul>
<b>7</b>	<b>MONITORING AND INFLUENCING INTERNATIONAL DEVELOPMENTS</b>
7.A	<p><b>INTERNATIONAL DEVELOPMENTS</b></p> <ul style="list-style-type: none"> <li>• Members noted their interest in the UK Government’s response to the consultation on strengthening the UK’s audit, corporate reporting and corporate governance systems (May 2022), particularly the recommendations about internal mechanisms.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• AUASB to review the UK Government response and provide summary and analysis at the next FRC meeting.</li> </ul>
7.B	<p><b>SUSTAINABILITY REPORTING</b></p> <ul style="list-style-type: none"> <li>• Justin Williams provided an update on international sustainability activities: <ul style="list-style-type: none"> <li>– The International Public Sector Accounting Standards Board (IPSASB) launched a global consultation on public sector sustainability reporting. Members agreed the FRC would make a joint submission, with the AUASB and AASB to the consultation. It was noted that the AASB would now begin determining the scope of the submission. Members agreed to the proposed joint submission.</li> <li>– The ISSB has called for nominations to its Sustainability Standards Advisory Forum. The AASB sought FRC support to nominate one of its members to the Forum. AASB advised the position would incur costs for attendance at meetings. These costs would be absorbed within the AASB’s existing appropriations. Members supported the proposal.</li> </ul> </li> </ul>

	<p><b>Action</b></p> <ul style="list-style-type: none"> <li>• AASB to draft joint submission on behalf of FRC, AASB and AUASB to the IPSASB global consultation on public sector sustainability reporting.</li> <li>• AASB to nominate one of its members to the Sustainability Standards Advisory Forum.</li> </ul>
7.C	<p><b>INTEGRATED REPORTING FRAMEWORK</b></p> <ul style="list-style-type: none"> <li>• Michael Bray provided a briefing on the Integrated Reporting Framework developed by the Value Reporting Foundation.</li> <li>• Michael Bray proposed a further conversation between the FRC, AASB, AUASB and the ISSB, which he offered to facilitate.</li> </ul>
7.D	<p><b>REPORT BY XRB</b></p> <p>Michele Embling provided an update on the activities of the New Zealand External Reporting Board (XRB):</p> <ul style="list-style-type: none"> <li>• Bill Edge has stepped down as a member of the XRB, after making a significant contribution. Andrew Mills' appointment to the XRB is progressing.</li> <li>• The XRB has received the results of a stakeholder survey conducted by an external firm. The survey asked XRB's stakeholders to reflect on the XRB's performance and future challenges to the sector. The responses reflect greater visibility about the XRB and its work, bolstered by its work on climate and sustainability. Stakeholders also identified climate change as the highest impact factor on reporting over the next few years, followed by audit quality and economic factors.</li> <li>• Under its mandate to issue non-mandatory guidance on non-financial matters, the XRB is developing guidance on integrated reporting, which is informed heavily by the Māori community.</li> <li>• The XRB will release an exposure draft for three climate related disclosure standards in late July, in time to issue a final standard by December 2022.</li> </ul>
<b>8.</b>	<b>EMERGING ISSUES</b>
8.A	<p><b>FRC ACTIONS IN RESPONSE TO IDENTIFIED THEMES</b></p> <ul style="list-style-type: none"> <li>• Members reviewed emerging issues and themes identified at the 10 December 2021 meeting (document 8A).</li> <li>• Members reaffirmed the acute skills shortage experienced across the industry, particularly the public sector. Members noted work by other organisations on talent attraction and retention, including by the PSWG and the Group of 100. <ul style="list-style-type: none"> <li>– Members discussed action the FRC could take in response and agreed the FRC would reach out to the community to obtain qualitative and quantitative perspectives on this matter. The AUASB offered to support this project.</li> </ul> </li> <li>• Members discussed the heightened uncertainty in the global economic environment, including because of inflation, supply chain issues, asset prices and the energy transition. Members expressed concern the compounding of these issues presents a significant threat to the financial reporting system and audit quality.</li> </ul>

	<ul style="list-style-type: none"> <li>– Members discussed action the FRC could take in response, including by demonstrating to stakeholders the FRC’s focus on this issue and raising awareness. Members agreed to use the FRC’s communique to seek input from stakeholders on the impact the global economic environment has had on confidence in financial statements and auditing and accounting standards and practices.</li> <li>• Members discussed cyber-security, noting that this was on the agenda of every board, but that cyber risk could never be completely mitigated. If the risk is material, it is expected that it will be reported; however, the materiality of the risk will differ between reporting companies. <ul style="list-style-type: none"> <li>– Members and attendees discussed ASIC’s cyber education program being developed jointly with the Department of Home Affairs and the Australian Prudential Regulation Authority.</li> <li>– Members discussed action the FRC could take in response to the cyber issue and agreed to explore the possibility of commissioning a targeted scan of public company reports to ascertain how frequently this matter is reported.</li> </ul> </li> <li>• Members discussed impact investing, and decided it was not as urgent. Members agreed to keep a watching brief on the impact investing issue.</li> <li>• Members agreed to continue considering and returning to the list of emerging issues.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• FRC, with the support of the AUASB to reach out to stakeholders before the next FRC meeting to gather data on the skills shortage, including stakeholder actions in response to the shortage.</li> <li>• FRC Secretariat to develop questions for FRC stakeholders about the talent shortage in the accounting and auditing profession, to be sent out in July.</li> <li>• Tracey Carroll to report on the work undertaken by the public sector on the talent shortage issue at the next FRC meeting.</li> <li>• FRC Secretariat to include a request for input from stakeholders on the impact of the global economic environment on financial reporting in the communique for the 2 June 2022 meeting.</li> <li>• Anne Waters (AUASB) to explore the possibility of commissioning a university to undertake a targeted review of financial reports to identify scale of cyber issue reporting.</li> </ul>
8.B	<p><b>FRC EMERGING ISSUE COMMUNICATION STRATEGY</b></p> <ul style="list-style-type: none"> <li>• Members discussed this agenda item alongside item 8A above. See above for action items.</li> </ul>
9	<p><b>OTHER BUSINESS</b></p>
9.A	<p><b>INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) FOUNDATION CONTRIBUTION</b></p> <ul style="list-style-type: none"> <li>• Members considered the proposal at document 9A to provide a further \$1 million contribution to the IFRS Foundation in 2022-23.</li> <li>• Members noted the Commonwealth has made a \$1 million yearly contributions to the IFRS Foundation for approximately 20 years.</li> <li>• Members agreed to the recommended action in document 9A to extend the Commonwealth’s grant agreement with the IFRS Foundation to contribute a further \$1 million to the IFRS Foundation in 2022-23.</li> </ul>



	<ul style="list-style-type: none"> <li>• Members noted there are other international standard setting boards, including the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA), the IPSASB, and the ISSB. <ul style="list-style-type: none"> <li>– Members discussed the funding arrangements, including funding disparities, between the various international standard setting boards.</li> <li>– Members agreed to review the IFRS Foundation contribution in light of the other international standard setting bodies which do not receive a Commonwealth contribution. Other relevant factors will include changes to the international framework, the relevance of international accounting standards, and local demands.</li> </ul> </li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• FRC Secretariat to progress consideration of the \$1 million contribution to the IFRS Foundation in 2022-23 through Treasury approval processes.</li> <li>• Bill Edge and ASIC to draft a paper for the next FRC meeting which sets out relevant international bodies (including standard setting bodies, the International Organization of Securities Commissions and the International Forum of Independent Audit Regulators).</li> <li>• FRC to consider and review funding arrangements to the IFRS Foundation at the next meeting.</li> </ul>
9.B	<p><b>FRC ANNUAL REPORT 2021-22 TIMELINE</b></p> <ul style="list-style-type: none"> <li>• Members noted the proposed timeline for the 2021-22 FRC Annual Report (document 9B).</li> <li>• Members noted the need to reflect recommendations of the Parliamentary Joint Committee on Corporations and Financial Services in its reviews of FRC annual reports.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• FRC Secretariat to contact the Treasury Parliamentary Business Team to discuss tabling requirements and timing of the 2021-22 FRC annual report.</li> </ul>
9.C	<p><b>APPOINTMENTS – FRC DEPUTY CHAIR AND PSWG MEMBERS</b></p> <ul style="list-style-type: none"> <li>• The Chair nominated Lawrie Tremaine to be appointed as acting Deputy Chair. <ul style="list-style-type: none"> <li>– Members agreed to the appointment.</li> </ul> </li> <li>• The Chair nominated Tracey Carroll to be appointed as Chair of the PSWG. <ul style="list-style-type: none"> <li>– Members agreed to the appointment.</li> </ul> </li> <li>• Members agreed Stewart Walters should remain as a member of the PSWG.</li> <li>• Members discussed a resourcing shortage on the FRC. The Chair noted he intended to write to the incoming Minister for the FRC as soon as possible, in which he would raise the need for additional FRC members.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• The Chair will write to the incoming Minister to note the need for additional FRC members.</li> </ul>
<b>10</b>	<b>NEXT MEETING AND CLOSE</b>
10.A	Next meeting date will be 8 September 2022.