



## AGENDA – 105<sup>TH</sup> FRC MEETING

**Date:** 10 March 2023

**Time:** 9.30am – 4.00pm

**Location:** Microsoft Teams Meeting

Members of the public are advised that members of the Financial Reporting Council (FRC) will attend the meeting in person or via a Microsoft Teams videoconference. Members of the public may attend the meeting via Microsoft Teams although public attendance is via registration only. Members of the public should register their interest in attending the public sessions no later than 24 hours in advance of the meeting by emailing [fcsecretariat@treasury.gov.au](mailto:fcsecretariat@treasury.gov.au) detailing:

- Name
- Affiliation
- Contact details

Registered attendees will be emailed Microsoft Teams meeting details by no later than 9 March 2023.

Item	Report by	Time
<b>NON-PUBLIC SESSION</b>		
<b>1. Matters for non-public session*</b>	Chair	9.30am
<b>PUBLIC SESSION</b>		
<b>2. Introduction</b>		10.00am
A. Attendees and apologies	Chair	
B. Declarations of interest	Chair	
<b>3. Matters for noting / action</b>		10.05am
A. Minutes of previous meeting – 23 November 2022	Chair	
B. Minutes of out-of-session meetings – 2 February 2023	Chair	
C. Matters arising	Chair	
<b>4. Oversight of Australian Standards (Accounting and Auditing) per s225(1) to (2A)</b>		10.15am
A. Australian Accounting Standards Board	Keith Kendall	
B. Auditing and Assurance Standards Board	Bill Edge	
<b>Morning Tea</b>		10.45am
<b>5. Monitoring and influencing international developments per 225(2)(e) to (2)(f) and s225(2A)(f) to (2A)(g)</b>		
A. XRB Update – <i>verbal</i>	Michele Embling	11.00am
B. Presentation About IFRS Foundation	Joanna Perry	11.15am
C. International developments – financial reporting	Kris Peach and Robert Buchanan	11.30am
D. Funding International Bodies	Chair	12.00pm
E. International developments (including recent media releases)	Chair and Michael Bray	12.30pm
<b>Lunch</b>		12:45pm

Item	Report by	Time
<b>6. Financial Reporting Framework Objects - Indicators per s225(1)(g)</b>	Chair	1.15pm
<b>7. Audit Quality per s225 (2A)(h), (2A)(g), (2B) and (2C)</b>		1:45pm
A. Audit Quality in Australia: The Perspectives of Audit Committees – Final Report B. Updated Audit Quality Action Plan C. Auditor Quality Management Review	Chair Chair Chair/Anne Waters	
<b>8. Extended External Reporting per s225(1)(a) to (1)(e) and s225(1)(g)</b>	Chair	2.15pm
<b>9. Public Sector Advisory Group per s225(2)(g), (2)(h)(i) and s225(2A)(g) and (2A)(h)(i)</b>		2.45pm
<b>10. Emerging issues and FRC priorities per s225(1)(a) to (d), (1)(g), (2B) and (2C)(e)</b>	Chair	3.00pm
<b>11. Monitoring and influencing Australian developments per s225(1)(f)</b>		3.15pm
A. Stakeholder reports <ul style="list-style-type: none"> <li>At the time of drafting the meeting papers, the FRC received 8 stakeholder reports and 3 responses confirming nil update from its request to 19 stakeholders.</li> </ul>	Chair	
<b>12. Other business</b>		3.45pm
A. Nominations Committee [per s225(2)(a) and s225(2A)(a)] B. Correspondence received and sent C. Key Action Items Summary	FRC Nominations Committee Chair Chair/FRC Secretariat Chair/FRC Secretariat	
<b>13. Next meeting</b>	Chair	3.55pm
A. Revised FRC Meeting Schedule B. 5 July 2023		
<b>Meeting Close</b>		4.00pm

\* Agenda item 1 will be held in private. The order of agenda items may be changed during a meeting.



## ATTENDEES AND APOLOGIES

### DESCRIPTION

Attached are the attendees and apologies for this meeting.

#### ACTION

- For noting.

Participant – FRC Members	Organisation
Andrew Mills	Chair
Keith Kendall	AASB Chair
Bill Edge	AUASB Chair
Suzanne Bell	KPMG/ FRC Member
Michele Embling	External Reporting Board NZ (XRB) Chair
Cameron McDonald	Evans and Partners
Emma Herd	EY

Observers	Organisation
Deepti Paton	Treasury
Zoe Irwin	Treasury
Jodic Chan	Treasury
Cooper Tym	Treasury
Athanasios Kallos	Treasury

Guests	Organisation
Thea Eszenyi	ASIC
Doug Niven	ASIC
Greg Yanco	ASIC
Justin Williams	Office of the AASB and AUASB
Nikole Gyles	Office of the AASB
Anne Waters	Office of the AUASB
Matthew Zappulla	Office of the AUASB
Kathleen John	Office of the AASB
April Mackenzie	XRB
Joanna Perry	Ex-IFRS
Kris Peach	PIOB
Michael Bray	KPMG
Robert Buchanan	PIOB
Rebecca McCallum	Treasury

Apologies	Organisation
Tracey Carroll	Department of Finance



## DECLARATIONS OF INTEREST

### DESCRIPTION

Attached are members' Declarations of Interest.

### ACTION

It is recommended that the FRC:

- declare any interest that may be relevant (having regard to the meeting agenda and functions of the FRC)
- confirm the accuracy of the attached Declarations of Interest.

**FINANCIAL REPORTING COUNCIL – REGISTER OF INTERESTS**  
as at 6 March 2023

<b>FRC Member</b>	<b>Stakeholder / Professional / Organisational Affiliations</b>	<b>Employment / Other Positions Held</b>	<b>Other Interests</b>
Mr Andrew Mills	Graduate, Australian Institute of Company Directors Chartered Tax Advisor, The Tax Institute Fellow of the Australian Governance Institute	Chair, Cemeteries and Crematoria NSW Commissioner of the Independent Planning Commission Principal Fellow/Associate Professor, University of Melbourne Law School Chair, Public Rulings Advisory Panel, Queensland Revenue Office Member, Risk & Compliance Committee, Independent Planning Commission of NSW	Member, Tax and Transfer Policy Institute Advisory Board Executive Committee Member, International Fiscal Association Australia Branch Director and Secretary, Ajay Investments Pty Ltd Member of Ajay Superannuation Fund (SMSF) that holds interests in listed securities and PE partnerships Son is Director, KPMG Tax & Legal Services
Dr Keith Kendall	Member, New Zealand Accounting Standards Board Fellow, CPA Australia Graduate, Australian Institute of Company Directors Member, The Tax Institute Member, Chartered Accountants Australia and New Zealand Member, Law Institute of Victoria	Chair and CEO, Australian Accounting Standards Board Treasurer, Samuel Griffith Society Member, Investment Committee, Royal Historical Society of Victoria President, Abbotsford Anglers Cricket Club	Director / shareholder / beneficiary: Cuffe Walk Pty Ltd Kendall Control Pty Ltd The Kendall Control Trust The Keith Kendall Family Trust
Mr Bill Edge	Fellow, Chartered Accountants Australia and New Zealand Fellow, Institute of Public Accountants Australia	Chair of the Auditing and Assurance Standards Board	Fixed payment from PricewaterhouseCoopers (PwC) Retirement Plan Son is employed as Director PwC Advisory Services

<b>FRC Member</b>	<b>Stakeholder / Professional / Organisational Affiliations</b>	<b>Employment / Other Positions Held</b>	<b>Other Interests</b>
	Member, New Zealand Auditing and Assurance Standards Board		
Ms Suzanne Bell	Member, Chartered Accountants Australia and New Zealand	Audit Partner, KPMG Registered Company Auditor	
Ms Tracey Carroll	Fellow, Chartered Accountants Australia and New Zealand (CA ANZ) Member, Public Sector Panel of the ACT Regional Council, CA ANZ	First Assistant Secretary, Financial Analysis, Reporting and Management Division, Department of Finance Australian Delegate, Financial Reporting and Management Network, OECD	
Ms Michele Embling	Chair, New Zealand External Reporting Board (XRB) Fellow, Chartered Accountants Australia and New Zealand (CAANZ) Member, Nominations and Governance Committee Member, CAANZ	Independent Director, Power Group Holdings Limited Board Member, Toitū Tahua: Centre for Sustainable Finance Independent Director, Transpower New Zealand Limited	Fixed retirement benefit payment from PwC New Zealand concludes September 2021
Mr Cameron McDonald	Graduate, Australian Institute of Company Directors (GAICD) Member, CPA Australia (CPA)	Head of Research, Evans & Partners Director, E&P Asia (HK) Pty Ltd	
Ms Emma Herd	Member, Victorian Government Independent Expert Panel on Interim Targets Member, Australian Sustainable Finance Institute (ASFI) Technical Advisory Group	Director, EMLH Pty Ltd Partner, Climate Change and Sustainability Services, Ernst and Young Oceania	Former CEO of Investor Group on Climate Change Former Environment Commissioner with the Greater Cities Commission Former Head of Sustainability and Executive Director at Westpac Institutional Bank

FRC Member	Stakeholder / Professional / Organisational Affiliations	Employment / Other Positions Held	Other Interests
	Member, Queensland Land Restoration Fund Investment Panel Member, Green Building Council of Australia (GBCA) Green Star Advisory Committee		Former Board Member, Carbon Market Institute



## **MINUTES OF PREVIOUS MEETING**

### **DESCRIPTION**

Attached are the minutes from the FRC meeting held on Wednesday 23 November 2022, which were approved out of session and have been published on the FRC website.

Action items are summarised in item 3C.

### **ACTION**

- For noting.



# MINUTES

**DATE:** Wednesday 23 November 2022

**TIME:** 10:00 am – 3:30 pm

**LOCATION:** Treasury’s Melbourne office / 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>ATTENDEES AND APOLOGIES</b>	
	<b>Members in attendance:</b>	<b>Observers:</b>
	Andrew Mills (Chair)	Tom Dickson (Treasury)
	Tracey Carroll (Deputy Chair)	Matthew Bowd (Treasury)
	Dr Keith Kendall (AASB Chair) (from 10:00am)	Alex Mahdavi (Treasury)
	Bill Edge (AUASB Chair)	James Zhou (Treasury)
	Michele Embling (XRB Chair) (from 11:30am)	Cooper Tym (Treasury)
	Cameron McDonald	John Ngiam (CA ANZ)
	Emma Herd (from 11:15am)	Tiffany Tan (CPA Australia)
	<b>Guests:</b>	<b>Apologies:</b>
	Greg Yanco (ASIC)	Suzanne Bell (FRC Member)
	Thea Eszenyi (ASIC)	Sean Hughes (ASIC)
	Doug Niven (ASIC)	April Mackenzie (XRB)
	Justin Williams (Office of the AASB and AUASB)	
	Anne Waters (Office of the AUASB)	
	Nikole Gyles (Office of the AASB)	
	Matthew Zappulla (Office of the AUASB)	
	Tom Dickson (Treasury)	

	Vaishali Dave (Treasury)	
	Lachlan Alvey (Treasury)	
	Professor Roger Simnett (Deakin University)	
	Professor Ken Trotman (University of New South Wales)	
	Stewart Walters (NSW Treasury)	
2.B	<b>REGISTER OF INTERESTS</b> Members confirmed the agenda items for this meeting did not give rise to a conflict of interest for any member.	
<b>3</b>	<b>MATTERS FOR NOTING/ACTION</b>	
3.A	<b>MINUTES OF THE PREVIOUS MEETING –8 SEPTEMBER 2022</b> Members noted the minutes from the FRC meeting on 8 September 2022 which had been approved out-of-session.	
3.B	<b>MINUTES OF OUT-OF-SESSION MEETINGS – 27 OCTOBER AND 10 NOVEMBER 2022</b> Members approved the minutes for the 27 October and 10 November 2022 out-of-session meetings.	
3.C	<b>MATTERS ARISING</b> Members reviewed the Matters Arising. <ul style="list-style-type: none"> <li>• Pursuant to action item 1, members noted that an out-of-session meeting has been organised for the FRC to discuss the 2021 FRC Peer Review results and the 2022 AASB and AUASB Peer Review results</li> <li>• Pursuant to action item 3: <ul style="list-style-type: none"> <li>– The AASB and AUASB noted that they have not received any notifications regarding their nomination for the Sustainability Standards Advisory Forum. The Boards also provided an update that their latest nomination for the position of an IFRS Foundation Trustee was unsuccessful, and further indicated that they intend to put forth another nomination.</li> <li>– Members noted that the joint submission to the IPSASB consultation on public sector sustainability reporting is referenced in AASB and AUASB Chairs’ reports (see items 4A and 4B).</li> </ul> </li> <li>• The FRC Chair reported on the FRC’s decision (made at its 10 November 2022 out-of-session meeting) to start the refresh of the 2019 <i>Auditor Disciplinary Process: Review</i> (2019 Review) with the status of the recommendations from that Review and to re-engage with the professional bodies on their audit processes, noting that there had been changes or were likely to be changes to each of the professional bodies’ processes since that Review.</li> </ul>	
<b>4</b>	<b>OVERSIGHT OF AUSTRALIAN STANDARDS</b>	
4.A	<b>AUSTRALIAN ACCOUNTING STANDARDS BOARD</b> Members noted the AASB Chair Report (document 4A). The AASB Chair joined the meeting and highlighted the following:	

	<ul style="list-style-type: none"> <li>• It was noted that since the 8 September 2022 FRC meeting, consultation had closed on Exposure Draft IFRS S1 <i>General Requirements for Disclosure of Sustainability-related Financial Information (S1)</i> and Exposure Draft IFRS S2 <i>Climate-related Disclosures (S2)</i>.</li> <li>• Stakeholder comments on S1 and S2 were considered at the Board’s November meeting. It was noted that there is Board support for S1, but stakeholders have indicated that S2 may be replicated too closely with US requirements; overall stakeholder comments indicate that international comparability is paramount.</li> <li>• The AASB is also noted that it is heavily involved in Asia-Oceania submission regarding S1.</li> <li>• The AASB has published a discussion paper about Tier 3 reporting for the public and not-for-profit sectors, to be released for a 6-month consultation.</li> <li>• Since the 8 September 2022 FRC meeting, the AASB has also conducted webinar training sessions on digital financial reporting and external reporting for not-for-profit entities.</li> </ul>
<p>4.B</p>	<p><b>AUDITING AND ASSURANCE STANDARDS BOARD</b></p> <p>Members noted the AUASB Chair Report (document 4B).</p> <ul style="list-style-type: none"> <li>• The AUASB Chair highlighted the following: <ul style="list-style-type: none"> <li>– The IAASB is currently drafting its sustainability assurance standard.</li> <li>: The FRC noted that preparers’ ability to report by deadlines when sustainability reporting reform has settled will be an issue that needs to be addressed.</li> <li>– The AUASB has issued an update to inform stakeholders about sustainability assurance.</li> <li>– The AUASB has released bulletins about technology and its impact on audit, as well as a joint publication with AICD providing guidance on the periodic review of auditors conducted by audit committees.</li> <li>– It has also engaged academics to look into existing research and future research in relation to auditing.</li> </ul> </li> <li>• ASIC provided an update that it is has completed a strategic review of its financial reporting work and audit surveillances, noting that going forward, such work will emphasise the role of audit committees and will adopt a more risk-based approach. <ul style="list-style-type: none"> <li>– The FRC agreed to further engage with ASIC, as this work is relevant to the refresh of the 2019 <i>Auditor Disciplinary Process: Review</i>.</li> </ul> </li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• The FRC to engage with ASIC further about its work on audit quality, as it is relevant to the refresh of 2019 review.</li> </ul>
<p>4.C</p>	<p><b>OVERSIGHT OF AASB AND AUASB</b></p> <ul style="list-style-type: none"> <li>• The FRC also discussed the recent appointments to the AASB and AUASB, noting that the successful candidates had the requisite sustainability and accounting expertise. The AASB Chair also confirmed that the AASB is bringing one of the applicants on to its staff.</li> </ul> <p>The FRC discussed the AASB and AUASB’s Corporate Plan 2022-23 and Annual Report 2021-22.</p> <ul style="list-style-type: none"> <li>• The AASB provided an update on sustainability staff recruitment, following its funding of \$1 million AUD, announced in the 2022-23 October Budget, noting that the market for relevant sustainability expertise is very tight.</li> <li>• The AASB further indicated that overall staff numbers will increase in the short-term.</li> </ul>

	<ul style="list-style-type: none"> <li>• In recognising that accounting and assurance skills remain crucial, the FRC agreed that recruitment will therefore be an exercise of achieving a balance between accounting and sustainability skillsets, particularly for preparers. <ul style="list-style-type: none"> <li>– The FRC also acknowledged that requisite skills will also change over time as other issues become more prevalent in the financial reporting and assurance space.</li> </ul> </li> <li>• The AASB also noted that face to face engagement will be instrumental to building relationships with international standard-setting bodies and to influence the development of international standards.</li> <li>• In discussing the AASB and AUASB Corporate Plan 2022-23: <ul style="list-style-type: none"> <li>– Members discussed the possibility of widening the scope of the Boards’ work and longer term objectives. <ul style="list-style-type: none"> <li>: It was suggested such changes may be relevant to a strategic plan, rather than a corporate plan.</li> <li>: It was also suggested that once a role for the AASB (and AUASB) in a long term sustainability reporting framework is formalised, this could be included in its Corporate Plan.</li> </ul> </li> <li>– It was also noted that corporate plans should include measurable actions and KPIs. <ul style="list-style-type: none"> <li>: Members considered whether the current scope of the Corporate Plan covers work on cyber security and the recent casino and banking inquiries. It was noted that a long-term corporate plan which is too detailed may be restrictive amidst a changing financial reporting landscape.</li> <li>: It was suggested that the outcomes of the AASB’s 5-year agenda consultation could inform a possible strategy section of the Corporation Plan.</li> </ul> </li> <li>– The FRC agreed that the Corporate Plan is a living document which should change to reflect significant developments.</li> <li>– It was also suggested that the AASB and AUASB could prepare a thought leadership document to raise awareness of emerging issues in the financial reporting and assurance space.</li> <li>– Members discussed how emerging issues (such as cyber security) could be captured by the financial reporting and auditing framework (i.e., whether they are governance issues, whether they should be explicitly captured by the standards, or whether they are relevant to assurance at all). <ul style="list-style-type: none"> <li>: In turn, members noted that many issues are technically captured by the standards, but there is a scope of interpretation with regard to materiality. Members discussed whether guidance would reduce the friction between auditors and companies.</li> </ul> </li> </ul> </li> <li>• Emma Herd joined the meeting. Members then welcomed Ms Herd to the FRC, who then provided an introduction of herself, her background, and expertise.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• The AASB and AUASB to draft initial/preliminary thought leadership documents about the scope of reporting and assurance requirements, including emerging issues and investor expectations.</li> </ul>
5	<b>INTERVIEWS OF AUDIT COMMITTEE CHAIRS</b>
	Professor Roger Simnett and Professor Ken Trotman presented the preliminary findings from their interviews of a select sample of Audit Committee Chairs.

	<p><b>Action</b></p> <ul style="list-style-type: none"> <li>Following the release of Professor Simnett and Trotman’s final report, the FRC to further discuss the matters raised during this presentation, particularly the suggestions directed to the FRC, AASB and AUASB.</li> </ul>
<b>6</b>	<b>EXTENDED EXTERNAL REPORTING</b>
<b>6.A</b>	<p><b>SUSTAINABILITY REPORTING</b></p> <ul style="list-style-type: none"> <li>The FRC agreed that it should only address sustainability matters not covered by the work of the two Boards and any other Government consultation. It was therefore proposed that the FRC could engage with stakeholders on sustainability reporting capabilities and education. <ul style="list-style-type: none"> <li>Members highlighted sustainability reporting organisations from whom entities seek advice – such as Global Reporting Initiative. It was also suggested that one-on-one meetings between certain stakeholders and the FRC Chair would be more beneficial than sending out information requests.</li> </ul> </li> <li>The FRC agreed that stakeholder engagement on sustainability could inform any guidance it can provide to the Boards and advice to the Government. It was further agreed that the FRC could develop an educative piece from this consultation.</li> <li>The FRC agreed to add stakeholders to the list attached to item 6A (for example, superannuation funds). It was also suggested that the FRC Chair meet with certain XRB staff to ascertain any further relevant sustainability stakeholders. <ul style="list-style-type: none"> <li>Members noted that no single stakeholder is likely to be able to provide the whole gamut of expertise about sustainability reporting.</li> </ul> </li> <li>Members also noted the current uncertainty surrounding the responsibility of particular teams for specific parts of sustainability reports and that companies currently do not appear to have chief sustainability officers.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>The FRC to identify any sustainability matters not covered by the AASB, AUASB and any other Government consultations. Based on this assessment, the FRC to undertake stakeholder engagement to inform guidance to the two Boards, advice to the Government, and to develop an educative piece.</li> <li>The FRC to add sustainability stakeholders to the list attached to item 6A (for example, superannuation funds).</li> <li>Emma Herd to circulate a list of proposed sustainability stakeholders to FRC members.</li> <li>FRC Chair to contact the XRB staff to ascertain any additional sustainability stakeholders.</li> </ul>
<b>6.B</b>	<p><b>AUSTRALIAN AND INTERNATIONAL SUSTAINABILITY DEVELOPMENTS</b></p> <ul style="list-style-type: none"> <li>Members noted that the sustainability updates in the AASB and AUASB Chair reports (see items 4A and 4B).</li> <li>Members also noted that: <ul style="list-style-type: none"> <li>the transition phase of sustainability reporting may be difficult</li> <li>companies may decide to align with different thresholds</li> <li>companies want assurance to safeguard against greenwashing.</li> </ul> </li> <li>The FRC also agreed to enquire about the legal and insurance dimensions of sustainability reporting as part of the stakeholder engagement exercise discussed under item 6A.</li> </ul>

	<ul style="list-style-type: none"> <li>It was suggested to invite Joanna Perry (IFRS Foundation Trustee) to an FRC meeting to provide an overview of the international environment in relation to the integration of reporting and other financial reporting matters.</li> <li>It was noted that sustainability reporting standards will only be one element of the Government’s commitment to reduce emissions, and for the FRC consider the role of the standards within this context.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>The FRC to enquire about the legal and insurance dimensions of sustainability reporting as part of its stakeholder engagement discussed under item 6A.</li> <li>The FRC to invite Joanna Perry to its meetings to provide an overview of the international financial reporting landscape.</li> </ul>
<b>7</b>	<b>DIGITAL REPORTING UPDATE – VERBAL</b>
	<ul style="list-style-type: none"> <li>The AASB Chair provided an update on the AASB’s work on digital financial reporting. <ul style="list-style-type: none"> <li>In particular, the AASB Chair informed the FRC that the Board has undertaken educative activities since the 8 September 2022 FRC meeting (for example, developing a resources one-pager with relevant stakeholders).</li> </ul> </li> <li>It was noted that the FRC could consider looking into the gap between the demand and the implementation of digital financial reporting.</li> </ul>
<b>8</b>	<b>PUBLIC SECTOR ADVISORY GROUP – VERBAL UPDATE</b>
	<ul style="list-style-type: none"> <li>Tracey Carroll as the Chair of the Public Sector Advisory Group (PSAG) provided an update on the matters below, following PSAG’s 14 November 2022 meeting : <ul style="list-style-type: none"> <li>the membership and role of the PSAG; and</li> <li>areas of focus across by the PASG into 2023, including: <ul style="list-style-type: none"> <li>talent attraction and retention in public sector financial reporting and assurance</li> <li>public sector sustainability reporting</li> <li>audit quality and audit themes in the public sector</li> <li>simplified financial reporting for the public sector.</li> </ul> </li> </ul> </li> <li>It was noted that the name change from Public Sector Working Group to PSAG is to reflect and emphasise PSAG’s advisory role to FRC.</li> <li>It was noted that audit quality in the public sector is different from private sector. As such, the PSAG intends to look into thematic issues arising from audits in different jurisdictions and report to the FRC any issues it should be aware of. <ul style="list-style-type: none"> <li>For example, in both the Commonwealth and NSW, auditors have commented on government expenditure classified as equity investments in financial statements.</li> </ul> </li> <li>It was noted that the Commonwealth Auditor-General had published his <a href="#">annual audit quality report</a> recently and that some of the measures identified in this report may be relevant as indicators for private sector audit quality.</li> <li>PSAG will invite the Australasian Council of Auditors General to join as an observer in its meetings. PSAG is also open to consider admitting other relevant members or organisations as observers to PSAG.</li> <li>Stewart Walters, Chair of HoTARAC, noted the following matters:</li> </ul>

	<ul style="list-style-type: none"> <li>– It has been suggested that public sector audits could look into matters of integrity (in addition to financials) to foster trust in Government.</li> <li>: Members discussed whether auditors should look at ethics as part of audits and the authorising environment in Government.</li> <li>– It was noted that there is a desire of the general public to see the impact of Government’s policies on the economy, which may pose challenges for public sector auditing on such a broad level.</li> <li>– Recruitment has also been an increasing concern for HoTARAC member jurisdictions.</li> </ul>
<b>9</b>	<b>CYBER SECURITY AND FINANCIAL REPORTING</b>
	<ul style="list-style-type: none"> <li>• Members discussed what cyber security standards would look like and what could entities report on, whilst recognising that stakeholders indicate that the current standards are adequate in relation to cyber security.</li> <li>• ASIC noted that it expects license holders and market infrastructure to consider what cyber attack they may come under and what their response would be (e.g., a communications plan).</li> <li>• ASIC provided an update that it is developing a cyber security handbook for financial services licensees. It was proposed that management can implement controls but entities could also report on many matters, including cyber. <ul style="list-style-type: none"> <li>– Members noted that there is a cost of implementing safeguards, but also acknowledged that there is a cost of not doing so. It was therefore suggested that investors may need to know this information. However, it was further noted that entities cannot report on the cost of an attack until it has occurred.</li> <li>– Members also noted the distinction between reporting the of risks and financials, the latter of which is not currently done. Members discussed reporting risks that are not necessarily material and the how this may assist users. <ul style="list-style-type: none"> <li>: As part of this discussion, members considered whether cyber security needs to be recognised as a specific reporting item or whether it is a risk.</li> <li>: It was considered that this type of risk might be considered in the thought leadership work the Boards are preparing (refer to item 4).</li> </ul> </li> </ul> </li> </ul>
<b>10</b>	<b>PUBLIC BENEFICIAL OWNERSHIP - TREASURY CONSULTATION PAPER</b>
	<p>The FRC discussed the Public Beneficial Ownership consultation paper, released by the Treasury. Treasury noted that accounting professionals can play an important role in the collection of information pertaining to beneficial ownership.</p> <ul style="list-style-type: none"> <li>• The FRC noted that in certain trust structures, the beneficiaries are classified in a way that does not give them power/control over the trustee.</li> <li>• It was also noted that beneficiaries could be defined differently, to ensure that the individual receiving any benefits can be identified (to ensure any beneficial ownership register does not merely capture details of a shell company or offshore corporation).</li> <li>• It was further noted that there may be challenges created by custody arrangements.</li> </ul>
<b>11</b>	<b>EMERGING ISSUES AND FRC PRIORITIES</b>
11.A	<b>TALENT ATTRACTION AND RETENTION</b>
	<ul style="list-style-type: none"> <li>• Treasury provided an overview of the status of ‘auditor’ and ‘accountants’ occupations on the National Skills Commission’s (NSC) Skills Priority List. <ul style="list-style-type: none"> <li>– Members further noted that it is unclear what a ‘general accountant’ is.</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>• The FRC Chair provided an update that he has written to the Assistant Treasurer informing him of the talent shortage in the accounting and auditing professions.</li> <li>• The FRC agreed for the FRC Chair and Deputy Chair to meet with senior representatives at the NSC to discuss its methodology of developing the Skills Priority List. <ul style="list-style-type: none"> <li>– It was suggested that the FRC could recommend to the NSC that it could additionally adopt a forward-looking approach when developing its Skills Priority List (e.g., consider the increase in demand for sustainability skills).</li> <li>– It was further suggested that the FRC could engage in the NSC’s consultation process and provide qualitative data to inform the development of the Skills Priority List.</li> </ul> </li> <li>• It was also suggested that the FRC Chair could also meet with the senior representatives at the Department of Home Affairs to discuss this issue.</li> <li>• The FRC recognised that appropriate short-term action would be to increase professional visas for accountants and auditors, whilst long-term action could entail increasing the number of paths to enter the profession domestically.</li> <li>• The FRC noted that stakeholders have reported decreasing number of students studying accounting and the increase in tertiary fees. It was also noted that: <ul style="list-style-type: none"> <li>– Australian education requirements are not providing the entrants with the relevant skills to meet demand</li> <li>– accounting is a generalist degree and not all students who study accounting enter the profession.</li> <li>– the recent increase in recruitment by firms to address attrition.</li> </ul> </li> <li>• The FRC discussed other influences on the number of entrants into the profession, such as media coverage of audit, which has largely been negative.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• The FRC Secretariat to organise a meeting between the FRC Chair and Deputy Chair with senior representatives at the NSC and the Department of Home Affairs.</li> </ul>
11.B	<p><b>ROYAL COMMISSIONS AND INQUIRIES</b></p> <p>The AASB Chair reported that the AASB staff reviewed the reports following the inquiries and determined that there was nothing of relevance with the standards. This matter had also been covered in earlier discussion at item 4.</p>
11.C	<p><b>AUDITOR DISCIPLINARY PROCESSES</b></p> <p>The FRC Chair noted that the minutes for the 10 November 2022 out-of-session meeting include the details on all FRC decisions about its work on auditor disciplinary processes.</p>
<b>12</b>	<p><b>MONITORING AND INFLUENCING AUSTRALIAN DEVELOPMENTS</b></p>
12.A	<p><b>INTERNATIONAL DEVELOPMENTS</b></p> <ul style="list-style-type: none"> <li>• The FRC noted the international developments in item 12A.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• The FRC Secretariat to reach out to the XRB to collaborate on the updates, to the FRC and XRB, on international developments.</li> <li>• The FRC Secretariat to highlight significant international developments in the meeting papers.</li> </ul>
12.B	<p><b>XRB UPDATE – VERBAL</b></p> <p>The XRB Chair provided a verbal update on the XRB’s work, highlighting the following:</p>



	<ul style="list-style-type: none"> <li>• The XRB plans to approve the climate standards (for issuance in December) at its meeting on 24 November 2022. <ul style="list-style-type: none"> <li>– The XRB team is also developing associated guidance for issuance in Q1 2023 together with an extensive outreach plan.</li> </ul> </li> <li>• The XRB continues to encourage and monitor the development of climate sector scenarios, to help entities compare between industries.</li> <li>• The XRB is currently developing mandatory, temporary assurance standards on greenhouse gas disclosures, to be released in December 2023. <ul style="list-style-type: none"> <li>– This enables assurance on IAASB or International Organization for Standardization (ISO) equivalents.</li> <li>– It was noted that there are already Australian requirements related to emissions. Members discussed how sustainability reporting will intersect with these requirements.</li> </ul> </li> </ul>
<b>13</b>	<b>MONITORING AND INFLUENCING AUSTRALIAN DEVELOPMENTS</b>
13.A	<p><b>STAKEHOLDER REPORTS</b></p> <ul style="list-style-type: none"> <li>• The FRC noted the 8 Stakeholder Reports.</li> <li>• It was noted that the FRC has previously discussed the prospect of BLRF acting as an advisor on integrated reporting.</li> <li>• The FRC agreed to reach out to the BLRF as a valued stakeholder to seek advice on this matter and other relevant issues, when appropriate. The FRC also agreed to also provide feedback to the BLRF. <ul style="list-style-type: none"> <li>– However, as part of this discussion, the FRC noted that it takes a balanced approach to stakeholder engagement; further flagging that immediate issues (such as sustainability) are steps towards integrated reporting, a longer-term goal.</li> </ul> </li> <li>• Members also noted the opposing views of AICD and CA ANZ regarding digital financial reporting.</li> </ul> <p><b>Action</b></p> <ul style="list-style-type: none"> <li>• The FRC to reach out to the BLRF as a valued stakeholder to seek relevant advice on integrated reporting, and other relevant issues; the FRC to also provide feedback to the BLRF.</li> <li>• Bill Edge to obtain, and circulate, a list of BLRF members, if this list is accessible.</li> </ul>
<b>14</b>	<b>OTHER BUSINESS</b>
14.A	<p><b>NOMINATIONS COMMITTEE</b></p> <ul style="list-style-type: none"> <li>• The FRC Chair (the Acting Nominations Committee Chair from 31 August 2022 to 10 November 2022) provided an update on the Nominations Committee’s work. <ul style="list-style-type: none"> <li>– Suzanne Bell has been appointed as the Chair of the Nominations Committee.</li> <li>– It was noted that the five part-time members recently appointed to the AASB and AUASB, possess strong expertise in sustainability reporting.</li> </ul> </li> <li>• The Nominations Committee is currently preparing the relevant documents to reappoint two AASB members and one AUASB member, whose terms will expire in December 2022.</li> </ul>
14.B	<p><b>CORRESPONDENCE RECEIVED AND SENT</b></p> <p>FRC Chair noted the letter to the Assistant Treasurer about the talent shortage in the accounting and auditing profession.</p>

14.C	<p><b>KEY ACTION ITEMS SUMMARY</b></p> <ul style="list-style-type: none"> <li>• The FRC Chair and Secretariat provided a brief summary of the action items arising from this meeting.</li> <li>• It was also noted that the Australian Sustainability Finance Institute (ASFI) will publish a consultation paper on sustainable taxonomy. It was suggested that the FRC could consider this at its next meeting to help the FRC understand the intersection and gaps between different classification systems.</li> </ul> <p><b>Action Items</b></p> <ul style="list-style-type: none"> <li>• FRC Secretariat to circulate relevant media updates about financial reporting and audit to all FRC members (as well as the FRC Chair).</li> <li>• The FRC to consider the ASFI’s sustainability taxonomy consultation at its March 2023 meeting.</li> </ul>
15	<p><b>NEXT MEETING AND CLOSE</b></p>
	<p><b>Action</b></p> <ul style="list-style-type: none"> <li>• The FRC Secretariat to move the March 2023 meeting, due to a clash with an AASB meeting.</li> </ul>



## **MINUTES OF PREVIOUS MEETING – OUT OF SESSION MEETINGS**

### **DESCRIPTION**

On 2 February 2023, the FRC held two out-of-session meetings to discuss:

- the 2021 FRC Peer Review Survey results
- the 2022 AASB and AUASB Peer Review Survey results
- the FRC's information gathering powers.

### **ACTION**

- For noting.

# MINUTES

**DATE:** Thursday 2 February 2023

**TIME:** 2.00pm – 3.00pm

**LOCATION:** Virtual Teams Meeting

ITEM	AGENDA ITEM																				
	<b>ATTENDEES AND APOLOGIES</b>																				
	<table border="1" style="width: 100%;"> <tr> <td style="width: 50%;"><b>Members in attendance:</b></td> <td style="width: 50%;"><b>Observers:</b></td> </tr> <tr> <td>Andrew Mills (Chair)</td> <td>Zoe Irwin (Treasury)</td> </tr> <tr> <td>Tracey Carroll (Deputy Chair)</td> <td>Jodic Chan (Treasury)</td> </tr> <tr> <td>Keith Kendall (AASB Chair)</td> <td>Cooper Tym (Treasury)</td> </tr> <tr> <td>Bill Edge (AUASB Chair)</td> <td>James Zhou (Treasury)</td> </tr> <tr> <td>Suzanne Bell</td> <td></td> </tr> <tr> <td>Cameron McDonald</td> <td></td> </tr> <tr> <td>Emma Herd</td> <td></td> </tr> <tr> <td colspan="2"><b>Apologies</b></td> </tr> <tr> <td>Michele Embling (XRB Chair)</td> <td></td> </tr> </table>	<b>Members in attendance:</b>	<b>Observers:</b>	Andrew Mills (Chair)	Zoe Irwin (Treasury)	Tracey Carroll (Deputy Chair)	Jodic Chan (Treasury)	Keith Kendall (AASB Chair)	Cooper Tym (Treasury)	Bill Edge (AUASB Chair)	James Zhou (Treasury)	Suzanne Bell		Cameron McDonald		Emma Herd		<b>Apologies</b>		Michele Embling (XRB Chair)	
<b>Members in attendance:</b>	<b>Observers:</b>																				
Andrew Mills (Chair)	Zoe Irwin (Treasury)																				
Tracey Carroll (Deputy Chair)	Jodic Chan (Treasury)																				
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	<b>NON-PUBLIC SESSION</b>																				
	<b>MATTERS FOR NON-PUBLIC SESSION</b>																				
<b>1</b>	<p>The Chair welcomed members to the out of session meeting and began discussions about draft legal advice (subject to legal privilege).</p> <p><b><u>Legal Advice</u></b></p> <p>The FRC members discussed the nature of the draft legal advice as well as any questions and concerns. Members identified how some questions might be re-framed and specific circumstances that should be checked with the lawyers.</p> <p><b><u>2021 FRC Peer Review Results</u></b></p> <ul style="list-style-type: none"> <li>• The FRC considered the 2021 FRC Peer Review results (based on the decision at the 2 June 2022 meeting to reconvene to discuss the 2021 results and agree on an approach going forward), the AASB and AUASB Peer Review results (from 2022).</li> <li>• Members noted that:             <ul style="list-style-type: none"> <li>– interaction with stakeholders has been increased, for example, the FRC Chair has been meeting with stakeholders</li> </ul> </li> </ul>																				

	<ul style="list-style-type: none"> <li>– emerging issues and sustainability reporting have been strong focal points of the FRC’s agenda.</li> <li>• Members further noted the loss of preparer representation on the FRC and further discussed the need for additional FRC members to diversify sectoral representation. It was raised that the nature of turnover of members may also limit succession planning.</li> <li>• Members also considered a possible different platform for papers – it was suggested setting up a dedicated Teams channel to facilitate consolidated file sharing should be investigated.</li> <li>• The FRC also noted the frequency of ministerial outreach by the Chair.</li> <li>• The FRC collectively agreed that the comments from the 2021 Peer Review had been appropriately addressed.</li> </ul> <p><b><u>AASB Peer Review Results (2022)</u></b></p> <ul style="list-style-type: none"> <li>• The FRC noted the positive results from the 2022 AASB survey.</li> <li>• The AASB Chair noted: <ul style="list-style-type: none"> <li>– the recent recruitment of members and staff to increase sustainability expertise in the AASB;</li> <li>– the AASB had addressed comments regarding the size of meeting packs and had reduced it by 40%; and</li> <li>– feedback about reporting standards is currently being considered although there is limited capability</li> </ul> </li> </ul> <p><b><u>AUASB Peer Review Results (2022)</u></b></p> <ul style="list-style-type: none"> <li>• The FRC also noted the positive results for the 2022 AUASB survey.</li> <li>• The AUASB Chair noted that the gap in sustainability and technology expertise has been addressed through new members and the creation of the Technology Advisory Panel.</li> </ul> <p><b>Future Peer Review</b></p> <ul style="list-style-type: none"> <li>• It was agreed that the FRC, AASB and AUASB go through the peer review process in November 2023.</li> </ul> <p><b>Actions:</b></p> <ul style="list-style-type: none"> <li>• The request for legal advice be updated to address matters raised by members</li> <li>• The FRC, AASB and AUASB to conduct peer reviews in November 2023.</li> <li>• The FRC to discuss and agree whether to adopt a new paper platform to consolidate documents and conversations.</li> </ul>
	<p>Meeting concluded at 3.00pm.</p>



## ITEM 3C

10 MARCH 2023

### MATTERS ARISING

#### DESCRIPTION

Attached are the matters arising from the FRC meeting held on Wednesday 23 November 2022.

As agreed at the 10 December 2021 meeting, the historical 'ongoing items' list has been removed. However, the FRC Secretariat will maintain a record of the items which were recorded under 'Public Sector Issues' and will raise these matters with the FRC Chair on a periodic basis.

#### ACTION

For noting.

**MATTERS ARISING**

**23 NOVEMBER 2022 ACTION ITEMS (TABLE 1)**

<b>Number</b>	<b>ISSUE</b>	<b>Action required</b>	<b>Owners</b>	<b>Status</b>
1.	<b>PEER REVIEW SURVEY</b>	The FRC Secretariat to set up an out of session meeting for the FRC to discuss the 2021 Peer Review Survey results and an approach to address the feedback received as appropriate.	FRC Secretariat	<b>Complete – the FRC considered the 2021 Peer Review results, and the 2022 AASB and AUASB Peer Review results at an out-of-session meeting on 2 February 2022.</b>
2.	<b>OVERSIGHT OF AASB AND AUASB</b>	The AASB and AUASB to draft initial/preliminary thought leadership documents about the scope of reporting and assurance requirements, including emerging issues and investor expectations.	AASB and AUASB	<b>In progress – an update to be provided at the July 2023 quarterly meeting.</b>
3.	<b>STAKEHOLDER ENGAGEMENT</b>	FRC Secretariat to obtain further information about FRC’s formal information gathering powers.	FRC Secretariat	<b>Complete – draft legal advice circulated to FRC members.</b>
		The FRC to further discuss and agree on whether to implement a mechanism through which it can respond to stakeholder reports.	FRC	<b>In progress – discussion continued under item 12 of the 10 March 2023 meeting.</b>
		The FRC to reach out to the BLRF as a valued stakeholder to seek relevant advice on integrated reporting, and other relevant issues; the FRC to also provide feedback to the BLRF.	FRC	<b>Ongoing – the FRC to reach out to BLRF when appropriate</b>
		Bill Edge to obtain, and circulate, a list of members of the BLRF, if accessible.	Bill Edge	<b>Complete – list of members and other BLRF details circulated to FRC members on 11 January 2023.</b>

Financial Reporting Council  
**MATTERS ARISING – 10 March 2023**

Number	ISSUE	Action required	Owners	Status
4.	<b>DIGITAL FINANCIAL REPORTING</b>	The AASB to provide further updates at the FRC’s upcoming meetings about the progress of its digital financial reporting work, including education and awareness raising.	Keith Kendall	<b>Ongoing – relevant updates to be provided when necessary.</b>
5.	<b>AUDIT QUALITY MANAGEMENT REVIEW</b>	The FRC to engage with ASIC further about its work on audit quality, as it is relevant to the refresh of the 2019 <i>Auditor Disciplinary Processes: Review</i> .	FRC	<b>Ongoing – the FRC to engage with ASIC when required.</b>  <b>A verbal update to be provided under item 7 of the 10 March 2023 meeting.</b>
6.	<b>AUDIT QUALITY</b>	Following the release of Professor Simnett and Trotman’s final report, the FRC to further discuss their findings, particularly the suggestions directed to the FRC, AASB and AUASB.	FRC	<b>Complete – final report attached to, and matter to be considered under, item 7 of the 10 March 2023 meeting.</b>
7.	<b>CYBER SECURITY</b>	The FRC to monitor cyber security matters (as they relate to corporate reporting).	FRC	<b>Ongoing – FRC to discuss cyber-security matters as they arise at quarterly meetings.</b>
8.	<b>TALENT ATTRACTION AND RETENTION</b>	The FRC Secretariat to organise a meeting between the FRC Chair and Deputy Chair with senior representatives at the NSC to discuss: <ul style="list-style-type: none"> <li>• the NSC’s methodology of compiling the Skills Priority List; and</li> <li>• a possible forward-looking approach when developing its Skills Priority List.</li> </ul>	FRC Secretariat	<b>In progress – Meeting organised for 21 March 2023. An update to be provided at the 5 July 2023 meeting.</b>
		The FRC Secretariat to organise a meeting between the FRC Chair and Deputy Chair with senior representatives at	FRC Secretariat	<b>In progress – an update to be provided at the 5 July 2023 meeting.</b>



Financial Reporting Council  
**MATTERS ARISING – 10 March 2023**

Number	ISSUE	Action required	Owners	Status
		the Department of Home Affairs to discuss the accountant and auditor talent shortage.		
		The FRC to write to the Minister, copying in the appropriate Ministers, to advise him about this issue.	Chair	<b>Complete – letter sent to the Assistant Treasurer in November 2022.</b>
		FRC members with access to relevant data sources on resourcing, capability and attractiveness of the profession to share it with other members.	FRC	<b>Ongoing – FRC members to circulate any relevant material as they become available.</b>
		The FRC to continue monitoring the talent attraction and retention issue through periodic information requests to appropriate stakeholders.	FRC Secretariat	<b>Ongoing – FRC Secretariat to periodically request relevant information for consideration at FRC meetings.</b>
		The FRC to discuss and agree to the data that the FRC will request on an ongoing basis from the Professional bodies about their auditor disciplinary processes.		<b>In progress – the FRC to discuss at the 5 July 2023 meeting.</b>
9.	<b>GLOBAL ECONOMIC ENVIRONMENT</b>	The FRC to continue monitoring the global economic environment (including global and domestic demand) and respond to any emerging issues which may impact financial reporting or standards, as necessary.	FRC Secretariat	<b>Ongoing – the FRC to continue monitoring this matter and respond to emerging issues as necessary.</b>
10.	<b>INTERNATIONAL STANDARDS SETTING</b>	Bill Edge and Anne Waters to provide additional information about ISSB funding at the FRC’s next meeting.	Bill Edge/Anne Waters	<b>In progress – Bill Edge has reached out to the relevant international parties to seek further information. An update will be provided once responses have been received.</b>
		The FRC to further discuss the funding arrangements of international standard-setting bodies and whether to recommend modifying Australia’s approach to contributing to the funding of these bodies.	FRC	<b>In progress – matter to be discussed under item 5D at the 10 March 2023 meeting.</b>

Number	ISSUE	Action required	Owners	Status
11.	SUSTAINABILITY	The FRC to identify any sustainability matters not covered by the AASB, AUASB's and any other Government consultations. Based on this assessment, the FRC to undertake stakeholder engagement to inform any guidance for the two Boards and to advise the Government, and to develop and educative piece.	FRC	In progress – the FRC to discuss at quarterly meeting as required/appropriate.
		<ul style="list-style-type: none"> <li>The FRC to add sustainability stakeholders to its stakeholder list</li> </ul>	FRC	Ongoing – the FRC to add sustainability stakeholders to its stakeholder list, as they are identified.
		<ul style="list-style-type: none"> <li>Emma Herd to circulate a list of proposed sustainability stakeholders to FRC members.</li> </ul>	Emma Herd	In progress– additional stakeholders circulated by Emma Herd on x 2022/23. Additional stakeholders are attached to item x of the 10 March 2023 meeting papers.
		<ul style="list-style-type: none"> <li>FRC Chair to contact XRB staff to ascertain any additional sustainability stakeholders.</li> </ul>	FRC Chair	In progress– additional stakeholders circulated by the FRC Chair on x 2022/23. Additional stakeholders are attached to item x of the 10 March 2023 meeting papers.
		The FRC to enquire about the legal and insurance dimensions of sustainability reporting as part of its stakeholder engagement discussed under item 6A.	FRC	In progress – the FRC to discuss at future meetings in 2023.
		The FRC to invite Joanna Perry to its meetings to provide an overview of the international financial reporting landscape.	FRC Secretariat	Complete – Joanna Perry to provide a presentation at item 6 of 10 March 2023 meeting.
		The FRC to consider the Australian Finance Institute's (ASFI) sustainability taxonomy consultation at its March 2023 meeting.	FRC	Complete – matter to be considered under item 8 at the 10 March 2023 meeting

Financial Reporting Council  
**MATTERS ARISING – 10 March 2023**

Number	ISSUE	Action required	Owners	Status
12.	<b>INTERNATIONAL DEVELOPMENTS</b>	The FRC Secretariat to reach out to the XRB to collaborate on the updates, to the FRC and XRB, on international developments. The FRC Secretariat to highlight significant international developments in the meeting papers.	FRC Secretariat	<b>Complete – see item 5e of the 10 March 2023 meeting.</b>
13.	<b>OTHER</b>	FRC Secretariat to circulate relevant media clippings about financial reporting and audit to all FRC members.	FRC Secretariat	<b>Ongoing</b>

**27 OCTOBER 2022 AND 10 NOVEMBER 2022 OUT-OF-SESSION MEETINGS (TABLE 2)**

Number	Issue	Action required	Owners	Status
1.	<b>STAKEHOLDER ENGAGEMENT</b>	The FRC to review its current list of stakeholders to confirm whether there are any other stakeholders that should be added to the list.	FRC	<b>Ongoing – the FRC to modify its stakeholder list when appropriate.</b> <b>See also action item 9 in table above.</b>
		The FRC to continue seeking targeted feedback on strategic issues through its Stakeholder Reports and one-on-one high level stakeholder engagement to monitor the matters referred to in the ASIC Act (such as professional ethics) on a periodic basis.	FRC	<b>Ongoing – FRC to continue sending out Stakeholder Report requests and the FRC Chair to continue meeting with stakeholders.</b>
2.	<b>FRC STRATEGY AND FUNCTIONS</b>	The FRC to further discuss what indicators on the objects of the financial reporting framework to utilise, to then be included as a standing agenda item once decided.  <ul style="list-style-type: none"> <li>• The AUASB Chair and FRC Secretariat to look into any relevant data that could be used.</li> </ul>	FRC, FRC Secretariat and AUASB Chair	<b>In progress – matter to be discussed under item 5 of the 10 March 2023 meeting.</b>

Financial Reporting Council  
**MATTERS ARISING – 10 March 2023**

<b>Number</b>	<b>Issue</b>	<b>Action required</b>	<b>Owners</b>	<b>Status</b>
		The FRC to discuss the AASB and AUASB Annual Report each year to discuss any feedback on budget, staffing, business plans and priorities, and to assess the effectiveness of the Boards' consultation processes.	FRC	<b>Ongoing – the FRC to consider the AASB and AUASB's Annual Report each November at its quarterly meetings.</b>
		The AASB and AUASB to bring any changes to their due processes, in relation to the development accounting and auditing standards, before the FRC.	FRC	<b>Ongoing – AASB and AUASB to advise the FRC when appropriate.</b>
		The FRC to invite Joanna Perry to its meetings for international updates, or to invite other appropriate individuals to provide updates from the IFRS Foundation and other international forums.	FRC	<b>Ongoing – the FRC to invite presenters when appropriate.</b> <b>See also action item 9 in Table 1.</b>
		The FRC Secretariat to create an FRC program or calendar to document, for example, list agenda items for the quarterly meetings and when to contact stakeholders and what to ask.	FRC Secretariat	<b>Complete – calendar to be circulated to FRC members at the start of each quarter of the year.</b>
		The FRC to further discuss and agree on whether to modify its stakeholder list used for the purpose of requesting stakeholder reports.	FRC	<b>In progress/Ongoing – stakeholders to be added when appropriate.</b> <b>See also action item 9 in the table above.</b>
3.	<b>AUDIT QUALITY</b>	The FRC to re-assess its Audit Quality Action Plan to determine whether it can be updated in 2023.	FRC	<b>In progress – matter to be discussed under Item 7 of the 10 March 2023 meeting.</b>
4.	<b>AUDIT QUALITY MANAGEMENT REVIEW</b>	As part of the refresh, it is to be determined whether: <ul style="list-style-type: none"> <li>• the recommendations in the 2019 Review have been implemented by the relevant stakeholder; and</li> </ul>	FRC	<b>In progress – a verbal update to be provided under item 7 of the 10 March 2023 meeting.</b> <b>See also item in Table 1 above.</b>

Financial Reporting Council  
**MATTERS ARISING – 10 March 2023**

Number	Issue	Action required	Owners	Status
		<ul style="list-style-type: none"> <li>there is still something further that needs to be done to implement the recommendations (this includes investigating the potential privacy barriers raised by the professional bodies).</li> </ul>		
		<p>The FRC Chair to meet with Anne Waters to determine next steps, based on the following approach to the refresh, as agreed by the FRC:</p> <ul style="list-style-type: none"> <li>examine both inspection/review and disciplinary processes (ASIC and the Professional bodies); and</li> <li>consider the effectiveness of the current processes and how these could be coordinated between the Professional bodies and regulator.</li> </ul>	FRC Chair	<p><b>Complete – a verbal update to be provided under item 7 of the 10 March 2023 meeting.</b></p> <p><b>See also item in Table 1 above.</b></p>
		<p>The FRC Chair to call the CA ANZ CEO to inform her of:</p> <ul style="list-style-type: none"> <li>the decision not to participate in the benchmarking exercise</li> <li>that the FRC will likely seek missing data about CA ANZ's auditor disciplinary processes and/or organise a meeting to further discuss its data collection</li> <li>the refresh of the 2019 Review will be conducted with a view to recommend the Professional bodies to coordinate their auditor disciplinary processes with each other, and with ASIC.</li> </ul>	FRC Chair	<p><b>Complete – the FRC Chair has met with the CA ANZ CEO. A verbal report to be provided under item 7 of the 10 March 2023 meeting.</b></p> <p><b>See also item in Table 1 above.</b></p>
		<p>The FRC Secretariat to liaise with the Treasury Parliamentary Team to clarify whether there is a process to inform the Senate Economics References Committee that the FRC will note make a submission to the inquiry into ASIC investigation and enforcement.</p>	FRC Secretariat	<p><b>Complete – the FRC Secretariat has advised the FRC Chair of relevant processes.</b></p>





## Agenda paper 4A 10 March 2023

### AASB CHAIR REPORT

#### DESCRIPTION

Attached is the AASB Chair’s Report covering the key activities undertaken during November 2022 –March 2023.

#### ACTION

For noting.

Immediate technical priorities	
<p>Sustainability Reporting (Strategic objectives 1,3 &amp; 5)</p>	<p>The AASB decided to use the <i>AASB For-Profit Entity Standard-Setting Framework</i> as the basis for developing a draft Sustainability Reporting Standard-Setting Framework.</p> <p>The Board also decided to include in a Sustainability Reporting Standard-Setting Framework the following criteria for considering whether to depart from, amend or add to the baseline of IFRS Sustainability Disclosure Standards:</p> <ul style="list-style-type: none"> <li>(a) requirements in IFRS Sustainability Disclosure Standards will not deliver user benefits that outweigh any undue cost or effort for preparers;</li> <li>(b) requirements in IFRS Sustainability Disclosure Standards will not achieve international alignment or else will conflict with global sustainability reporting practices;</li> <li>(c) the Board identifies equivalent disclosure requirements in Australian legislation that already meet the objectives of the IFRS Sustainability Disclosure Standards. In making this assessment, the Board would consider legislation such as the National Greenhouse and Energy Reporting Act 2007;</li> <li>(d) requirements in IFRS Sustainability Disclosure Standards do not adequately address Australian-specific matters and there is, or is likely to be, diversity in practice warranting Australian-specific requirements or guidance; and</li> <li>(e) transitioning from existing Australian practices to requirements in IFRS Sustainability Disclosure Standards will impose additional costs and/or time when compared with international counterparts, warranting deferral of the application date.</li> </ul> <p><u>Strategic impact</u> <i>Maintain International influence and create a framework for developing sustainability-related financial reporting in Australia.</i></p>

<p>Climate-related Financial Disclosure</p>	<p>To address the demand for climate-related financial disclosure requirements while permitting the Board sufficient time to redeliberate its approach to broader sustainability reporting, the Board supported a “climate first” approach and decided to add a separate project to the Board’s work program to develop climate-related financial disclosure requirements for Australia.</p> <p>The AASB decided to continue applying the preliminary decisions made at its February 2022 (M185) and April 2022 (M186) meetings and the [draft] Sustainability Reporting project plan to its work on developing climate-related financial disclosure requirements.</p> <p><i><u>Strategic impact</u></i></p> <p><i>Maintain International influence and develop climate-related financial reporting requirements for Australia.</i></p>
<p><b>Medium / longer-term technical priorities</b></p>	
<p>Insurance Activities in the Public Sector</p> <p>(Strategic objectives 1 &amp; 4)</p>	<p>The AASB issued <i>AASB 2022-8 Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments</i>, amending all Australian Accounting Standards that refer to AASB 17 <i>Insurance Contracts</i> to permit public sector entities (both for-profit and not-for-profit entities) to continue to apply AASB 4 <i>Insurance Contracts</i> and AASB 1023 <i>General Insurance Contracts</i> until annual periods beginning on or after 1 July 2026, when they are required to apply AASB 17. It also repeals AASB 1038 <i>Life Insurance Contracts</i> and Interpretation 1047 <i>Professional Indemnity Claims Liabilities in Medical Defence Organisations</i> for annual periods beginning on or after 1 January 2023, on the basis that AASB 17 applies to those periods in respect of private sector entities and the pronouncements are not relevant to public sector entities.</p> <p>The AASB issued <i>AASB 2022-9 Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector</i>, making public-sector-specific modifications to AASB 17 for application to annual periods beginning on or after 1 July 2026.</p> <p><i><u>Strategic impact</u></i></p> <p><i>The amendments modified AASB 17 requirements to assist entities applying the Standard in the public sector context.</i></p>
<p>Fair Value Measurement for Not-for-Profit Public Sector Entities</p> <p>(Strategic objectives 1 &amp; 4)</p>	<p>The AASB issued <i>AASB 2022-10 Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities</i>, amending AASB 13 <i>Fair Value Measurement</i> for fair value measurements of non-financial assets of not-for-profit public sector entities not held primarily for their ability to generate net cash inflows.</p> <p><i><u>Strategic impact</u></i></p> <p><i>The amendment clarified how certain AASB 13 principles should be applied in measuring public sector entity’s assets that are not held primarily for their ability to generate net cash inflows (i.e., assets that are held primarily for their service capacity).</i></p>
<p>Post Implementation Review (PIR) of domestic Standards</p> <p>(Strategic objectives 1, 4 and 6)</p>	<p>The AASB has issued the following Invitations to Comment:</p> <ul style="list-style-type: none"> <li>• <i>ITC 50 Post-implementation Review – Income of Not-for-Profit Entities</i></li> <li>• <i>ITC51 Post-implementation Review of Not-for-Profit Topics – Control, Structured Entities, Related Party Disclosures and Basis of Preparation of Special Purpose Financial Statements</i></li> </ul> <p>The Invitations to Comment are seeking feedback from stakeholders to assist with assessing whether certain requirements of Australian Accounting Standards that apply to not-for-profit public and private sector entities continue</p>



	<p>to meet their original objectives, including whether the requirements remain appropriate. ITC 50 and ITC 51 are open for comment until 31 March 2023.</p> <p><u>Strategic impact</u> A PIR considers if the pronouncement is fit for purpose, including if it is effective and efficient. A PIR also offers AASB the opportunity to ensure that a pronouncement is operating as intended and remains appropriate and proportionate.</p>
<p>Maintaining IFRS compliance</p> <p>(Strategic objectives 1 &amp; 4)</p>	<p>The AASB:</p> <ul style="list-style-type: none"> <li>• issued <i>AASB 2022-5 Amendments to Australian Accounting Standards – Lease Liability in a Sale and Leaseback</i>, amending <i>AASB 16 Leases</i> to add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in <i>AASB 15 Revenue from Contracts with Customers</i> to be accounted for as a sale.</li> <li>• issued <i>AASB 2022-6 Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants</i>, amending <i>AASB 101 Presentation of Financial Statements</i> to improve the information an entity provides in its financial statements about long-term liabilities with covenants where the entity’s right to defer settlement of those liabilities for at least twelve months after the reporting period is subject to the entity complying with conditions specified in the loan arrangement.</li> <li>• issued <i>AASB 2022-7 Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards</i>, making editorial corrections to six Standards and to Practice Statement 2 Making Materiality Judgements. This Standard also repeals superseded principal Standards and redundant amending Standards.</li> <li>• is consulting stakeholders via <i>ED 322 International Tax Reform – Pillar Two Model Rules</i> on amendments to <i>AASB 112 Income Taxes</i> aiming to provide a temporary exception to accounting for deferred taxes in relation to the Pillar Two rules published by the Organisation for Economic Co-operation and Development (OECD). The proposed amendments would also introduce disclosure requirements about the possible effect of the Pillar Two rules.</li> </ul> <p><u>Strategic impact</u> <i>Maintaining IFRS compliance.</i></p> <ul style="list-style-type: none"> <li>• <i>The IASB responded to feedback that IFRS 16 included no specific subsequent measurement requirements for sale and leaseback transactions.</i></li> <li>• <i>The IASB responded to stakeholders’ concerns about the classification of such a liability as current or non-current.</i></li> <li>• <i>The IASB made editorial corrections to its IFRS Accounting Standards and other pronouncements.</i></li> <li>• <i>Whilst the Pillar Two rules are not yet operational in Australia, once effective, the proposed amendments will provide relief for affected entities while potential accounting implications of the model rules and AASB 112 Income Taxes are considered.</i></li> </ul>
<p>AASB-AUASB Joint Research Report on Climate-Related Disclosures and Assurance in the</p>	<p>The AASB-AUASB published a joint research report that identifies climate-related disclosures and associated assurance practices in Annual Reports of ASX-listed entities.</p> <p><u>Strategic impact</u></p>

Annual Reports of ASX Listed Companies  (Strategic Objectives 6)	<i>Monitoring emerging issues impacting the development of accounting and external reporting standards.</i>		
<b>Key events, meetings or forums led by or attended by AASB in the last period. (Strategic objectives 4 &amp; 6)</b>			
<b>Type of Event</b>	<b>Subject Matter</b>	<b>No. of Attendees</b>	
Webinars	AASB Dialogue Series on Digital Assets	60 Attendees	
	Three Not-for-Profit post-implementation review virtual outreach	110 Attendees	
	Three Virtual outreach sessions on the proposed Tier 3 accounting requirements	39 Attendees	
International Conferences	AASB Chair and Staff presented on various topics at the AOSSG annual meeting 2022: <ul style="list-style-type: none"> <li>• Intangibles - where to go next;</li> <li>• Not-for-profit financial reporting framework;</li> <li>• IFRS S1 - General Sustainability-related Disclosures; and</li> <li>• Research on the use and usefulness of the transition relief and practical expedients in IFRS 16 Leases - evidence from Australia and Malaysia</li> </ul>	-	
	AASB staff presented at the IASB ASAF in December 2022 on the AOSSG feedback on Provisions – Targeted Improvements	-	
	AASB staff presented at IFASS virtual meeting on the transition relief and ongoing practical expedients in IFRS 16 Leases	-	
	AASB Staff participated in the inaugural meeting of the National Standard-setters Sustainability Forum hosted by the UK Endorsement Board in February 2023	-	
	AASB Chair chaired a break-out session on the ISSB's [Draft] IFRS S1 <i>General Requirements for Disclosure of Sustainability-related Financial Information</i> and [Draft] IFRS S2 <i>Climate-related Disclosures</i> at the IFRS Symposium in February 2023	-	
	Presentations	AASB staff presented to the CPA NFP Committees of different states and territories on the proposed Tier 3 accounting requirements	42 attendees
		AASB staff presented to the CAANZ NFP Discussion Group on the proposed Tier 3 accounting requirements	19 attendees
AASB staff presented to the CPA External Reporting Centre of Excellence on the proposed Tier 3 accounting requirements		12 attendees	
AASB staff presented to NFP CA Discussion Group at RACV		13 attendees	
AASB staff presented to the Associations Forum on the proposed Tier 3 accounting requirements		12 attendees	
AASB staff presented to the Business Council of Co-operatives and Mutuals on the proposed Tier 3 accounting requirements		9 attendees	

	AASB Chair presented at the AICD Reporting Committee on the development of the simplified accounting requirements	-
Forums	The AASB co-hosted the 2022 Research Forum with RMIT College of Business and Law <sup>1</sup>	60 in-person attendees 200 virtual attendees

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1 This year, we offered the opportunity to attend in Melbourne, virtually, or at the University of Queensland in Brisbane from the live viewing satellite broadcast venue.



## AUASB CHAIR REPORT

### DESCRIPTION

Attached is the AUASB Chair's Report covering the key activities undertaken during December 2022 - February 2023.

#### ACTION

- Chair to report.

Immediate technical priorities	
Sustainability Assurance	<p>The following initiatives were completed or are underway:</p> <ul style="list-style-type: none"><li>- The AUASB Chair and staff, together with the AASB Chair and staff, are having on-going discussions with representatives from the accounting professional bodies, the Australian Professional &amp; Ethics Standard Board and ASIC, on the broader implications for the accounting and auditing profession.</li><li>- The IAASB is currently working on a project to develop an overarching standard for assurance on sustainability reporting which will be suitable across all sustainability topics and reporting frameworks, and to be used by all assurance practitioners (i.e. accounting profession and other assurance providers). The AUASB Chair has been appointed a member of the IAASB's Sustainability Working Group which is drafting the proposed standard. The IAASB will consider the draft proposed standard at its March 2023 meeting and is working towards issuing an exposure draft in September 2023 and a final standard late 2024.</li><li>- The IAASB envisages that a suite of standards for assurance on sustainability reporting that provide more specificity than an overarching standard will likely need to be developed over time. The IAASB will explore the further development of the suite of assurance standards on sustainability reporting as part of its future standard-setting activities.</li><li>- The AASB and AUASB issued a joint research report on Climate-related Disclosures and Assurance in the Annual Reports of ASX Listed Companies in December 2022. This research report shows that entities are increasingly recognising climate impacts in their Annual Report and to a lesser extent in their financial reports, although this is also increasing. The location of disclosures impacts whether this information is subject to assurance or not.</li></ul>

	<p>When climate-related information located outside the financial report is subject to assurance this is usually limited assurance, however in some instances it is reasonable.</p> <ul style="list-style-type: none"> <li>- On 30 March 2023 the AUASB Chair will be attending an invite only global roundtable being hosted by the IESBA and APESB to provide input into the development of new ethics and independence standards for sustainability reporting and assurance and be a panel member at a Sustainability and Reporting Discussion Forum being hosted by the APESB and CPA Australia the same evening.</li> </ul> <p><i>Strategic impact</i></p> <p>The AUASB continues to influence the direction of the IAASB in the development of Sustainability assurance standards. The AUASB is also working with relevant Australian stakeholders on the broader implications for the accounting and auditing profession.</p>
<p>Audit Quality</p>	<p>The following initiatives were completed or are underway:</p> <ul style="list-style-type: none"> <li>- Research Report <i>Perceptions of Audit Quality by Audit Committee Chairs in Australia</i> was released. This is a key component of the <i>FRC Audit Quality Action Plan</i> and the detailed results were discussed by the FRC at its November 2022 meeting.</li> <li>- AUASB bulletin <i>Supporting Auditors in Enhancing Audit Quality December 2022</i> has been released in response to the recently issued Audit Inspection Report 30 June 2022 and ASIC’s Focus Areas for December 2022.</li> </ul> <p><i>Strategic impact</i></p> <p>Supporting audit practitioners in the performance of high-quality audit engagements.</p>
<p>Guidance for Public Sector Auditors</p>	<p>The AUASB has prioritised issuing guidance for public sector auditors in areas identified as presenting challenges in applying AUASB Standards in the public sector. The guidance has been developed in consultation with a dedicated AUASB Public Sector Audit Project Advisory Group comprising of assurance practitioners representing all State, Territory and Commonwealth Auditor-Generals’ Offices in Australia.</p> <p><i>GS 023 Special Considerations – Public Sector Engagements (GS 023)</i> was issued by the AUASB in December 2021 and is designed to be incrementally updated to include topic specific guidance material in response to issues identified. In June 2022 an updated version of <i>Guidance Statement GS 023</i> was issued with further material to support public sector auditors in applying <i>ASA 570 Going Concern</i> to public sector engagements. Further guidance on the role and responsibilities of public sector Engagement Leaders under <i>ASA 220</i> is expected to be issued in March 2023.</p> <p><i>Strategic impact</i></p> <p>Develop and maintain Australian specific Standards and/or Guidance for topics not specifically addressed by IAASB Standards where required and enhance the quality of public sector audits and assurance engagements.</p>
<p>AUASB Discussion Paper – Should KAMs be extended beyond listed entities?</p>	<p>At the time of issuing <i>ASA 701 Communicating Key Audit Matters in the Independent Auditor’s Report</i> the AUASB committed to reconsidering its scope as part of the post implementation review. The AUASB has now issued a <i>discussion paper</i> seeking feedback from stakeholders on whether the communication of KAMs should be expanded beyond listed entities in Australia. The AUASB is holding roundtables events in</p>

	<p>February and March to provide stakeholders an opportunity to provide feedback directly. Comments close 31 March 2023.</p> <p><i>Strategic impact</i></p> <p>To ensure our auditing standards meet the needs of Australian stakeholders.</p>
AUASB Consultation on Proposed ISA 500 <i>Audit Evidence</i>	<p>ISA 500 is an important foundation Auditing Standard and this consultation paper is seeking feedback on the IAASB’s proposed amendments. The AUASB is holding roundtables events in February and March 2023 to provide stakeholders an opportunity to provide feedback directly. Comments close 31 March 2023.</p> <p><i>Strategic impact</i></p> <p>To influence the IAASB to ensure our auditing standards meet the needs of Australian stakeholders.</p>
AUASB Consultation on Proposed ISA on Auditing Lower Complex Entities (LCEs)	<p>The IAASB issued proposed new stand-alone standard for Audits of LCEs in June 2021. Following extensive feedback from stakeholders the IAASB is proposing limited scope revisions to the LCE Standard to incorporate audits of group financial statements subject to qualitative criteria. Comments close 11 April 2023.</p> <p><i>Strategic impact</i></p> <p>To influence the IAASB to ensure our auditing standards meet the needs of Australian stakeholders.</p>
IAASB’s Proposed Strategy and Work Plan for 2024 - 27	<p>The AUASB have issued the IAASB’s Proposed Strategy and Work Plan for 2024 -27 Consultation Paper inviting feedback from Australian stakeholders. The AUASB will finalise its response to the IAASB at its meeting on 15 March 2023.</p>

<b>Medium / longer term technical priorities</b>	
AUASB Agenda Consultation	<p>The AUASB undertakes a formal Agenda Consultation process with stakeholders at least once every five years to obtain timely feedback on current and emerging auditing and assurance issues. The AUASB conducted this process during 2022 and in response to all feedback received from stakeholders released a feedback statement that documents the implications for AUASB’s future priorities and current Technical Work Program.</p> <p><i>Strategic impact</i></p> <p>To ensure the AUASB’s strategic objectives and work program meets stakeholders needs.</p>



**ITEM 5A**  
**10 MARCH 2023**

**XRB UPDATE**

**DESCRIPTION**

Report by Chair of the XRB

Areas of strategic interest to the FRC found at **Attachment A**

**ACTION**

- Michele Embling to provide verbal update.
- FRC to note the XRB report.





## ATTACHMENT A

### Areas of strategic interest to the FRC

#### 1. Climate Standards

The three Climate standards were issued on time in December 2022. Non-binding guidance will follow in 2023. The scope of the team's work has now broadened to sustainability reporting.

#### 2. Consultation on Assurance on GHG Emissions

The objective of this proposed standard is to enable all competent and independent assurance practitioners to provide consistent, high quality assurance over GHG disclosures.

This is a temporary and narrow-scope standard, which applies only to the current mandatory assurance engagement requirements of the Act.

The proposed standard is intended to bridge the gap, until we know more about the scope of assurance, clarification regarding licensing, and where the international standards being developed, land.

Assurance will be required on GHG Emissions for annual reporting periods ending on or after 27 October 2024. As the climate reporting regime develops we expect the scope of the assurance requirements to also widen.

#### 3. All Boards Review

We have received the draft report from the Consultants and are awaiting the final version.

As part of the review we will consider whether any changes are required to our existing organisational structure to issue Sustainability Standards in the future.

#### 4. ISSB meeting 16 February 2023 in Montreal

This was attended by the Chief Executive, Director of Sustainability Reporting and a staff member. 17 meetings and functions were also attended around this event.

These included a meeting with Joey Hungerford, the strategic advisor to the ISSB on issues affecting Indigenous Peoples.

I will add further comments about the international meeting in my verbal report.





**ITEM 5B**

**10 MARCH 2023**

## **IFRS FOUNDATION**

### **DESCRIPTION**

Report by former Trustee of the IFRS Foundation

### **ACTION**

- Joanna Perry to provide verbal update.



## INTERNATIONAL DEVELOPMENTS – FINANCIAL REPORTING

### DESCRIPTION

The Council will receive an update from Robert Buchanan and Kris Peach on the global system of standard-setting for auditing, assurance, and ethical standards. The update will address:

- The recent establishment of the International Foundation for Ethics and Auditing (IFEA), and the responsibilities of its two boards (the International Auditing and Assurance Standards Board (IAASB) and the International Ethical Standards Board for Accountants (IESBA), together described as the Standard Setting Boards (SSBs)).
- The work of the Public Interest Oversight Board (PIOB), in respect of its oversight of the work of the SSBs and the work of its SSBs Nominations Committee (SSBs NomCo).
- Priority areas of the SSBs, and issues that are “top of mind” for the PIOB in its oversight and nominations work.
- The existing funding arrangements for IFEA and the SSBs, and the steps now being taken to address the PIOB’s current funding needs.

Council members will find at **Attachment A** as pre-reading a presentation about the work of the PIOB, and a number of points for FRC consideration. Prepared at the Chair’s request, this **background paper** explains the current structures for global standard setting, including the existing and developing funding arrangements. This may facilitate the Council’s ensuing discussion of international funding.

### ACTION

For the FRC to note the background information, and discuss the appropriateness of the action points suggested in the accompanying PIOB presentation, particularly in relation to:

- SSB membership, through a pipeline of potential candidates for IAASB and IESBA, as well as the new Stakeholder Advisory Council.
- The FRC considering the benefit of government funding support for the assurance and ethics part of the financial reporting ecosystem, including the PIOB, in parallel with funding to the IFRS Foundation.



## BACKGROUND INFORMATION

### About the presenters:

- Robert Buchanan has been a member of the PIOB since 2020, and is the Chair Trustee of the Board of IFEA. He was until June 2022 the Chairperson of the New Zealand Auditing and Assurance Standards Board and a member of the AUASB.
- Kris Peach is a member of the PIOB's SSBs NomCo. She is a former Chairperson of the Australian Accounting Standards Board.

### The global standard-setting ecosystem

At its highest level, the financial reporting ecosystem has three dimensions: reporting; auditing and assurance; and ethics.

Reporting sits under the umbrella of the IFRS Foundation, which enables the work of the IASB and now the ISSB. That system has a three-tiered structure, with the standard setting boards overseen by the IFRS Trustees and an international body of regulators known as the Monitoring Board.

Auditing and assurance, and ethics, sit under an entirely separate, but similarly three-tiered structure, that is overseen by a different international body known as the Monitoring Group. The three tiers of the structure are:

- The Monitoring Group, which describes itself as group of international financial institutions and regulatory bodies committed to advancing the public interest in areas related to international audit-related standard-setting and audit quality.
- The PIOB, whose members are appointed by the Monitoring Group and which ensures a public interest focus in the setting of international auditing and assurance standards, and ethical standards for the accountancy and audit profession.
- The SSBs, which are responsible for, respectively, the making of auditing and assurance standards and the Code of Ethics for the accounting profession.

This paper deals only with the latter, i.e., the assurance and ethics, dimensions of the global ecosystem. For a diagrammatic illustration of the three-tiered structure, see slide 5 of the accompanying PIOB presentation.

### The Monitoring Group's 2020 reforms

The two SSBs were originally established by the International Federation of Accountants (IFAC), which was also until recently responsible for appointing their members and providing their funding.



The IOB was established by the global regulatory community in 2006 to provide independent, public interest oversight over the work of the SSBs. This was in response, in part, to financial regulators' concerns about the self-interest involved in the accounting and auditing profession being responsible for setting its own auditing, assurance, and ethical standards which were, in many countries, subject to regulatory oversight.

Those concerns persisted and, in 2020, the Monitoring Group issued a set of recommendations for a comprehensive reform. Among other objectives, the structural objective was to achieve:

A permanent structure that commits explicitly to pursuing the public interest through: i) independence of the Boards in making decisions concerning the standards, ii) balanced, diverse and global participation of stakeholder groups while preventing undue and dominant influences; iii) stable funding, adequate resources, and appropriately skilled and experienced staff; iv) mechanisms to ensure adherence to sound governance and operating procedures; v) meaningful accountability; and vi) appropriately diverse expertise in board members.

This was to be achieved by:

- Removing the SSBs from the IFAC umbrella and housing them in an independent foundation to be controlled by the IOB (resulting in the establishment of IFEA).
- Moving the responsibility for nominations and the appointment of SSB members from IFAC to the IOB (resulting in the establishment, in 2021, of the SSBs NomCo), with the objective of broadening the range of stakeholder interests in the boards' membership and reducing the influence of the auditing profession.
- Improving the transparency of the standard-setting process, including through the use of a new Public Interest Framework.
- Strengthening the IOB's oversight work, including through greater interaction with the SSBs in the process of standards development and opening up its activities.
- Developing over time an appropriate, long-term, sustainable funding policy for both the IOB and the SSBs.

### **The establishment of IFEA**

The new Foundation to house the SSBs independently of IFAC was established in October 2022. It became fully operational from 1 January this year. The Foundation is a not-for-profit entity incorporated in the United States, with the intention that it will have charitable status.

The Foundation has three member organisations: the Monitoring Group, the IOB, and IFAC. The three members jointly appoint a Board of Trustees, of which four members are nominated by the IOB and three by IFAC (with the Monitoring Group also appointing an observer). The Foundation's Chair is then elected by the Trustees, but must be one of the IOB nominees.



The Foundation's primary purpose is to house and operate the two SSBs. There are two Co-Chief Executive Officers of the Foundation, who are the Chairs of the two SSBs. The Board of Trustees has standard governance oversight of the Foundation's activities. However, the PIOB retains public interest oversight of the SSBs' strategic and work planning as well as their standard setting activities.

IFAC is continuing to provide office facilities and administrative support for the SSBs, under a service level agreement established with the Foundation. However, the SSBs' staff are now employees of the Foundation. Ensuring a smooth transition has been a major priority of all concerned in recent months.

### **The new nominations process**

The PIOB established the SSBs NomCo in 2021, after a global search for members with geographical and gender diversity as well as diversity in skill-sets. Of the 9 members of the Committee, only 3 are audit practitioners.

The Committee's mandate in recommending appointments of IAASB and IESBA members is to be guided by the principle that the primary criterion for the selection of nominees is the most suitable person for the available position, taking into consideration the need to balance the collective skills of the SSBs, and to secure a composition that is diverse and made up of multi-stakeholders. Diversity encompasses geographic, and varied skills and mind sets, and achieves a gender balance.

This involves a rigorous selection process, and establishment of key stakeholder contacts for identifying suitable candidates. Applications are assessed against a comprehensive skills matrix which is reviewed each year, and the SSBs NomCo is working to achieve the required reduction of the number of auditor/public practitioner members on each SSB to 5. For reappointments of existing members, the peer review process on SSB member performance is also being revamped to obtain more effective feedback.

The Committee issued its first call for expressions of interest in 2022, and the first round of appointments (and reappointments of eligible sitting members) took effect at the start of this year. Expressions of interest for appointment in 2024 closed on 17 February.

### *Australian SSB membership*

Australia currently has strong representation on both the IAASB and the IESBA, and is seen as a significant global contributor despite its relatively small economy. The IAASB also has one member from New Zealand.

Maintaining this level of influence requires a pipeline of strong potential candidates for both boards, as well as appropriate funding contributions.

### *Stakeholder input to global standard setting*



The Monitoring Group reforms also involve the disestablishment of the Consultative Advisory Groups (known as CAGs) which have for many years assisted the work of the SSBs. The CAGs are to be replaced by a single advisory body, to be known as the Stakeholder Advisory Council, from 2024.

The SSBs NomCo will be issuing a call for nominations to the new Council in coming months. The Council is expected to have up to 30 members, who will be drawn from a range of stakeholder groups (including investors, regulators, and national standard setters) with geographical diversity.

The Australian and New Zealand national standard-setters (AUASB, APESB, and the XRB/NZAuASB) are active contributors to global standard-setting, through the due process systems and the SSBs' national standard setters forums. Both ASIC and the Financial Markets Authority in New Zealand are active through IOSCO and IFIAR. The FRC might consider whether the establishment of the new Council provides an opportunity for that influence to be extended, and if so whether a similar pipeline of candidates would be helpful.

### **The Public Interest Framework, and the PIOB's oversight activities**

The Public Interest Framework was issued as an appendix to the 2020 report. It was designed to set out how the development and oversight of international audit-related standards are responsive to the public interest – including that:

the standards appropriately address all stakeholder needs and that no undue influence is exercised by any stakeholder.

The SSBs and the PIOB are progressively implementing the Framework in the course of individual projects and in the development of the SSBs' strategic work plans. The Framework is proving useful in shaping the direction of projects. It is currently being piloted in the IAASB's limited revision of the auditing standard on fraud, and in the IESBA's expansion of the responsibilities of professional accountants in relation to tax planning.

Historically, the PIOB's oversight activities have centred on the observation of SSB board meetings and the provision of a certification of each new or amended standard. The PIOB also meets regularly with the SSB Chairs, and reviews the SSBs' strategic work plans and budgets. Those core activities continue, but the PIOB is now moving to a much greater level of transparency in this work. This includes the regular publication of public interest summaries in relation to individual SSB projects (see, for example, <https://ipiob.org/wp-content/uploads/2023/01/IAASB-December-2022.pdf>); the publication of observation reports following each SSB meeting; and opening its own meetings (including the regular discussions with the SSB Chairs) to the public.

### **Development of a sustainable funding policy**

Funding of the auditing, assurance, and ethical standard-setting system has been, and will continue to be, a significant challenge in the implementation of the Monitoring Group





reforms. There has never been a single, coherent, structure for the funding of these dimensions of the global ecosystem, unlike the IFRS Foundation which funds the setting of reporting standards.

But in principle all the dimensions of the overall ecosystem should be equally deserving of funding support from those (such as national standard setters and regulators) who receive globally-developed standards and implement them at national level, as well as those (such as investors) who benefit from the enhanced confidence brought about by their existence.

As already noted, the Monitoring Group's 2020 report set the goal of "an appropriate, long-term, sustainable funding policy" for both the PIOB and the SSBs. The report went on to say:

The Monitoring Group acknowledges that achieving the aforementioned funding goals will require time and in the short and medium term recommends to enhance the diversification of funding for the activities of the PIOB, with a goal that contributions from the accountancy profession will become less than fifty percent of the total budget of those activities. The accountancy profession funding should further diminish over the longer term. In order to achieve this goal, the Monitoring Group will perform outreach with stakeholder groups to seek commitments on funding for the PIOB. The Monitoring Group anticipates such outreach to include the regulatory and investor community, including Monitoring Group member organizations. Additionally, the Monitoring Group will aspire to achieve its funding goals for the PIOB by two years after the publication of these recommendations.

While IFAC continues to fund standard-setting activities and part of PIOB activities, in order to mitigate risk of undue economic influence, there will be separation between the source of funding and the management of the funds, including their allocation to oversight and standard-setting activities (PIOB and the standard-setting Boards' structure).

At this point of the implementation of the Monitoring Group reforms, the funding arrangements for the SSBs (through IFEA) and the PIOB remain segmented. The following background information may help in explaining why, and what the new sustainable funding policy needs to achieve for both organisations. Information is included about how Australia and New Zealand currently support the system. The intention is to enable the FRC to discuss how any new funding contributions by the Australian government might be considered.

#### *SSB funding – previous arrangements*

As explained, the SSBs were until last year boards of IFAC, which is a professional (i.e., not government) membership body. Consequently, the SSBs and the nominations process were wholly funded by IFAC, using funds sourced through membership contributions and specific funding arrangements with parts of the profession (in particular, the Global Public Policy Committee of the six major global accounting firms (GPPC)).

The Australian and New Zealand professions contributed indirectly in this way.

SSB members were not directly remunerated under this system, but:



- those who were practitioners (for example, Fiona Campbell of EY Australia until recently) were customarily supported through their firms; and
- many (but not all) “public interest” members were financially supported by a national or employing organisation (as was, and continues to be, the case for Bill Edge and Channa Wijesinghe and the New Zealand-based member of the IAASB).

But because the SSBs were boards of the profession, there was no direct Australian government funding. This is in contrast with the position for accounting standards, for which the Australian government (and the XRB in New Zealand) have made significant contributions to the IFRS Foundation.

#### *SSB funding – new arrangements through IFEA*

Pending the establishment of IFEA last year, IFAC and the Monitoring Group took responsibility for negotiating with the GPPC a new set of funding arrangements for the work of the SSBs. The negotiations were largely successful, and have resulted in a significant multi-year funding agreement between the GPPC and the new Foundation.

The profession (including in Australia and New Zealand) will, therefore, continue to provide the bulk of the SSBs’ funding, but through IFEA as an independent foundation rather than through IFAC as a professional membership body.

#### *The move to remunerated SSB members*

The Monitoring Group’s reforms envisage that the SSBs will move away from the current system of unremunerated members (except where other funding sources are available, as above), with their own technical advisors, to members being remunerated and having their own technical staff (as the IASB and ISSB do, for example).

This is a crucial element of the PIOB’s strategy (through the SSBs NomCo) to diversify the membership of the SSBs, including by appointing members from less-developed nations who do not have access to independent financial support.

Where financial support is available from other sources (such as for the Australian and New Zealand members, as noted earlier), those arrangements are expected to continue. However, while the new funding agreement with the GPPC will enable IFEA to engage more technical staff, it may not enable direct remuneration of unsupported SSB members.

Consequently, the IFEA Trustees are likely to explore other, more diversified, funding opportunities once the new Foundation has been brought fully into operation.

#### *PIOB funding – a work in progress with some urgent needs*

For the reasons explained, the PIOB has had, and will continue to need, its own funding arrangements which are independent of those for the SSBs.





The PIOB has historically received the majority (currently 57 per cent) of its funding from the accountancy profession through IFAC. It also receives annual contributions from the European Commission, IOSCO, IFIAR, and other Monitoring Group members, together with contributions from some national regulators (for example, the Financial Reporting Council of the United Kingdom (UKFRC)). A funding breakdown is available from the PIOB's 2021 Public Report (see [https://ipiob.org/wp-content/uploads/2022/07/17th\\_PublicReport-\\_PIOB.pdf](https://ipiob.org/wp-content/uploads/2022/07/17th_PublicReport-_PIOB.pdf), at page 89).

These funding sources are now insufficient, both because of the significant additional cost of the PIOB's expanded responsibilities under the Monitoring Group reforms (in particular, the new nominations process) and because of steps taken by IFAC in line with the 2020 report to remove its historical funding guarantee of the PIOB and progressively reduce the amount of its annual contribution (see the quote above).

The Monitoring Group's approach of reducing the profession's contributions is appropriate, as it is arguably not in the public interest for an oversight body to be substantially funded by the relevant profession. But progress in developing a new, sustainable set of funding arrangements, including replacing the IFAC contributions, has been slower than envisaged.

The Monitoring Group and the PIOB are, however, now working jointly and urgently to address the need for further diversification. It is important that both the FRC and the Australian government can be made aware of this, because of the Monitoring Group's emphasis on increasing the range of contributions from national regulators and standard setters, as well as investor groups. A media release by the Monitoring Group in December 2022 renewed the "call to all stakeholders in the financial reporting ecosystem who benefit from a single set of high-quality international ethics, independence, audit and assurance standards to support the stability of the standard-setting system through financial contributions".

Progress has been made with a number of national bodies to recognise the particular contribution that the PIOB makes to enhancing confidence in the capital markets through its public interest work. For example, the Securities and Exchange Commission in the United States has pledged a substantial annual contribution, with other contributions confirmed from financial regulators in France, Spain and Belgium (in addition to the existing contributions from the UKFRC and others).

Australia currently does not contribute funding directly to the PIOB (although contributions are made indirectly, for example to the funding provided by IOSCO and IFIAR, of which ASIC is a member). The public interest nature of the PIOB's responsibilities within the ecosystem, and the enhancement of those responsibilities as explained earlier, suggest that the PIOB would be an appropriate target for any direct government contribution similar to that made to the IFRS Foundation.

The Monitoring Group and the PIOB would welcome consideration of this, following discussion by the FRC.

# Financial Reporting Council

10 March 2023

Robert Buchanan

Kris Peach

# Talking Points

- The Helicopter View
- PIOB: Our Impact
- Some Specifics
- Looking Ahead / Top of Mind
- Possible FRC actions

THE HELICOPTER VIEW...  
**WHAT WE DO AND WHY**

# Context: the global financial reporting ecosystem

- **Reporting**

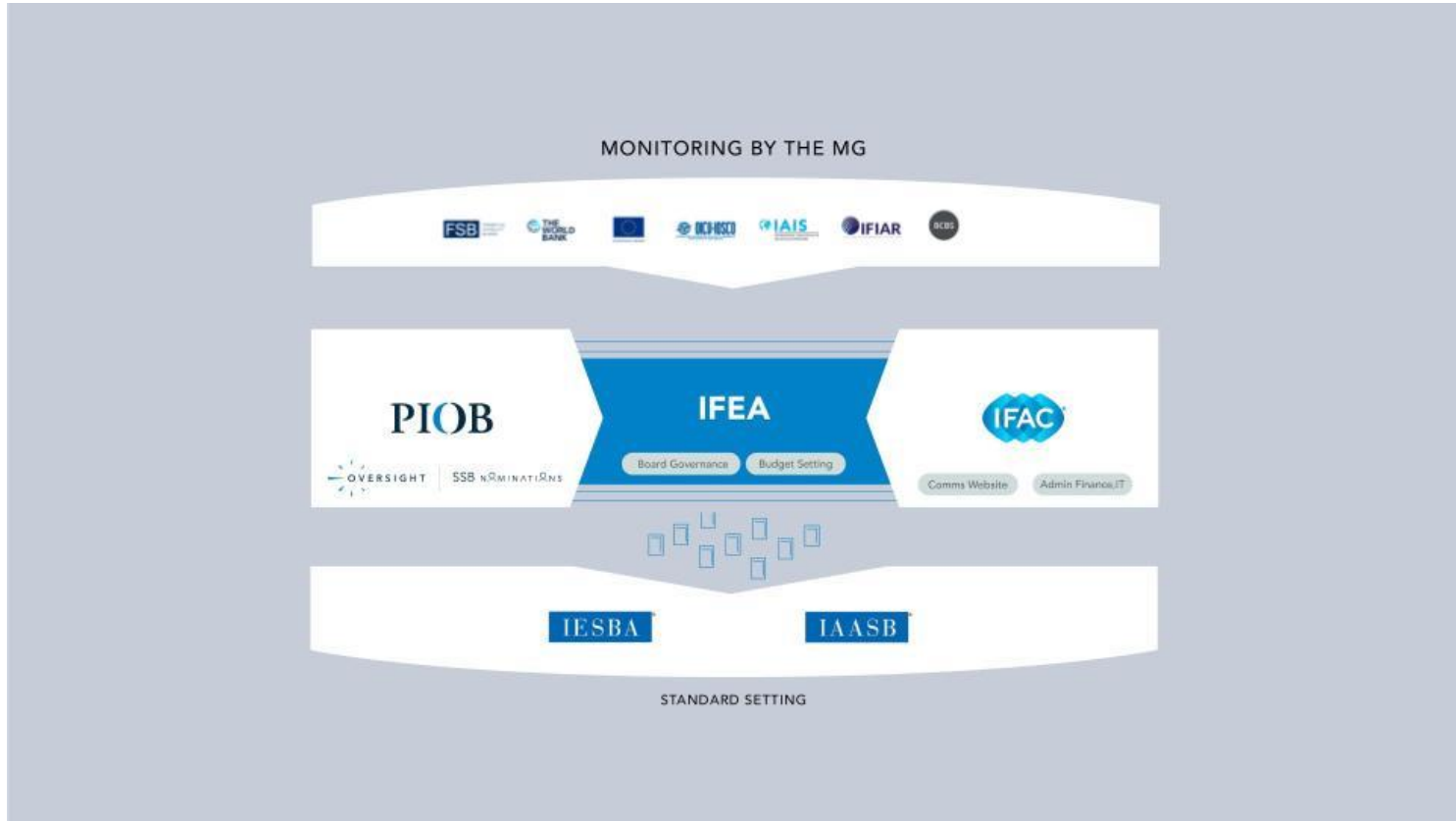
- IFRS Trustees
- Monitoring Board
- IASB, ISSB

- **Assurance and ethics**

- Monitoring Group
- PIOB (public interest oversight of standard-setting)
- IAASB (auditing and assurance standards) and IESBA (ethical standards)

-

# Assurance and Ethics Ecosystem: The three-tier structure





# PIOB: Our purpose is

**To enhance confidence in capital markets by ensuring Public Interest focus in the setting of international auditing and assurance standards, and in the setting of ethics standards for the accountancy and audit profession.**



# ULTIMATE GOAL

To ensure relevant audit, assurance, and ethical standards  
that are responsive to the Public Interest





## **MULTI-STAKEHOLDER STANDARD-SETTING BOARDS (SSBs)**

with sufficient technical skills and diverse perspectives and experience.



## **INDEPENDENT OVERSIGHT**

of the SSB strategies, work plans, and projects to ensure:

- Public Interest responsiveness
- Due process has been followed



## **SUSTAINABLE FUNDING**

for both SSB structures and the PIOB from diverse sources to ensure independence and absence of undue influence by the providers of funds on the work of the PIOB and the SSBs.

# KEY TOOLS TO ACHIEVE OUR GOAL

- Nominations process
- Approval process for SSB candidates

- Stakeholder engagement for a deeper understanding of public interest needs
- A multi-skilled PIOB with diverse experience and perspectives for oversight
- Ongoing engagement with SSB chairs to ensure common goals and objectives, and a common view on the public interest

- Transparency and knowledge of the work done by the PIOB and the SSBs
- Clarity of value added through PIOB oversight

# Our Activities\*

- **Oversight over standards, strategies and work plans**
  - Public interest responsiveness in terms of Public Interest Framework (PIF) and due process
  - Approve standards, strategies and work plans
  - Provide public certification on the approval of new or revised standards
- **Appointments for membership of IAASB and IESBA**
  - Appointing SSBs' members and chairs at the recommendation of the SSBs NomCo
  - Maintain a written policy on conduct that governs potential conflicts of interest of the members and staff of the SSBs
- **Assessment**
  - SSBs Chairs
  - Effectiveness of the SSBs against the delivery of the Strategy and Work Plan

\*Note the similarities to the FRC's role in Australia

# OUR **IMPACT**



# PIOB's Impact through the Nominations process

- Credible boards with multi-stakeholder board members, skills matrix identified each year
- Rigorous selection process, including a peer review process for reappointment of sitting members
- Progressively reducing numbers of public practitioners on both boards (includes those who have left firms, for 4 yr transition down to 5 on each)
- Geographic spread, gender diversity
- Mix of large, medium, small accounting/audit firms

# PIOB's Impact at a Project/Standards Level

- Reinforcing the SSBs' confidence in pursuit of critical Public Interest initiatives – for example, by expressing unwavering support for SSBs' decisions to take leadership roles in **Sustainability** and the ethical considerations in **Tax Planning**
- Challenging prioritizations – for example, in relation to the timing of work on **Going Concern** notwithstanding other projects competing for resources
- Challenging whether proposals go far enough to address underlying Public Interest concerns – for example, by stimulating further consideration of the adequacy of the level of specificity in requirements for **Group Audits** in relation to communication, supervision, documentation, and independence

# PIOB's Impact at a Project/Standards Level

- Prompting reflection on the weight to be given to certain stakeholder views, further highlighting their merits, and stimulating innovative solutions – for example, by encouraging further research and consideration of the treatment of collective investment vehicles and pension funds in the regime constructed for the new **definition of Public Interest Entities (PIEs)**
- Reiterating thematic Public Interest objectives as the SSBs bring forward proposals – for example, in relation to robust transparency when the SSBs are considering disclosures in relation to determination of an entity as a **PIE** and in relation to **Fraud** and **Going Concern**
- Bringing new Public Interest dimensions to light for SSB consideration – for example, in relation to the level of importance attaching to **Fraud** in relation to material misstatements

# Looking Ahead – Top of Mind for the PIOB

## Public interest oversight

- A single set of global assurance standards for **Sustainability** reports (for use by assurance providers beyond auditors) – “public interest” definition critically important here
- Ensuring that all preparers, experts and auditors involved in **Sustainability** reporting and assurance are held to the same high level of skills, ethics (including independence requirements), and quality management
- Enhancing the auditor’s role, work effort and reporting in respect of **Fraud** and **Going Concern**
- Completing the global standard on the audit of **less complex entities** in a way that meets demand for the standard but avoids diluting the credibility of complex and regulated audits

## Nominations

- Working towards achieving an enhanced **multi-stakeholder IAASB and IESBA** and reducing the practitioner members to a maximum of five
- Establishing the new **Stakeholder Advisory Council** (from 2024, with multi-stakeholder membership)

## Funding and effectiveness

- Ensuring we have sufficient **funding and human capital** to execute our oversight mandate faithfully and effectively – this requires diversification beyond existing sources (especially into enhanced funding from national regulators, investor groups, etc)

# Possible FRC action points

## **Public interest considerations in global standard-setting**

- Monitoring and feedback (including from AUASB and APESB) on the IOB's identification of public interest issues, and their impact on the international boards' strategies, workplans, and specific projects
- Regular IOB updates to FRC (with thanks for this invitation)

## **Nominations**

- Feedback on quality attributes for board members
- A pipeline of standard-setting board candidates, to help ensure Australian membership of both boards over time (recognising the new criteria and process for appointment) and the new Stakeholder Advisory Council

## **Funding and effectiveness**

- Consideration of direct IOB funding (as other national regulators are now doing), in addition to existing indirect contributions to the system such as through the profession and IOSCO/IFIAR
- Encouraging an ecosystem-wide approach to financial and non-financial reporting globally (i.e. including reporting, assurance, and ethics)



# PIOB

Enhancing Public Interest



[linkedin.com/company/piob](https://www.linkedin.com/company/piob)

[ipiob.org](https://www.ipiob.org)



## FUNDING INTERNATIONAL BODIES

### ACTION

- Consider whether to recommend the Australian Government extend its grant agreement with the IFRS Foundation dated 11 December 2020 (as varied with effect from 1 August 2022):
  - to increase the value of the grant by \$1 million (GST exclusive), bringing the total of the grant to \$5 million (GST exclusive), to be paid in 2023 – 24; and
  - extend the term of the grant agreement for a further year to end on 31 July 2024.
- Discuss alternative funding arrangements between Australia and the international standard setting bodies.

### BACKGROUND

#### International Financial Reporting Standards (IFRS) Foundation Grant Agreement

The Australian Government's grant agreement with the IFRS Foundation is due to expire on 31 July 2023. The Commonwealth has the discretion to exercise a final option to extend the grant agreement for a further financial year.

In line with previous practice, the FRC will consider whether to recommend the Australian Government extend the grant agreement to provide a further \$1 million contribution to the IFRS Foundation in 2023-24. Further information on the IFRS Foundation and the Government's grant agreement with the IFRS Foundation is **attached**. Further information can also be found in the IFRS Foundation's [2021 Annual Report](#).

If Australia stopped making contributions to the IFRS Foundation, it may undermine efforts to promote global accounting standards, and increase the amount the AASB is charged by the IFRS Foundation for the copyright to issue standards in Australia.

The contribution supports the IFRS Foundation to assist it in the development and promotion of the international financial reporting standards. It also signals Australia's commitment to the IFRS Foundation and the global harmonisation of accounting standards.

#### Alternative Funding Arrangements

Should the Government decide to exercise the final option to extend the current agreement, the agreement will terminate in its entirety on 31 July 2024. It is recommended that the FRC

continue its discussion about possible funding arrangements between the Australian Government and the international standard setting bodies (including the IFRS Foundation, International Accounting Standards Board, International Auditing and Assurance Standards Board and the International Sustainability Standards Board). FRC agreement on a funding model by the July 2023 meeting would provide sufficient time to make a recommendation to the Government so any potential new funding arrangement (if agreed) can be implemented in a timely manner.

Previous FRC action and discussions on this matter:

- June 2022 meeting:
  - The FRC discussed the possibility of funding other international standard setting boards.
  - The FRC subsequently agreed to review the IFRS Foundation grant agreement in light of other international standard setting bodies which do not receive a Commonwealth contribution.
- 8 September 2022 meeting:
  - The FRC considered papers drafted by Anne Waters and Bill Edge outlining the current structure and funding arrangements of the international standard setting bodies.
  - As part of this discussion, the FRC considered whether Australia should engage in a broader holistic funding model, and therefore, whether to recommend an alternative funding arrangement between Australia and the international standard setting bodies.
- 19 January 2023:
  - The FRC Chair wrote the Treasurer encouraging him to consider providing additional resources to international bodies related to the work on climate reporting.

## ABOUT THE IFRS FOUNDATION

The IFRS Foundation is a not-for-profit organisation which seeks to develop internationally recognised financial reporting standards. It has established the International Accounting Standards Board (IASB) and International Sustainability Standards Board to independently develop accounting and sustainability disclosure standards respectively.

The IFRS Foundation's income include voluntary contributions and revenues from the sale of publications and related activities. In 2021, the IFRS Foundation reported contributions of £17.3 million, comprising 60 per cent of its overall income, including from Australia, Canada, the European Commission, New Zealand, China, the United Kingdom and the United States. International accounting firms also contributed to the IFRS Foundation in 2021. Australia's funding relative to other countries (including from private enterprises) is set out below.

### Australia's IFRS Foundation funding relative to other countries

Country	Cumulative amount raised (including contributions from private enterprise)
European Union	£3,823,589
People's Republic of China	£2,119,474
Japan	£1,864,681
United Kingdom	£1,546,000
France	£835,554
Italy	£629,656
Germany	£617,121
Australia	£561,300
Canada	£535,633
Republic of Korea	£464,370
Russia	£427,000
Netherlands	£378,591
United States of America	£376,130
Saudi Arabia	£145,324
Norway	£83,381
Brazil	£83,000
Switzerland	£82,593
Thailand	£81,251
New Zealand	£76,133
Singapore	£70,000
Indonesia	£68,000
Malaysia	£65,000
Chinese Taipei	£62,000
Hong Kong	£54,210
Portugal	£18,831
International	£17,591
Israel	£17,000
South Africa	£7,350
Kazakhstan	£7,296

Source: IFRS Foundation Annual Report 2021 (Appendices – Funding providers)

## **IFRS FOUNDATION GRANT AGREEMENT**

The Australian Government makes an annual contribution to the IFRS Foundation of \$1 million on behalf of the FRC. The IFRS Foundation is invited to apply for a grant on an annual basis. The grant is provided as part of the Support for Markets and Business Program.

Australia's contribution to the IFRS Foundation in 2021 was delivered through a grant agreement dated 11 December 2020 for a total grant amount of \$2 million (GST exclusive). The grant agreement was initially due to terminate on 31 July 2021 but included options to extend for three future financial years. Grants for future years are to be awarded based on the recommendation of the FRC and considered decision of the relevant Treasury delegate.

The FRC recommended the Australian Government make an annual contribution of \$1 million to the IFRS Foundation on 3 June 2021 and 2 June 2022.

The Commonwealth and the IFRS Foundation subsequently agreed to vary the grant agreement, such that the term of the grant was extended for a further 12 months to 31 July 2022, and subsequently to 31 July 2023. The value of the grant was also increased by \$2 million (GST exclusive) to a revised total of \$5 million (GST) exclusive.

The grant agreement may now be extended for one more financial year. If this option to extend is exercised, the grant agreement will terminate 31 July 2024.



## INTERNATIONAL DEVELOPMENTS

### DESCRIPTION

**Attachment A** provides a summary of key recent media releases by international financial reporting bodies and other stakeholders.

**Attachment B** provided by the XRB, is a detailed update on developments in the financial and climate reporting landscape (for internal viewing only).

Michael Bray to provide a verbal update and presentation.

### ACTION

- For noting.

## ATTACHMENT A

### RECENT MEDIA RELEASES

#### International Financial Reporting Standards (IFRS) Foundation

- The IFRS Foundation has [appointed five new Trustees and reappointed one Trustee](#), whose three-year terms will begin 1 January 2023; it has also [appointed three new members](#) to the Global Preparers Forum.

#### International Sustainability Standards Board

- The ISSB [announced](#) the membership of its Sustainability Standards Advisory Forum.
- The ISSB has set out [guidance and reliefs](#) to support Scope 4 GHG emissions disclosure requirements in IFRS S2 – *Climate related Disclosures Standard*.

#### International Accounting Standards Board (IASB)

- The IASB has proposed [amendments to IAS 12 Income Taxes](#), which aim to provide temporary relief from accounting for deferred taxes arising from the implementation of the OECD's Pillar Two model rules.
- [IFRS 17 Insurance Contracts](#), will apply to companies with annual reporting periods beginning on or after 1 January 2023.
- The IASB [reports](#) that stakeholder feedback and research undertaken as part of the Post-Implementation Review of the classification and measurement requirements in IFRS 9 Financial Instruments show that they are 'working as intended and provide useful information to the users of financial statements'.

#### International Auditing and Assurance Standards Board (IAASB)

- The IAASB has published a [new edition of the Handbook on International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements](#).

#### Australian Securities & Investments Commission (ASIC)

[ASIC prosecuted fifteen companies](#) between 1 July 2022 and 31 December 2022 for failing to comply with their obligations to lodge financial reports with ASIC, obtaining over \$115,000 in financial penalties.



## **ATTACHMENT B**

**To be attached outside of the meeting papers pack as it has been requested that the documents are Board-only private papers, and not for circulation.**





## FINANCIAL REPORTING INDICATORS

### DESCRIPTION

At its 27 October 2022 meeting, the FRC discussed the difficulty in measuring the objectives of the financial reporting system, for example, investor confidence and the weighted average cost of capital (WACC). It was proposed that the FRC could track such data as a periodic item on its meeting agenda.

It was agreed upon by the FRC to further discuss utilising indicators or measures of confidence in the market relative to other markets.

The Treasury investigated internal data in the Financial Markets Unit and areas in the Financial System Division however there was limited information/material that was useful for the work. Possible relevant information can be found at **Attachment A**.

Cameron McDonald's E&P economics team gathered information directly relevant to Australia's WACC as well as Australia's share of global capital markets and how that figure has changed overtime. This information can be found at **Attachment B**.

### ACTION

- The FRC to analyse and discuss the data.

### Additional Information

- Capital market data by country is available on the RBA website [here](#) which is a cross section on market capitalisation.
- An article by the RBA found [here](#) describes how Australian markets for private securities weathered the impact of the COVID-19 shock.

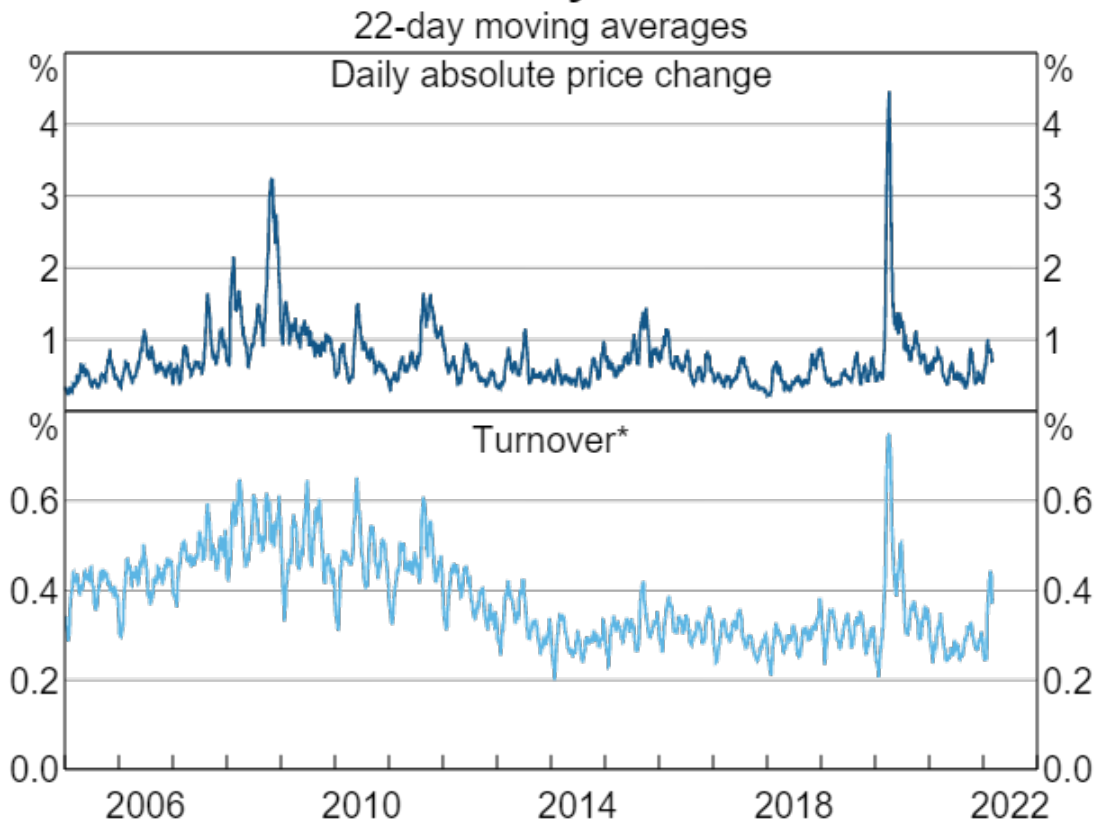
**DATA OF AUSTRALIA’S CAPITAL MARKET FROM TREASURY RESOURCES**

**Graph 1:**

ASX 200 Volatility and Turnover chart

- Turnover series is sourced from Refinitiv Datastream. Relevant series codes are ASX200I(VA) for turnover value and ASX200I(MV) for market capitalisation.
- Volatility of the ASX 200 is measured with daily absolute price changes. We see big spike around GFC and the pandemic. Appears to be a tail of stability beginning to form post pandemic.
- Turnover of the ASX 200 is measured by % of market capitalisation (total shares x present share price). Turnover is a measure of stock liquidity, calculated by total shares during some period divided by average shares outstanding for that period. The higher the share turnover, the more liquid company shares are. Slight upward trend prior to GFC and then small downward trend stabilising in the mid 2010s.
- We need to be quite cautious about speculating on causation.

**ASX 200 Volatility and Turnover**

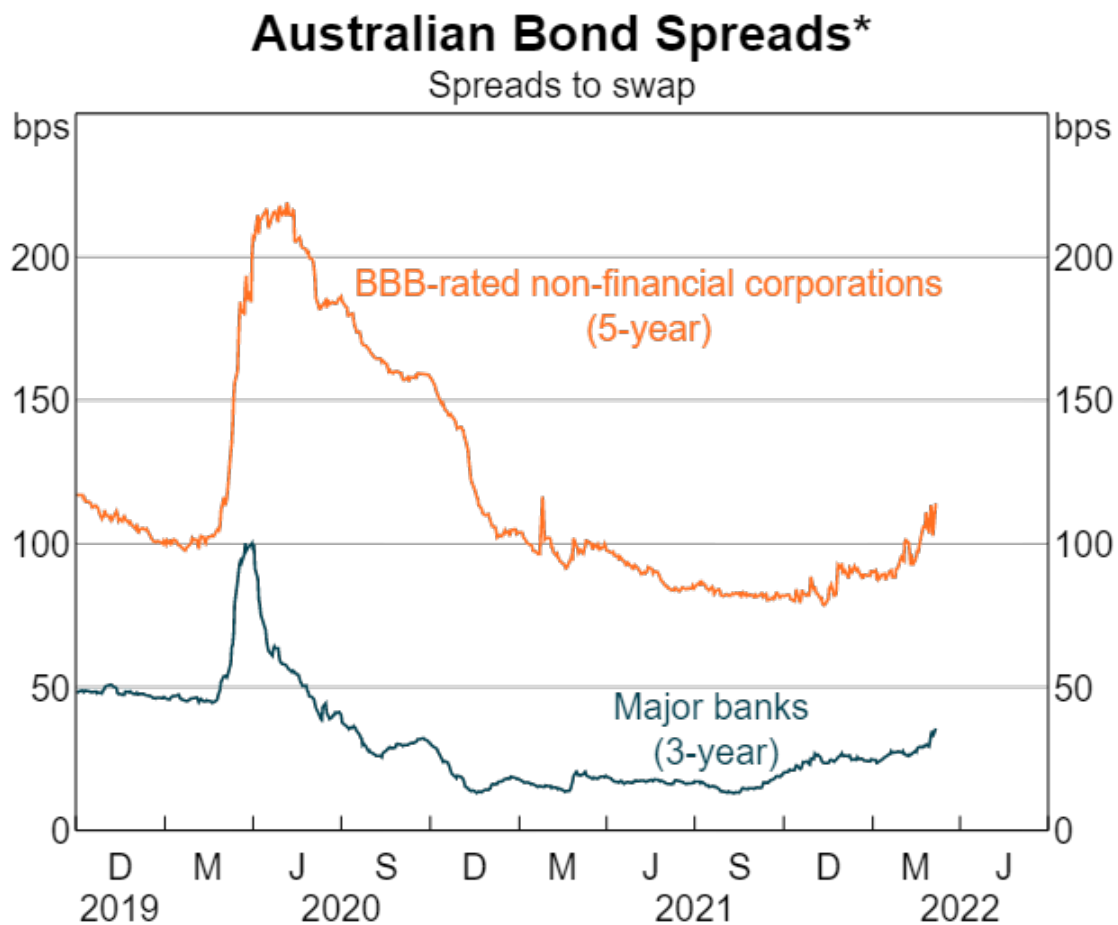


\* Per cent of market capitalisation.

Sources: Bloomberg; RBA; Refinitiv

## Graph 2:

- The bank bond series is internally calculated from the RBA's bond database, using the bond prices of the individual outstanding bonds
- The RBA publishes a non-financial corporate bond series in their F3 statistical table
- BBB-rated non-financial corporations: BBB rated or better are considered investment grade.
  - o Bond spread refers to the difference in the yield between two different bonds. The difference is measured in basis points.
- In this graph, it seems as if the comparison is between bonds issued by a non-bank corporate entity and the major banks.
- The gap widened at the onset of the pandemic, but they generally follow a similar trend line.



\* Bank bond spreads are for domestic major bank bonds; spreads for non-financial corporations are not option adjusted.

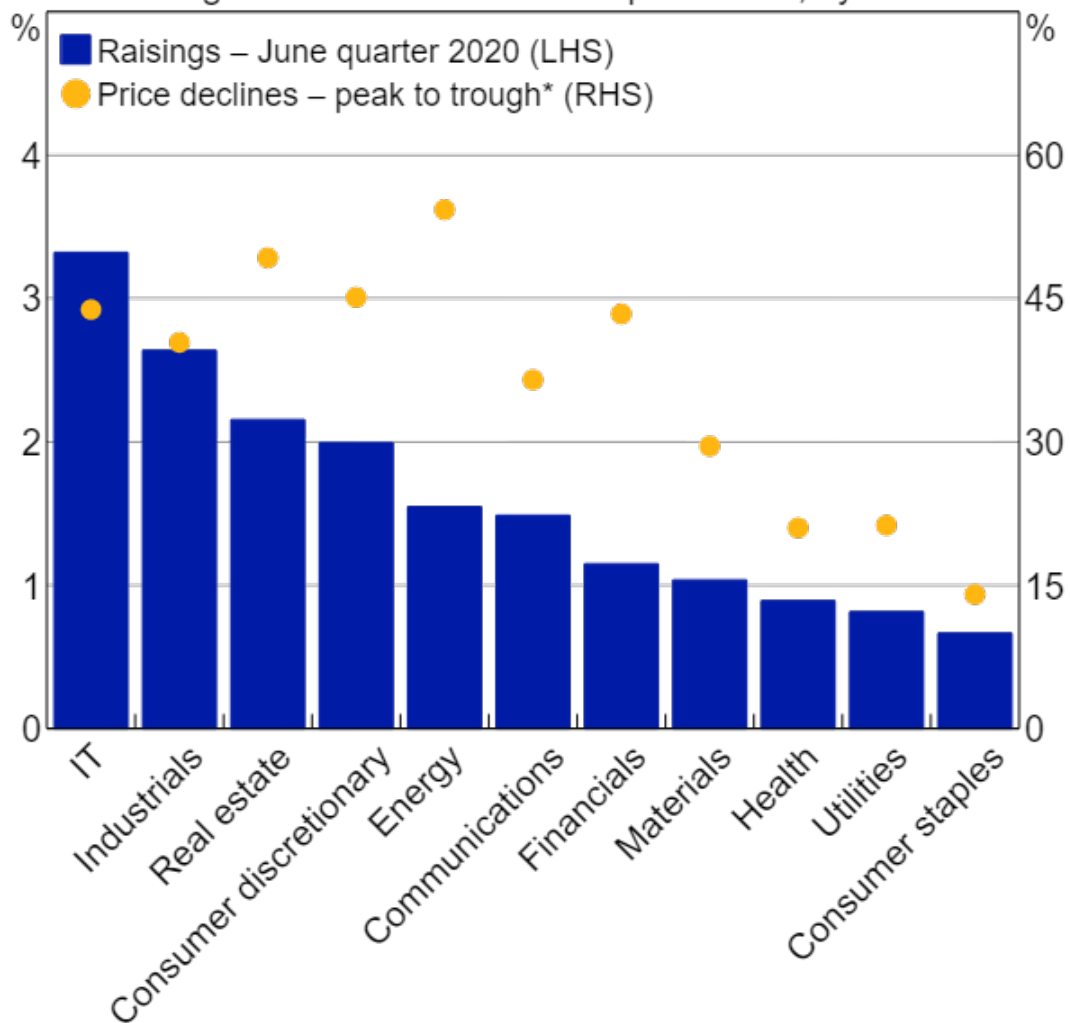
Sources: Bloomberg; RBA

**Graph 3:**

- Equity raisings come from ASX
- Price declines is searchable on Bloomberg (if you start typing 'ASX 200' along with the sector name it should come up)
- The split is made by industry/sector
- Capital raisings (LHS) are as a share of market capitalisation (total shares x share price)
- Sector price declines are not measured as a daily figure but comparing a February to March figure in response likely to the onset of the pandemic.

## Capital Raisings and Price Declines

Raisings as a share of market capitalisation; by sector



\* Change in price from 20 February 2020 to 23 March 2020.

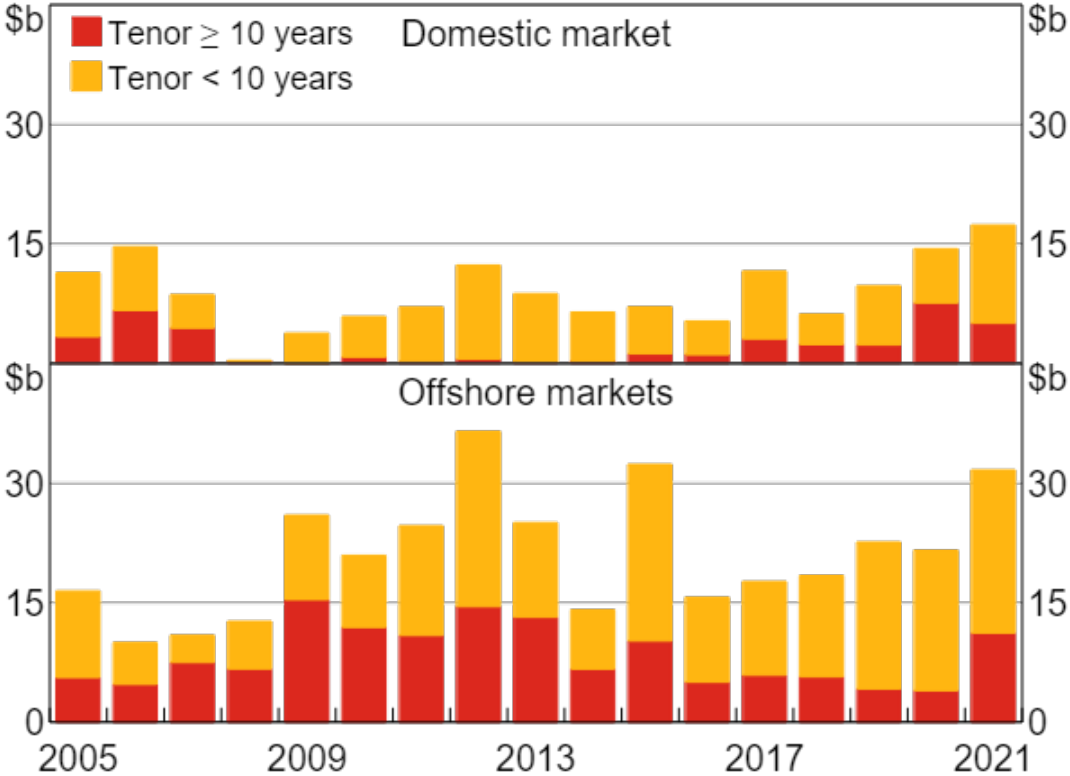
Sources: ASX; Bloomberg; RBA

**Graph 4:**

- The corporate bond issuance numbers are internally calculated from the RBA’s bond database
- Dollar value equivalent of bond issuance over the rough 15 year period. Domestic issuance for greater than 10 year bonds fell and stayed low after GFC. Less than 10 year bonds were more stable.
- Issuance higher overall for offshore markets

**Non-financial Corporate Bond Issuance**

Gross issuance; Australian dollar equivalent



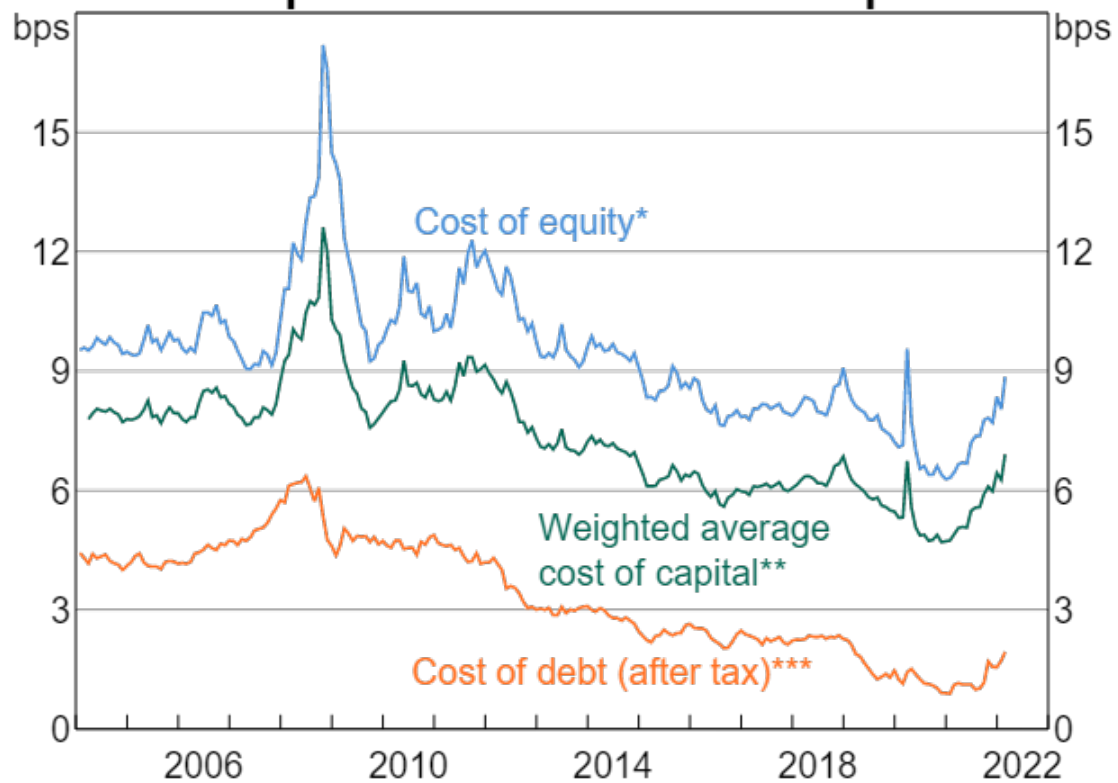
Sources: Bloomberg; Private Placement Monitor; RBA

## Graph 5:

### Cost of Capital – Non-Financial Corporations chart

- Cost of equity series is constructed using the earnings yield, sourced from Bloomberg series code AS51(PE\_ratio), and the trimmed mean CPI (year-ended change) series from the ABS.
- Cost of debt series is sourced from ICE data on corporate bond indices. Relevant ICE data code is AUCO.
- WACC series is constructed using the data below and gearing ratio data from the ABS Financial Accounts.
  - Debt and equity capital both provide businesses with money for day to day operations
- Cost of equity represents the rate of return paid out in exchange for owning the asset. Big spike for GFC and another out of trend spike for pandemic.
- Cost of capital is rate paid to raise more funds while cost of equity is the return investors expect to see.
  - Cost of capital measures the cost a non-financial corporation incurs to finance operations. Weighted average cost of capital (WACC) follows very similar trends.
  - Cost of capital is the rate paid to raise more funds while cost of debt is the rate pays to carry all debt.
- Cost of debt is effective interest rate paid on debts including bonds and loans. It is a rate of return provided to a companies debtholders and creditors.
  - One advantage of debt capital is that it doesn't affect ownership.

## Cost of Capital – Non-financial Corporations



\* Earnings yield plus trimmed mean inflation.

\*\* Weighted by market value measure of gearing for private non-financial corporations.

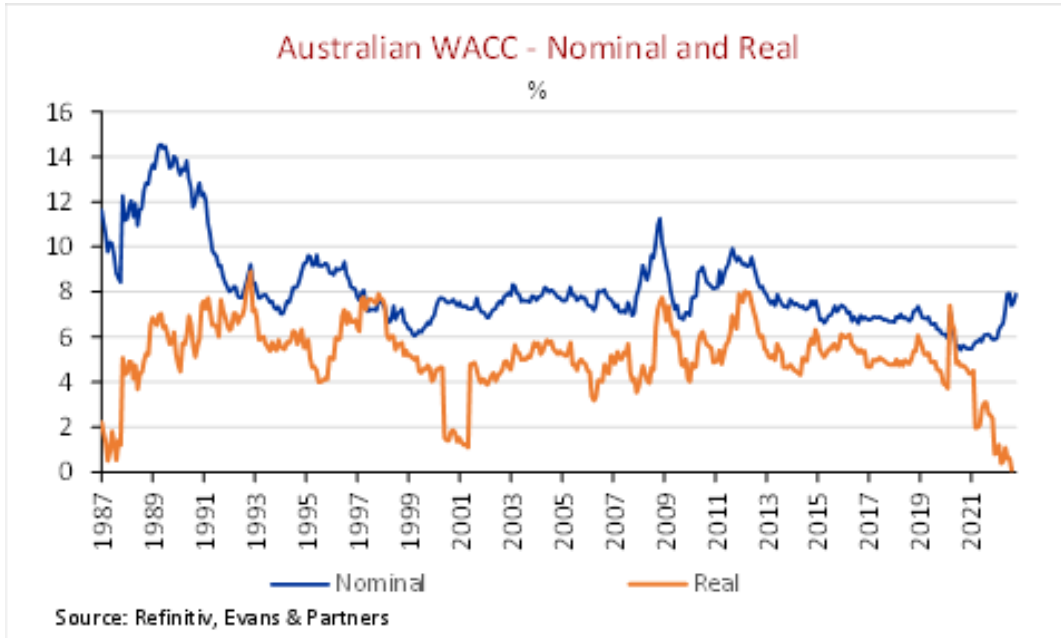
\*\*\* Yield on seven-year bonds for BBB-rated corporations.

Sources: ABS; ICE Data is used with permission; Morningstar; RBA; Refinitiv

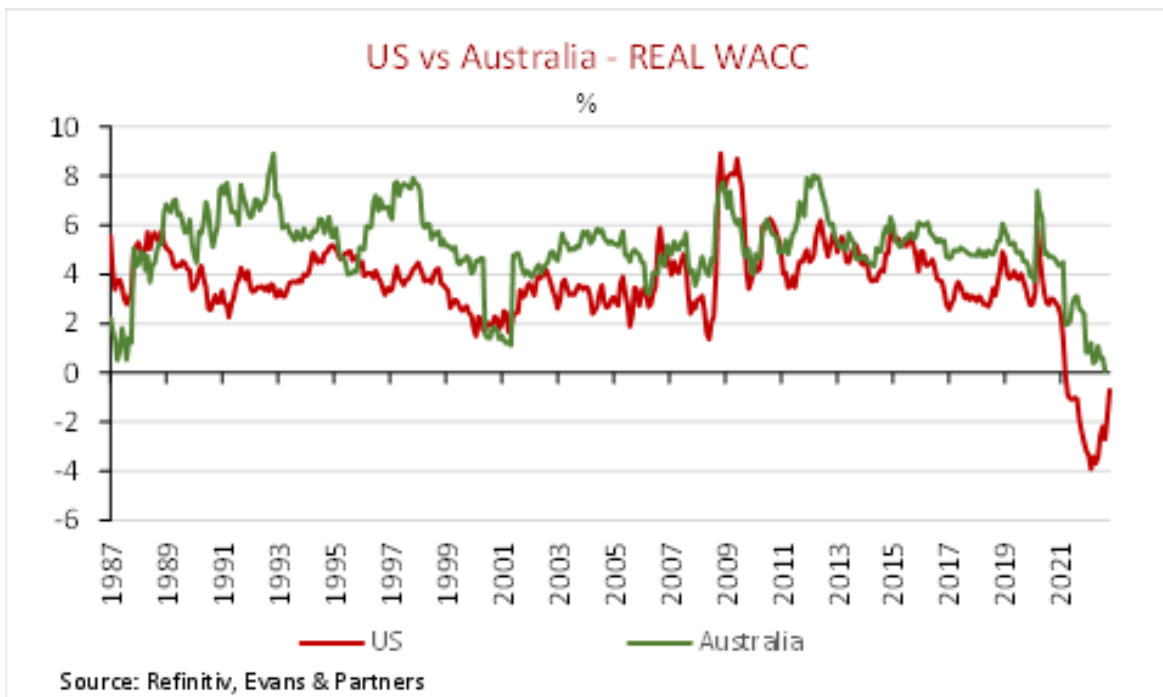
## ATTACHMENT B

With reference to the WACC, Australia has averaged 8% over time and the US 6% in nominal terms.

### AUSTRALIAN WACC



**REAL WACC FOR AUSTRALIA VS UNITED STATES** \*Last couple of years impacted by the surge in inflation.





## Australia share of World equities

Using mkt cap %



Source: Refinitiv Datastream, E&P



## AUDIT QUALITY IN AUSTRALIA: THE PERSPECTIVES OF AUDIT COMMITTEES (FINAL REPORT)

### DESCRIPTION

#### Recruitment Update

At the 23 November 2022 FRC meeting, Professor Roger Simnett and Professor Ken Trotman presented the preliminary findings from their interviews of a select sample of Audit Committee Chairs.

At this meeting, following the release of their final report, the FRC agreed to further discuss the matters raised during Professor Simnett's and Trotman's preliminary findings, particularly the suggestions directed to the FRC, AASB and AUASB.

In December 2022, the final report was released and [published](#) on the AASB and FRC websites.

The preliminary findings can be found at **Attachment A** and the final report can be found at **Attachment B**.

### ACTION

- The FRC to consider the findings arising from Professor Simnett's and Trotman's reports, in particular the recommendations directed to the FRC.



# **Preliminary findings for FRC from Audit Committee Chair Interviews on Audit Quality**

***November 2022***

Presented by Roger Simnett,  
UNSW Sydney & Deakin University

and

Ken Trotman,  
UNSW Sydney



**UNSW**  
SYDNEY



# Process

- We interviewed 21 ACCs of ASX300 companies that in total chaired 34 ASX 300 companies (23 ASX-100 companies and 11 ASX-101–300 companies).
- Nearly all audits for these 34 companies were undertaken by Big 4 audit firms.
- The interviews were semi-structured in that when interviewees raised interesting points, they were followed through.
- Areas covered were:
  - what ACCs consider to be good audit quality,
  - do ACCs have any concerns about audit quality,
  - factors involved in determining choice of auditor,
  - the views of ASIC inspection reports,
  - ACCs engagement with auditors,
  - the process by which the AC assessed audit quality, and
  - their overall views of audit quality.
- Issues associated with assurance of sustainability reporting were also explored.

# 1. What do ACCs consider to be good audit quality?

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- a) complete the audit consistent with accounting, audit and ethical standards;
- b) the relationship and engagement between the engagement partner and the AC, particularly the ACC;
- c) capacity of the audit team, particularly the engagement partner(s); and
- d) the audit firm and its reputation.

Engagement partner:

**Technical attributes:** knowledge across technical material (including disclosures, regulation), speaking from a position of competency, a comprehensive understanding of the business and the industry.

**Personal attributes:** independence and courage to call out issues, and pragmatism.

## 2. Do ACC's have audit quality or audit market concerns?

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- high level of satisfaction with audit quality. If unhappy, would be addressed quickly by a range of actions starting with contacting managing partner of audit firm.
- many are using two or more other Big 4 firms to provide other services (e.g., internal audit, regulatory, tax, consulting).
- concerns about the imposition of an audit firm rotation policy; the need to go through a cleansing process.
- some firms would be reluctant to give up income from other services to tender for the audit. But ACCs still considered the audit to be the 'prized thing to win'.

# Audit quality or audit market concerns (cont)

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- The role of ASIC inspections: While all saw the need for an independent inspection process, issues around the conduct of the process were raised (covered later in presentation).
- Small number raised concerns that auditing standards have:
  - become more rules based over the last 20 years, reducing focus on intuition and judgment, and
  - not kept up with technology.
- Some ACCs raised concerns about the challenges of auditing firms attracting and retaining high quality staff.
- Do audit firms have the capabilities related to forthcoming obligations, climate change and sustainability reporting?

### 3. How often do ACCs consider appointment of a new auditor?

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- Annual assessment of the audit firm/auditors but generally this did not lead to a change of auditor unless there were some concerns about the quality of the audit.
- ACCs outlined three key circumstances where the audit would be put out to tender:
  - the company was not getting the level of audit quality, the expertise or the level of service they expected.
  - some, (not all) suggested that long tenure was a reason for going to tender; but recognised the costs
  - a smaller group referred to the need to make sure the audit (and audit fee) was still contemporary.
  - Variations in the use of transparency reports from firms



## 4. What factors do ACCs take into consideration in the appointment of a new auditor?

Three factors:

- Reputation of firm; often determined on basis of interaction with different firms as well as external information including ASIC reports and press reports.  
Reputation included credibility of audit firm, adequate size, global, and industry standing.
- Quality of lead engagement partner included the partner's capability, industry experience, forthrightness, and cultural fit/personality.
- (Sometimes) audit team as a whole rather than just engagement partner, including the team meeting expectations, their expertise, coverage, and gender representation.

## 5. ASIC inspection reports

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- General sentiment: some form of oversight and inspection process is a good thing. Positive aspects include:
  - likely to improve overall audit quality,
  - useful at the time of the tender process,
  - useful discussion point to have with the incumbent audit firm, and
  - it gives another layer of comfort.
- However, many critical of the process and subsequent reporting by ASIC and financial journalists.
  - sample selection,
  - generalising from a very small sample of high risk audits, and
  - whether ASIC had resources and staff to make the judgments they do on specialised complex areas.
- Number of strong criticisms that this resulted in a rating system of the firms based on a small non-representative sample.
- Concerns about the effect of this on the standing of the profession and the ability to attract top high-quality staff to the profession.

## 6. Do ACCs see benefits in disclosing tenure of audit firms?

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- Vast majority of interviewees responded positively to disclosing the tenure of the audit firm, with only a few disagreeing. But the sentiment was more that the disclosure would not do any harm rather than provide specific benefit.
- Almost all suggested that this information be provided by the company rather than auditor:
  - the most common suggestion was in the notes to the financials (e.g. Auditor Remuneration Note).
  - next most common suggestion was that it be placed in the Corporate Governance Statement (these responses were often more considered).

## 7. Type and frequency of ACCs engagement with the auditor

- Nearly all (ACCs) had a pre-meeting with the auditor before every audit committee meeting.
- All ACCs expressed need for and current occurrence of effective and open lines of communication. Some comments that relationship between ACC and audit partner is now less formal (but not less independent or professional).
- Management unlikely to attend any of the meetings between the auditor and ACC outside AC meetings. For AC meetings, management will commonly attend but always time for auditor to express views to AC without management present.
- Most common words used to describe ACC's relationship with audit partner were:
  - open (10 of 21 instances),
  - very-good, professional, candid and respectful (5 of 21 instances each).

## 8. Processes for assessing audit quality at completion of the audit

- Ranged from very formal/structured to less structured.
- Formal/structured approaches included distributing questionnaires/surveys to auditors and management, with explicit consideration at AC meeting.
- Issues covered in discussion of ACC's perceptions of audit quality were similar to the audit quality issues outlined earlier.
- Audit quality assessment processes evolving. Those running informal assessment process identified a likelihood of process becoming more formal, either through benefits of more structured approach or possible future requirements imposed.
- ACCs did not see a need for further guidance in the form of lists of audit quality indicators as such lists:
  - did not help inform experienced ACCs and
  - ran the risk of leading to a boilerplate assessment, but
  - some saw such lists such as the one recently produced by AICD-AUASB as useful in seeing if there were any new ideas to inform their process.

## 9. Areas where ACCs consider that their auditors perform well

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- Main area identified (by 7 of 21 ACCs) was providing insights on the business to the AC, both how it operates and from best practice approaches and disclosures.
- Also identified were:
  - use of experts in areas of critical judgment,
  - working well with management to resolve issues, and
  - quality of communication.

## 10. Areas where ACCs consider there is room for improvement from their auditors

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- Most common: better use of data analytics and technology (6/21).
- Second most common: greater use, co-ordination or reliance on the work of internal audit.
  - companies have invested heavily in internal audit, either by building that capacity within entity or commonly outsourcing to Big 4 firm.
  - A few noted that there was little work or reliance on the work of internal audit, especially given the broader current mandate for FS audits, and their investments in competence and independence of internal auditors.
  - Two bemoaned the fact that reliance on internal audit in Australia appeared more restrictive than rest of world.
- Group audits also seen as an issue, given their ability to provide insights to the AC on other parts of the group. Seen as beneficial in providing a fresh set of eyes from an operational and risk perspective.

# 11. Overall assessment by ACCs of audit quality of the incumbent auditors

Category	Number
Excellent	12.5 (60%)
Above average	8.5 (40%)
Average	0
Below average	0

- Many who assessed as above average commented that they were hard markers rather than any deficiency in the audit, but there were always things that could be improved.
- an average or below average assessment would reflect areas of improvement were needed, and if it was not clear that this could be achieved, would result in change of audit partner or audit firm.



## 12. Considerations for assurance of sustainability and other reporting

- Sustainability reporting and assurance one of the major topics of current Board meetings, and stakeholder requests to Boards. Assurance important for benefit of Board to have confidence in the information and related systems and processes, and enhancing the credibility of information reported to stakeholders.
- Not all related discussions held in AC.
- Significant variation in current assurance processes, with many Boards currently considering further evolution.
- Assurance of sustainability reporting (including ISSB standards) seen as essential, but need to get reporting requirements bedded down, and then give time for systems and processes in companies to develop.
- Some concerns expressed as to whether current assurance will be appropriate. Will it cover the easy to assure and be sufficiently risk-based?
- Benefits seen of incumbent FS auditor also providing this assurance (knowledge of business, systems and processes) but some ACCs still see roles for other assurance providers.

# Possible considerations for FRC and AUASB

- ASIC inspection findings concerns: Consider a roundtable bringing FRC/AUASB/ASIC and financial journalists together to consider process possibilities, and suggestions for more balanced reporting.
- Views of ASX 300 Chairs do not reflect any concerns with audit quality. They see themselves as strong AQ gatekeepers. Survey limited by bias to ASX 300 (mainly ASX 100) and Big 4.
- Limited choice: commonly use at least 2 other Big 4 firms to provide NAS. So often they only had the choice between the incumbent auditor and one other if audit was put to tender (ACCC discussion?).
- Where they were using the other Big 4 firms for other services in order for these firms to tender, they needed to go through a cleansing process (guidance, APESB?).

# Possible considerations for FRC and AUASB

- (AUASB, communication) small number of ACCs raised concerns that auditing standards have
  - become more rules based over the last 20 years, reducing focus on intuition and judgment, and
  - not kept up with technology
- (FRC, Market) ACCs raised concerns about the challenges of auditing firms attracting and retaining high quality staff, especially given adverse publicity related to ASIC findings.
- (FRC, Market) Do audit firms have the capabilities related to forthcoming climate change and sustainability reporting obligations.
- Disclosing the tenure of audit firm, Almost all suggested that this information be provided by the company. If disclosed in the Notes to FS, need to engage AASB. If outside financial statements, Corporate Governance Statement/Directors' Report need to engage ASIC/ASX.

# Possible considerations for FRC and AUASB

- ACCs further guidance in the form of lists of audit quality indicators not needed, but some publications such as recent AICD-AUASB useful to review for new ideas to inform their process. (AUASB/AICD, make sure publication gets to ACCs)
- The most common area for improvement identified (6 of 21 ACC) was better use of data analytics and technology. Many have invested in systems, and desire substantive analytics (AUASB, guidance, audit firms, less emphasis on sampling)
- Greater use, co-ordination or reliance on the work of internal audit. (AUASB, time to reconsider ASA 610?)
- Group audits coverage, given their ability to provide insights to AC on other parts of the group. Operational/risk profile of auditors may be different from ACs. (AUASB ISA 600?)
- Assurance of sustainability reporting (ISSB standards) essential, but bed reporting requirements down, and lag any assurance requirement (FRC/AASB/AUASB).
- Will current assurance be appropriate, or cover only easy to assure and sufficiently risk-based (AUASB)?
- Change in market for assurance providers. Benefits seen of incumbent FS auditor also providing sustainability assurance (knowledge of business, systems and processes) but some ACCs still see roles for other assurance providers. (FRC, ACCC, AUASB?)



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# **AUASB RESEARCH REPORT 9**

## **PERCEPTIONS OF AUDIT QUALITY BY AUDIT COMMITTEE CHAIRS IN AUSTRALIA**

Research informing the FRC's and AUASB's views of  
audit quality

December 2022

## **The Financial Reporting Council**

The Financial Reporting Council (FRC) is responsible for overseeing the effectiveness of the financial reporting system in Australia. Its key functions include the oversight of the accounting and auditing standards setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the Minister on these and related matters to the extent that they affect the financial reporting system in Australia. The FRC monitors the development of international accounting and auditing standards, works to further the development of a single set of accounting and auditing standards for world-wide use and promotes the adoption of these standards. It is a statutory body under Part 12 of the Australian Securities and Investments Commission Act 2001 (the ASIC Act).

## **The Auditing and Assurance Standards Board**

The Auditing and Assurance Standards Board (AUASB) is an independent, non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards. Sound public interest-oriented auditing and assurance standards are necessary to reinforce the credibility of the auditing and assurance processes for those who use financial and other information. The AUASB standards are legally enforceable for audits or reviews of financial reports required under the Corporations Act 2001. The AUASB's role extends to liaison with other standards setters and participation in standard-setting initiatives.

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## **Disclaimer**

The views expressed in this research report do not represent formal views of the FRC or the AUASB, which are established only through appropriate due process.

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## Foreword

Audit quality is integral to the operation of the financial reporting system. Audit Committee Chairs (ACCs) play an important role in the oversight of financial reporting and the performance and quality of their external auditor. Therefore, their perspectives are vital and a key indicator of audit quality in Australia.

In recognition of this, the FRC – in conjunction with the AUASB – commissioned independent research to gather perspectives on audit quality from a sample of ACCs. This builds on previously conducted surveys of ACCs (one in [2018](#) and another in [2020](#)). This report has been authored by the independent researchers and details the feedback they received.

Pleasingly and importantly ACCs remain very satisfied with the quality of their external auditor.

In addition, this research gathered in depth feedback on the matters that influence ACC's views, and how they support audit quality. We hope this report assists audit committees and auditors as they work together with the goal of continuous improvement and enhanced audit quality, and ultimately high-quality financial reporting.

This research also explored views on assurance over sustainability reporting which will inform us going forward as this reporting and related assurance further evolves in Australia.

We thank the ACCs that generously gave us their time and for sharing their views and experiences.

Andrew Mills  
Chair  
Financial Reporting Council, Australia

Bill Edge  
Chair  
Auditing and Assurance Standards Board



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## Executive Summary

It was determined by the FRC and AUASB to undertake in-depth interviews of Audit Committee chairs (ACCs) to get their insights on audit quality. Interviews were held with 21 ACCs of ASX300 companies that in total chaired 34 ASX 300 companies (23 ASX-100 companies and 11 ASX-101–300 companies). Audits for these 34 companies were undertaken by Big 4 audit firms, although many of the ACCs did have experience with non-Big 4 firms on other ACs they had previously or presently served on.

Areas covered included what ACCs consider to be good audit quality, do ACCs have any concerns about audit quality, factors involved in determining choice of auditor, views on ASIC inspection reports, ACCs engagement with the auditor, the process by which the AC assessed audit quality, and ACC overall views of audit quality. Issues associated with assurance of sustainability reporting were also explored.

Some of the major issues identified of interest for the FRC and AUASB in each area covered by the interviews were:

### 1. What do audit committee ACCs consider to be good audit quality?

ACCs referred to a wide range of factors which can be broadly categorised as (a) complete the audit consistent with accounting, audit and ethical standards; (b) the relationship and engagement between the engagement partner and the AC, particularly the ACC; (c) capacity of the audit team, particularly the engagement/signing partner(s); and (d) the audit firm and its reputation.

Some ACCs referred to important attributes of the engagement partner while others more generally referred to attributes of the whole audit team but still with an emphasis on the engagement partner. Particular attributes included having knowledge across the technical material (including disclosures, regulation), speaking from a position of competency, a comprehensive understanding of the business and the industry. Personal attributes of the partner included independence and courage to call out issues, and pragmatism. The above attributes of the engagement partner were seen as critical and, in fact, were sometimes discussed as the main signal of quality.

### 2. Do ACCs have any concerns on audit quality or the audit market as a whole?

It was unanimous among the ACCs that there was a high level of satisfaction with the quality of the audits they were involved with. It was pointed out by a number of ACCs that if they were unhappy with any aspect of the quality, that would be addressed quickly by a range of actions starting with the partner-in-charge or managing partner of the firm and, if necessary, putting the audit out to tender.

The Big 4 were seen by nearly all ACCs as having the skill set, global scale and experience to deal with an organisation of the scale and global operations of their company. In addition to the present auditor, many ACCs suggested they were using two or more other Big 4 firms to provide other services (e.g. internal audit, regulatory, tax, consulting). So often they only had the choice between the incumbent auditor and one other if the audit was put to tender.

In the above context there were concerns about the imposition of an audit firm rotation policy. ACCs raised the point that where they were using the other three Big 4 firms for other services and so in order for these firms to tender, they needed to go through a cleansing process; 'go away and make yourself independent' and therefore the company would be deprived of services for a number of years for the firm to qualify as being independent.

Also related to the auditor firm rotation possibility, there were also a few suggestions that some firms would be reluctant to give up income from other services to tender for the audit. In these cases, the ACCs still considered the audit to be the 'prized thing to win' or such behaviour would not be



considered appropriate by some ACCs. However, in some cases a company may even rule out a particular firm because they greatly value the work in another particular area and the cost is too high to change a number of suppliers.

The role of ASIC inspections impacting audit quality was raised as a concern. While all saw the need for an independent inspection process, issues around the conduct of the process were raised. These included low value compliance, pressure by regulators leading to a 'tick the box mentality', criticism of the way results are disclosed, and use of small non-generalisable sample sizes. There was specific reference to discussions with auditors about the inspection process including that allowance is not made for differences in judgments as ASIC always believes they are correct.

A small number of ACCs raised concerns that auditing standards have become more rules based over the last 20 years which reduces the focus on intuition and judgment, and that auditing standards have not kept up with technology.

A number of ACCs raised concerns about the challenges of auditing firms attracting and retaining high quality staff. These issues were raised in discussions about competition for new talent and also in discussion of the adverse publicity related to ASIC findings.

Some insights were given on the impact of climate change and sustainability on business models. In conjunction was the issue of the effects of those changes on audit obligations that will be placed on external auditors and ensuring that the audit firms have the capabilities.

### **3. How often do ACCs consider appointment of a new auditor?**

The vast majority of ACCs referred to an annual assessment of the audit firm/auditors but generally this did not lead to a change of auditor unless there were some concerns about the quality of the audit which was not the case in the previous year for any of our interviewees.

ACCs outlined three key circumstances where the audit would be put out to tender. First, the company was not getting the level of audit quality, the expertise or the level of service they expected. Second, long tenure was a reason some ACCs provided for going to tender. This could be in the 10-year plus time horizon or in some cases it was much longer and the ACC decided 'the time was right'. Third, a smaller group saw the need to make sure the audit was still contemporary.

### **4. What factors do ACCs take into consideration in the appointment of a new auditor?**

The most frequent factors were the reputation of the audit firm, the qualities of the lead engagement partner, the audit team as a whole, and the overall quality of the audit (which was often a combination of the above three).

The reputation of the firm often was determined on the basis of interaction with different firms as well as external information including ASIC reports and press reports. This reputation included credibility of the audit firm, adequate size, expertise, and standing in the industry.

The quality of the lead engagement partner included the partner's capability, industry experience, forthrightness, and cultural fit/personality.

This discussion sometimes referred to the audit team as a whole rather than just the engagement partner, and included the team meeting expectations, their expertise, their coverage and gender representation on the team.



## 5. ASIC inspection reports

The general sentiment of the ACCs was that some form of oversight and inspection process is a good thing. The positive aspects of the inspection process were that it is likely to improve overall audit quality, it was useful at the time of the tender process, it is a useful discussion point to have with the incumbent audit firm, and that it gives another layer of comfort.

However, many were critical of the inspection process and its subsequent reporting by ASIC and financial journalists. Criticisms of the inspection process focussed on the sample selection and the generalising from a very small sample of high-risk audits, and whether ASIC had the resources and staff to make the judgments they do on specialised complex areas, with ACCs commonly expressing more confidence in the judgements of specialists they engaged than the ASIC staff. There were a number of strong criticisms that this resulted in a rating system of the firms based on a small non-representative sample.

Concerns were raised about the effect of this reporting process on the standing of the profession and the ability to attract top high-quality staff to the profession.

## 6. Do ACCs see benefits in disclosing tenure of audit firms?

The vast majority of interviewees responded positively to disclosing the tenure of the audit firm, with only a few disagreeing. However, the sentiment was more that the disclosure would generally not do any harm rather than providing specific benefits.

There was a range of options as to where the information should be presented. Almost all suggested that this information be provided by the company with the most common suggestion being in the notes to the financials (e.g. Auditor Remuneration Note). The next most common suggestion was that it be placed in the Corporate Governance Statement. There were a few suggestions that it be in the Directors' Report.

## 7. Type and frequency of ACCs engagement with the auditor

Almost all ACCs referred to a pre-meeting with the auditor before every audit committee meeting. These meetings were scheduled in the diary usually for the week before audit committee meetings, after the audit committee papers are out.

All ACCs expressed the need for and current occurrence of effective and open lines of communication. Outside the pre-meetings the ability of either the ACC or the audit partner to contact the other party at any time was emphasised.

There were some comments that in the current environment the relationship between the ACC and the audit partner has become less formal (but not less independent or professional).

Management are unlikely to attend any of the meetings between the auditor and ACC outside AC meetings. For AC meetings, management will commonly attend but there will always be time for the auditor to express views to the AC without management present.

In response to an open-ended question, the most common words used to describe the ACC's relationship with the audit partner were open (10 of 21 instances) followed by very-good, professional, candid and respectful (5 of 21 instances each).



## 8. Processes for assessing audit quality at completion of the audit

The processes for assessing audit quality ranged from a very formal and structured one to a less structured approach.

The very formal and structured approaches included distributing a questionnaire to (or surveys initiated by) auditors and management and explicit consideration of this feedback at an audit committee meeting, under a specific audit committee agenda item. In some cases, there was a survey distributed to each member of the audit committee (or entire Board of Directors) by management for compilation and consideration by the audit committee.

The issues that are mainly covered in discussion of ACC's perceptions of audit quality were similar to the audit quality issues raised earlier by ACCs.

Audit quality assessment processes are evolving. Those running a fairly informal process of assessment of the quality of the auditor identified a likelihood of the process becoming more formal, either through perceived benefits of a more structured approach or possible imposition of future requirements.

Most ACCs did not see a need for further guidance in the form of lists of audit quality indicators. The views were expressed that such lists did not help inform experienced ACCs and ran the risk of leading to a boilerplate assessment. Some saw such lists such as the one recently produced by AICD-AUASB as useful in seeing if there were any new ideas to inform their process.

## 9. Areas where ACCs consider that their auditors perform well

The main area identified by ACCs was providing insights on the business to the AC, both how it operates and from best practice approaches and disclosures. Their use of experts in areas of critical judgment, working well with management to resolve issues, and quality of communication were other key areas identified.

## 10. Areas where ACCs consider there is room for improvement from their auditors

The most common area for improvement identified was better use of data analytics and technology.

The second most commonly mentioned area was greater use, co-ordination or reliance on the work of internal audit. ACCs indicated that companies had invested heavily in internal audit, either by building that capacity within the entity or commonly outsourcing this to {another} Big 4 firm. A few ACCs noted that there was little work or reliance on the work of internal audit, especially given the much broader current mandate for financial statement audits, and the investments in competence and independence of internal auditors. Two, both previously practicing auditors, bemoaned the fact that reliance on internal audit in Australia appeared more restrictive than the rest of the world.

Group audits were also seen as an issue, given the auditor's ability to provide insights to the AC on other parts of the group. This was seen as beneficial in providing a fresh set of eyes from an operational and risk perspective.

## 11. Overall assessment by ACCs of audit quality of the incumbent auditors

Consistent with the categories used by the surveys of ACCs conducted and reported by AUASB, the ACCs were asked to assess overall quality of their auditor as excellent, above average, average, or below average. 12.5 of 21 ACCs (60%) assessed audit quality as excellent, and 8.5 (40%) as above average, showing a high level of satisfaction. Many who assessed as above



average commented that they were hard markers rather than any deficiency in the audit, but there were always things that could be improved.

The basis of the assessments were the factors outlined under Point 1 of this executive summary that ACCs rated highly in considering audit quality.

Many indicated that an average or below average assessment would reflect areas of improvement were needed, and if it was not clear that this would be achieved, this would result in change of audit partner or audit firm.

## 12. Considerations for assurance of sustainability and other reporting

Sustainability-related reporting and assurance is one of the major topics of current Board meetings, and stakeholder requests to Boards. Assurance is recognised as important for both the Board to have confidence in the information, and related systems and processes used for their decision-making, and to enhance the credibility of information reported to stakeholders.

Not all discussions on assurance of sustainability and other reporting occur in the audit committee. Three major (not unrelated) factors identified as being associated with the likelihood of the AC being the primary subcommittee for discussion of sustainability related issue were the size and nature of the entity, other sub-committee structures and the extent to which the entity embraces integrated reporting.

There is significant variation in current assurance processes, with many Boards currently considering its further evolution.

Assurance of sustainability reporting (including ISSB standards) is seen as essential, but there is a need to get reporting requirements bedded down and give time after reporting is bedded down for systems and processes in companies to develop.

Some concerns were expressed as to whether current assurance processes will be appropriate. Will they cover the easy to assure items, (scoping out areas difficult to assure), and will they be sufficiently risk-based?

Many ACCs saw benefits of the incumbent financial statement auditor also providing this assurance (because of knowledge of business, systems and processes) but some ACCs still saw roles for other assurance providers.



## Methodology

We (authors of this report) conducted in-depth interviews of Audit Committee chairs (ACCs) of 21 top ASX300 companies during August–October 2022. Interviews were arranged by the FRC and AUASB and were conducted one-on-one using Zoom/Teams by one of the authors. After an introduction (and receipt of permission to tape the interview from the interviewee) the full interview was recorded. Most interviews went for the allocated one-hour time slot, with a few going slightly longer with the interviewee's permission.

It was decided to interview ACCs instead of using a survey, which has been past practice for surveys undertaken by AUASB in 2018 and 2020 (AUASB 2018, 2021 (report date)). This allowed the responses to be explored in greater detail in order to provide deeper insights on audit quality from the perspective of ACCs. The interviews were semi-structured in that when interviewees raised interesting points, follow-up questions were asked which sometimes meant that questions were asked in a slightly different order depending on the answers to earlier questions. A number of comments were received suggesting this was a more effective way of gaining insights. For example, one ACC noted:

*I often struggle with surveys, on a lot of topics that people send out to me, because I've had the good fortune, I guess, to serve on very different companies in very different sectors and very different situations. And when people ask for a response, you know, they, I actually appreciate the opportunity for an interview, because you might have quite different experiences in different situations, rather than but one will give you a snapshot of a company's situation. (AC 8)*

The form of unstructured interviews followed previous research (e.g. Malsch and Salterio 2016; Free, Trotman, and Trotman 2021). In particular, we asked interviewees to answer key questions based on a particular company where they were ACC but gave them the scope to draw on their other experiences on audit committees both past and present. All data reported removes individual names, company names, and audit firm names. Interviewees were informed of this both prior to and at the start of the interview which resulted in very frank and open discussions.

The content of the questions were based on previous AUASB survey questions (AUASB 2018, 2021) and ACC interviews carried out in other jurisdictions (FRC 2022; PCAOB 2022). Areas covered included what ACCs consider to be good audit quality, do ACCs have any concerns about audit quality, factors involved in determining choice of auditor, views on ASIC inspection reports, ACCs engagement with the auditor, the process by which the AC assessed audit quality, and ACC overall views of audit quality. Issues associated with assurance of sustainability reporting were also explored.

Below we outline our findings subdivided across 12 themes.





## 1. What do ACCs consider to be good audit quality?

ACCs referred to a wide range of factors which can be broadly categorised as (a) complete the audit consistent with accounting, audit and ethical standards; (b) the relationship and engagement between the engagement partner and the AC, particularly the ACC; (c) capacity of the audit team, particularly the engagement/signing partner(s); and (d) the audit firm and its reputation.

First, ACCs expect that accounting, auditing and ethical standards will be interpreted and applied appropriately during the audit. Such execution of audits in accordance with audit standards was often taken as given for the audit firms they were involved with (generally Big 4). Descriptions included assisting with the quality and assurance of reporting including an objective view on the integrity of the financial results, a level of rigour and scrutiny, breadth and depth of coverage, and a good audit plan.

Second, there were very frequent references to the relationship between the auditor and ACC (in particular), the AC as a whole, management and internal auditors. Relationships between the auditor and the ACC were referred to including 'trust both ways', open and transparent conversations, constructive high levels of engagement, keeping the ACC informed, regular conversations to inform and alert the ACC to issues. An important part of this relationship is communication. Much of this discussion referred to keeping the AC informed of challenges/problems/issues in a timely manner with frequent references to 'no surprises' and 'as early as possible'. Another aspect frequently raised was the type of communication with the expectation that the audit partner could participate in in-depth conversations, being proactive in bringing issues to the attention of ACC. There were also expectations around insights from business operations and where there are unusual circumstances or interpretations allowing a range of views, details of the resolution with management and potentially comparisons of where the company sits along the spectrum of alternatives (e.g. from conservative to aggressive).

*The things that are important to me in terms of audit quality, are that the basis of the relationship is open and transparent. (AC 5)*

*A level of challenge on what management is putting up. Where there are issues, and there often are issues because either it's an unusual circumstance or interpretation allows for a range of views, then I expect them to constructively engage with management on the issue ahead of coming to the audit committee. And so by the time that they come to the audit committee, I expect from that work for them to be able to give us an independent, objective view on the integrity of the financial results (AC 8)*

As part of communication to the AC, there was an emphasis on reporting. This included a well-written report for the audience (directors), clarity around audit differences and observations on controls. Information around management, particularly the finance team, was seen as important including whether management has been conservative or aggressive in their estimates, feedback on the culture of management (including stretched or under pressure). There were expectations of 'value added' including improvements in the finance function and around business operations.



*More sort of value add in terms of observations because external auditors run across a range of different entities, they obviously see ..., things that work well, things that don't work so well. New innovation in certain areas, and particularly when they operate, in a sector with a number of different participants in that industry sector, they often are well placed to provide opportunities for improvement or suggestions in terms of the way that things could be conducted in the future. (AC 14)*

Third, there was an expectation of a range of attributes of both the engagement partner and the whole audit team. Some ACCs referred to important attributes of the engagement partner while others more generally referred to attributes of the whole audit team but still with an emphasis on the engagement partner. For large clients, the discussion referred to multiple partners involved with the engagement. Technical attributes of the partner(s) included having knowledge across the technical material (including disclosures, regulation, corporate law), speaking from a position of competency, and a comprehensive understanding of the business and the industry. Personal attributes of the partner included independence and courage to call out issues, and pragmatism. The above attributes of the engagement partner were seen as critical and, in fact, were sometimes discussed as the main signal of quality (“*quality varies with the signing partner*” (AC 11) and “*very much about the personal qualities of the signing partner of the audit firm*” (AC 8)).

*But they will have points of difference. And they need to have the courage to call up those points of difference, and the wisdom to determine which of the ones that really matter, that they'll go all the way to the top, and they'll go to the audit committee chair and come into the audit committee and say, we have an issue. (AC 17)*

The above emphasis on the partner(s) is not surprising in that this is the person(s) that the ACC deals with directly. However, many ACCs did broaden the discussion to the whole audit team, including reference to the partners/managers. Here, knowing the business and industry well was emphasised including the challenges faced by the business. Industry knowledge was particularly important in specialised fields (e.g. banking, insurance, energy), including bringing insights from comparisons with other competitors in the industry. Other ACCs broadened the discussion to the quality of all the people in the audit team, e.g. quality of the auditors including skills and experience ‘of the team a couple of layers below partner level’. This included skills, commitment, experience, rigor, business/industry, digital and computer knowledge.

*In my view audit quality will also go to the quality of the people involved doing the audit, the level experience they have, the level of research and backup they have in their organisation, the number of specialists that they use in their audit, such that not one audit partner necessarily covers or tries to cover all aspects of expertise involved in any particular corporation. (AC 6)*

*The quality of the people or the auditors, and I don't just mean the brand name of the firm. And I don't just mean the partner, or the partners, I mean, deep into their teams. So a good couple of layers below that. (AC 9)*

*I think, the depth of leadership in the audit firm, so because it's not just the signing partner, the engagement partner, it's the review partner. It's the knowledge of who else*





*they can discuss any issues they are having with the client, the manager that they've gotten the job that every single person that they bring to the job, their depth, their continuity (AC 17)*

There was a particular emphasis on independence/challenge which at times was focussed on partners and at other times, more broadly across the audit team. References were made using terms such as 'call things out', 'a level of challenge of what management is putting up', 'independent objective view'. More specifically, there was reference to

*how much challenge, what happens with the challenge when they have a different view to management (AC 10)*

*So the quality of the audit is how much of that challenge happens. And what happens with that challenge when they think they've got a different view to what management have, and how those processes buy out. (AC 9)*

Finally, there was reference to the audit firm and its reputation. All the ACCs interviewed focussed on audits where the audit firm was one of the Big 4. They were generally of the belief that a Big 4 auditor was required because of its global reach, industry knowledge, systems and the quality of firm leadership. One ACC saw all the Big 4 as 'pretty good' and 'pretty similar' but saw some differences in the tools they had created to take a broader and deeper coverage of data. There were other comments related to the systems and processes of the Big 4 with suggestions that they varied in the extent to which these systems were adapted to the relevant industry and client.

*...Some [systems] have been modified specifically, say for the resource sector or for the retail sector, and where that modifications have been done, they're much more powerful, better products (AC 9)*

Other issues raised included the integrity and values of the audit firm as they impact on how staff act, the use of specialists by the firm, and the communication between head office group auditors and auditors working in the field. Views about the firms were based largely on personal experiences with the firms (some ACCs had interacted with all or most of the Big 4) but were also impacted by reputation and ASIC inspection results (discussed in section 5).

When referring to the attributes of the audit firm, only a small number of interviewees referred to their transparency reports. These references were in the context of a specific presentation to the AC, references to transparency reports in the press, and reference to using transparency reports when considering putting the audit out to tender. Overall, we saw little direct use of transparency reports.



## 2. Do ACCs have any concerns on audit quality or the audit market as a whole?

It was almost unanimous among the ACCs interviewed that there was a high level of satisfaction with the quality of the audits they were involved with. This was often with the caveat that their ACC roles only involved the Big 4 firms. In many cases, the ACCs had experience with more than one Big 4 firm as they were on a number of ACs. It was pointed out by a number of ACCs that if they were unhappy with any aspect of the quality, that would be addressed quickly by a range of actions starting with the partner-in-charge or managing partner of the firm and, if necessary, putting the audit out to tender. In a very few cases, ACCs made some negative comments about the performance of an auditor in the past but this was not the case for present auditors.

Below we discuss specific issues raised by the ACCs in answer to this question. These comments were in response to an open question about their views from the perspective of an ACC on audit quality, including the audit market as a whole. Most comments related to the limited choice in appointing an audit firm, comments on the regulator and a small number of other suggestions on accounting standards challenges, staff shortages, ESG issues on the business model.

There were a large number of suggestions made that in a small market (Australia) there is a limited number of people with the skill set and experience to deal with an organisation of the scale and global operations of their company (for example, large financial organisations subject to various financial regulations that require assurance). These large organisations often use three or all four of the Big 4 firms in some capacity (e.g. internal audit, regulatory compliance, tax, consulting). There were numerous comments that only the Big 4 (and sometimes only the largest three) have the global scale necessary to provide the level of service required. There were suggestions that these large companies did not go outside the Big 4 because of a belief that the other firms did not have the global coverage or lacked some element of what they saw as essential for a high-quality audit (e.g. ability to invest in information technology).

*When you go outside of the Big Four, you start to see a drop off in some of those elements that I've nominated as being critical to audit quality. So that ability to invest in information technology, that that depth of leadership, the smaller firms might come up with some of those elements, but not all of them (AC 17)*

*So in our relatively small market there is somewhat limited choice of people who've got the skill set and the experience to deal with an organisation of the scale and global operations of a bank like ... The reason why we don't put it out to tender is, ... Australia is a relatively small marketplace. And if you say that there are four big firms, in some way, shape or form, we use every one of the four for consulting services for tax services for other services etc. ... And it's only the Big Four who would have the global scale to be able to deal with an organisation like us (AC 2)*



One concern expressed was that although there are potentially four firms that are of the global size to handle the audit, some ACCs suggested that when they drilled down to their needs, not all firms may be viable (e.g. in certain cities). In addition to the present auditor, many ACCs suggested they were using two or more other firms to provide other services and so they often only had the choice between the incumbent auditor and one other. There were also a few suggestions that some firms would be reluctant to give up income from other services to tender for the audit. In these cases, the ACC still considered the audit to be the 'prized thing to win' or such behaviour would not be considered appropriate by some ACCs. However, in some cases a company may even rule out a particular firm because they greatly value the work in another particular area and the cost is too high to change a number of suppliers.

*for some of them to forego some of that income and activity in order to go into an audit tender. But I think the reality is that the audit is still seen as a prized, as a prized thing to win (AC 8)*

Because of the above limited choice, some concerns were expressed about suggestions/changes in other jurisdictions around the world for the need to put an audit out to tender after a certain number of years. ACCs raised the point that where they were using the other three Big 4 firms for other services and so in order for these firms to tender, they needed to 'go away and make yourself independent' and therefore the company would be deprived of services for a number of years for the firm to qualify as being independent.

*I do think four is a little a little too few these days, to be honest. I mean, I think six would be nice. ... it only becomes an issue because it's such a complex world. And you know, you've got service providers that you're using for all sorts of things ... And so if you do decide you need to change your provider for whatever reason, you've almost got to plan two or three years in advance to make sure you've cleansed the firm before they come in and then sometimes you go well is it really worth it, we're getting great tax advice from that firm. ... It's more because the lack of choice just makes it very difficult for companies to juggle change, if they need to juggle it. They can do it, and it can work. But it requires some delicateness. (AC 18)*

Another key point raised in response to the question on concerns with audit quality was the role of ASIC inspections. Later in the interviews we asked a specific question on these inspections. However, prior to that question, many interviewees specially referred to the regulator in general or ASIC specifically. These issues referred to low value compliance, pressure by regulators leading to a 'tick the box mentality', criticism of the way results are disclosed and use of small sample sizes. There was specific reference to discussions with auditors about the inspection process including that allowance is not made for differences in judgments as ASIC always believes they are correct.

*But they look at a ridiculously small number of files. Compared with the size of work, for example, the Big Four actually doing, and then they look at those files, in minutiae detail to the extent that they're actually spending more time doing their review within what the firm's actually spent doing the entire audit. I'm critical of that, ... they announce results that didn't require a restatement of the audit opinion or the financial statements, but make it appear that they [the auditors] are doing a bad job. ... I hear talking to the Big Four that, it's just, they don't allow for any judgement. So if there's a disagreement of*



*opinion as to how this rule applied this, you're always wrong. And that, that undermines the credibility (AC 10)*

ACCs frequently referred to attributes of individual partners and in the vast majority of examples ACCs had significant confidence in their audit partner. In the rare circumstance where they did not, they would take remedial action raising the issue with the senior management of the audit firm, asking for a different partner or, where appropriate, put the audit out to tender.

*I have had limited situations where the audit partner or someone in the team isn't where we need them to be. And we've embraced that conversation directly with the managing partner of the audit firm and ultimately through going to tender. (AC 7)*

Three other issues were raised by a small number of interviewees. First, suggestions that auditing standards have become more rules based over the last 20 years which reduces the focus on intuition and judgment and that auditing standards have not kept up with technology (the same ACC was critical of ASIC for not keeping up with advances in technology). Second, issues were raised concerning the challenges of attracting and retaining high quality staff. These issues were raised in discussions about competition for new talent and also in discussion of the adverse publicity related to ASIC findings. One ACC related this point to the issue of Big 4 firms splitting up part of the business. The question was raised as to the effect of this on audit quality going forward including the attraction and retention of good talent. Third, some insights were given on the impact of climate change and sustainability on business models. In conjunction was the issue of the effects of those changes on audit obligations that will be placed on external auditors and ensuring that the audit firms have the capabilities. Another point was that in some industries, particularly sectors related to new energy sources, Boards are spending a lot of time reskilling and auditors need to ensure they are keeping up to date.



### 3. How often do ACCs consider appointment of a new auditor?

The vast majority of ACCs referred to an annual assessment of the audit firm/auditors (discussed in section 8) but generally this did not lead to a change of auditor unless there were some concerns about the quality of the audit which was not the case in the previous year for any of our interviewees.

ACCs outlined three key circumstances where the audit would be put out to tender. First, the company was not getting the level of audit quality, the expertise or the level of service they expected. While this was not the case for any of the ACCs in the current period, a number gave instances where they had put the audit to tender in previous periods or for other companies for this reason. Second, for some ACCs long tenure was a reason for going to tender. This could be in the 10-year plus time horizon or in some cases it was much longer and the ACC decided 'the time was right'. The length of the period varied with some ACCs mentioning 10–15 while others saw no limit provided the audit firm was delivering a high quality audit and that in some industries (e.g. financial services) the choice was very limited due to the small number of auditors with the industry and global experience required and without other audits in the same industry. Third, a smaller group saw the need to make sure the audit was still contemporary. In this case, the tenure process allowed the ACCs to see the alternatives and what expertise they had and, even if the incumbent was reappointed, the process was of benefit. We note that one ACC explained that after a very long period with the same audit firm, their company put the audit out to tender which was completely unrelated to an issue of audit quality and the incumbent was excluded from the tender process.

*I think there is an emerging trend that 15 years plus, maybe 20 years plus, is becoming at the long end of the tenure arrangements. (AC 1)*

*But the length of the audit had been a fair while and I said this is too long. And we've got to go to market, and we did. Yeah, the fact that they won it, the incumbent won, didn't matter to me it was that we did the test. (AC 13)*

While some ACCs referred to consideration of putting the audit to tender as a matter of course when the AC did the annual evaluation of the audit, most referred to serious consideration happening less frequently (unless there was an audit quality issue) such as every five years at the time of compulsory change of the engagement partner. While it was thought that consideration had benefits by providing a new set of eyes and judgments, the process did have significant costs in management time.

*My rule of thumb has been that if the auditor is performing, and you have no reason to doubt their independence, the quality, etc, then you know, I am, I'm not in the mind to change, right? Having said that, I am conscious that when an audit firm has been with you for 10 years or more, then at least you need to stop and reflect as to whether or not they are the right firm for you ...But I am loathe to go to tender, either because of the workload for management or for the firm itself, if in fact, the firm is performing well. And there's good rigour around the rotation of the audit partner and the team. (AC 7)*

The main reasons given by ACCs for not going to tender were as follows. First, if the auditor is performing well and there are no issues related to audit quality or independence, some ACCs suggested there was no reason to go to tender. Part of this argument was that the rotation of the



engagement partner and other senior staff gave significant rigor to the process. One example provided was seeing the quality of the people put up for engagement partner was the first step while reserving the ability to go to tender. Second, given the small market and only four firms with the perceived expertise to carry out a large complex global audit together with conflicts over other audits held, and other work carried out by the audit firm, the choice often comes down to two firms including the incumbent firm. Because in going to tender it is likely some of the potential firms will be doing other work for the company, it is necessary to make the decision to change the auditor well before the change (e.g. 18 months) to meet independence guidelines. Third, there is a cost to changing audit firms described as providing substantial disruption including the workload for management. The issue of some firms potentially not wanting to give up income in other activities to tender for the audit was raised. An ACC concluded that the Big 4 “*still see winning the audit and holding the audit as the premier position*” (AC 17). The ACC concluded that firms “*take an annuity consideration into account*” because the audit is usually continuous for many years whereas the consultancy can come and go pretty quickly.

In summary, most ACCs were of the view that a company would only put the audit out to tender if they were not satisfied with the quality of the auditor, the level of service, or there was an issue of independence. There was concern about the additional costs due to disruption. ACCs saw the rotation of partner every five years as gaining much of the benefits of a change of firm. However, there does come a point in time when the audit did need to go out to tender and, in some cases, the incumbent would be renewed but in other cases they were excluded or not selected.





#### 4. What factors do ACCs take into consideration in the appointment of a new auditor?

In answering this question ACCs discussed the attributes of the audit firm/audit team they would be looking for if they put this audit out to tender. In responding, they either referred to the last time they put a particular audit to tender or, if this had not happened, what they would be looking for if they did put it out for tender. In all situations, the present audit firm was a Big 4 firm and the discussion was based on the premise that the audit would go to either the incumbent (but in some cases this firm was ruled out) or one of the other three Big 4 firms.

The most frequent factors were the reputation of the audit firm, the qualities of the lead engagement partner, the audit team as a whole, and the overall quality of the audit (which was often a combination of the above three).

First, the reputation of the firm often was determined on the basis of interaction with different firms as well as external information including ASIC reports and press reports. This reputation included credibility of the audit firm, adequate size, global activities, expertise, and standing in the industry. Other references were made to methodology including up-to-date technology and the control systems of the firm. Related to methodology, there was mention of the use of data analytics and the use of tools to provide greater value. A number of ACCs also mentioned that when there was adverse publicity for their audit firm (e.g. ASIC report, newspaper story, etc.) the CEO would personally contact them to explain/apologise. The other main factor was the quality of the lead engagement partner. This included the partner's capability, industry experience, independence, forthrightness, and cultural fit/personality. This discussion sometimes referred to the audit team as a whole rather than just the engagement partner. This included the team meeting expectations, their expertise, their coverage and gender representation on the team.

*It was the quality of the team that they brought forward. The specialist knowledge of the sector, as demonstrated through the presentations, by insights that they brought out in conversation about things that were happening in the industry, and, and therefore the ramifications for the company, and how that might translate into impacts in the financial statements. ....how they would use their tools to provide greater value in the audit as a whole. But fundamentally, it's about the quality of the team, the depth of expertise, the insights that they're bringing to bear, relevant experience in in the sector or dealing with issues that we were likely to be facing in turn. And, and the feeling, I think that the incumbent team had perhaps just lost a little of the energy that the new team came incredibly excited about the opportunity and brought a level of energy to the whole exercise that probably the incumbents just didn't have. (AC 8)*

The final factor referred to the quality of the audit work done. This included references to the 'right' sort of service, their satisfaction with the audit, clear communication including clear discussion around areas of judgment and what alternative assumptions could be made.

*... the [incumbent auditor], came to us, we had a whole session at the audit committee talking about audit quality, and how they would some of these matters that they would report back to us. So their transparency report and some of the key data from their*



*Transparency Report. And the key data from ASIC reviews, as a firm and what the findings were and where they were working on it, and whether any of those matters were present, that they provided us a summary of their diversity statistics, they gave us a summary of their leadership quality survey, ... do we observe professional scepticism and challenge happening through these reports and the discussion and are we satisfied they address the risks? What is the quality of the report they gave us, ... you want there to be a good relationship with the finance team, but you want it to be appropriately independent and challenging was not being, you know, ... So that was what we did. And so we were able, then, if questioned by a shareholder around, [audit firm] have been your auditor for a long time, don't you think you should get rid of them, have a change, we will be able to articulate the steps that we went through, in making that assessment of audit quality. (AC 21)*





## 5. ASIC inspection reports

Most, but not all, ACCs were familiar with the ASIC reports for individual firms. While this information was sometimes obtained from press reports and the audit firm transparency reports, the most common source was details provided by the partners who were generally forthcoming in providing insights on the most recent ASIC reports.

The general sentiment of the ACCs was that some form of oversight and inspection process is a good thing, but many were extremely critical of present reporting processes by ASIC. The positive aspects of the inspection process were that it is likely to improve overall audit quality, it was useful at the time of the tender process, it is a useful discussion point to have with the incumbent audit firm, and that it gives another layer of comfort.

*I have a number of other firms as external auditors. So I have my own judgement, on quality as well. But the fact that I have that report to add to my own judgement is really powerful. ... So I don't really need to go and source it, because it made its way to me pretty quickly. (AC 9)*

The criticisms of the inspection process focussed on the sample selection and the generalising of a very small sample of high-risk audits to the population of audits. There was also extensive criticism of the reporting processes with reference to 'grand standing' and the focus on the negative rather than a balanced report.

*But I always pay a lot of attention to see which way ASIC is heading, in their view of audit quality. I have a long held view that there's a misalignment between audit quality, and ASIC's way of testing that. ... And so I'm always interested to understand when you get two experts disagreeing why one expert thinks they're more right than the other expert ... there's probably a range of issues that come to mind. Firstly, the rhetoric that I consistently read from ASIC, in the media, in particular, is quite at odds with my actual engagement and experience with the auditors that I deal with ... I think that inspection process itself is highly valuable to formally running an audit division. I think an outside view looking into something like an audit process should be a good thing and should add value to the way in which audits are executed and should encourage that continual improvement. So, sharing ideas, helping people move towards best practice in a constructive way should be a good thing. So therefore, on the whole, I am supportive of well run inspection processes. I'm not supportive of headlines that I'm not sure what they're aimed at, but they seem to be aimed at sort of either grabbing somebody's attention, whether it's audit committee chairs, whether it's the audit firms themselves, I worry when, the profession is continually cast in a bad light when you're trying to recruit into the profession... As long as the reports are balanced, and paint both positive and negative, I'm comfortable with that. (AC 16)*

*Little less grandstanding? I sort of get it that ASIC need to be seen to be the tough cop on the beat. ..., is it intended as a media release that enables the ASIC to blow its own trumpet about what a good job they're doing. If that is the objective, so be it. If it's intended to be a genuine communication tool with audit committees and directors around what how their audit firm is going. I think it meets the first criteria and fails the second quite badly. (AC 1)*



Questions were raised about whether ASIC had the resources and staff to make the judgments they do on specialised complex areas where ACCs had more confidence in the specialists they hired than the ASIC staff. There were a number of strong criticisms of the rating system of the firms and the link to performance based on small non-representative samples. However, there were a number of ACCs that placed a lot of weight on these ratings.

*I think to some degree, they've been politicised, which is unfortunate, in that, firms boasting ... In the absence of having someone audit the auditors, I think there is a risk that auditing standards slip .... So I do think we need some function, which actually is auditing the auditor? So I think that the way ASIC goes about it, where it is risk based, their choice of who they audit, I think that probably is the right thing to do. But if it's risk based, then it actually can't be generalised across the whole universe of audits. And I think the problem is, at the moment, people are getting results. And they are generalising them. And that actually isn't useful for anyone. Because if you want audit firms to take on risky clients, and I want the good audit firms to take on risky clients from a societal perspective, potentially that process discourages them from doing that. And then you end up with the riskiest clients in the least experienced hands. (AC 4)*

In summary, concerns were raised about the effect of this reporting process on the standing of the profession and the ability to attract top high-quality staff to the profession. Some ACCs were particularly critical of some of the judgments made by ASIC, the methods and the lack of balance in reporting. Almost all ACCs referred to the fact that the audit firms informed the ACC if there was a current inspection involving the company. They also referred to audit firms providing insights on the latest ASIC inspection reports and if there was adverse publicity about one of the firms, senior management of the audit firm was proactive in discussing the issue with the ACC.



## 6. Do ACCs see benefits in disclosing tenure of audit firm?

The vast majority of our interviewees responded positively to this question with only a few disagreeing. However, while generally positive, the responses were along the line that the information was already publicly available and so they saw no real harm in disclosing it. However, even among those that were in favour, there were a few cautioning explanations. These generally related to doubts whether it would be misinterpreted. For example, “*could well give the wrong impression that you'd lost all of that independence*” (AC 8). It was also suggested there were high costs to change auditors in circumstances where the company had taken adequate measures to ensure independence and were very satisfied with the quality of the audit from their present auditor.

*My own experience is changing firms is quite a painful process, because of the institutional knowledge. And these businesses are so complex in this day and age, you know, you do lose something. Equally, a fresh perspective is very good as well.* (AC 18).

Of those who were not against the disclosure, there was a range of options of where the information should be presented. Almost all suggested that this information be provided by the company with the most common suggestion being in the notes in the financials (e.g. Auditor Remuneration Note). The next most common suggestion was that it be placed in the Corporate Governance Statement. There were a few suggestions that it be in the Directors' Report.



## 7. Type and frequency of ACCs engagement with auditors

Almost all ACCs interviewed had a pre-meeting with the auditor before every AC meeting.

*I have a pre meet with the auditor ahead of every audit committee meeting... if there's an issue that I'm uncomfortable about I will proactively reach out to talk about an issue. If there are issues that are sometimes of interest, audit partners will reach out to me to discuss a topic that's coming up or just to check in on how the company's going.. (AC 8)*

For a few ACCs it was less frequent, occurring around the AC meetings considering the draft half-year and full year audit reports, but in addition if there was something in the AC papers that needed explaining, or that the auditor wished to bring to the ACCs attention.

*Would talk to the auditor, certainly before the two that are around reporting... But it's more frequent than that, from a practical perspective, because going into the other two audit committee meetings, there's usually something that's coming from the auditors that you'd have a chat to them about (AC 4)*

All ACCs expressed the need and actuality of effective and open lines of communication. Thus outside these pre-meetings the ability of either the ACC or the audit partner to get on the phone to the other party at any time was emphasised.

*The philosophy I have is that the phone is always there... I have a formal catch up before each audit committee meeting. So when the papers are out, a week before an audit committee meeting.... (AC 6)*

*[If] there's an issue, or a problem, then I would pick up the phone to the auditor, or the auditor would pick up the phone to me, .... I mean, it doesn't have to be a big problem, but it's more just making sure the communication lines are open. (AC 12)*

There were some comments that in the current environment the relationship between the ACC and the audit partner has become less formal (but not less independent or professional).

*I find it quite interesting, when I was at [audit firm], the relationship that you had with the audit chair was probably a lot more formal than maybe the relationship I'm having with my audit partner. And possibly, it's because it's the next web generation. And also things like ZOOM just make it so much easier to catch up with people. (AC 19)*

Management are unlikely to attend any of the meetings outside AC meetings. Most did not envisage management ever being involved in the more informal catch-ups, although a few ACC's did not rule out their attendance if it was beneficial.

*No, these are independent. These are separate from meetings with management. That doesn't mean that we wouldn't have meetings together. (AC 2)*

*Virtually all of those discussions I have by myself. But if it is something technical, that we had to nut out, then I could envisage a situation,,, with management. (AC 19)*



ACC's were asked which word best describes their relationship with the audit partner. They were not restricted in the number of words they used. They are on the whole very positive, with the most common word open (10 of 21 instances) followed by very-good, professional, candid and respectful (5 of 21 instances each). The only word used which was less than positive was the word 'developing', which for the one instance use referred to the first-year relationship of the ACC and the audit partner.



## 8. Processes for assessing audit quality at completion of the audit

### How do Audit Committee assess audit quality at the completion of the audit?

The processes for assessing audit quality ranged from a very formal and structured one to a less structured approach. The very formal and structured approaches included distributing a questionnaire to (or surveys initiated by) auditors and management and explicit consideration of this feedback at an audit committee meeting, under a specific audit committee agenda item. In some cases there was a survey distributed to each member of the audit committee (or entire Board of Directors) by management for compilation and consideration by the audit committee.

*We do a board assessment and audit quality assessment. And in every place, we encourage the firm and our team to do a debrief, what went well, what didn't go well, ... Either we'll run a survey process with our management team on the audit firm, or they'll run a process, which involves surveying our people (AC 18)*

*The process involves a questionnaire that's managed by ... the people who prepare the financials. They get feedback via this questionnaire from all of their own internal leadership as to what they think. And then there is a separate questionnaire that goes to every member of the board and every member of the audit committee asking what they think of the external auditors... (AC 2)*

In the less formal approaches there was no explicit comment of surveys or questionnaires, but there was an explicit agenda item on the AC's agenda, and sometimes this is included in a briefing paper from management. In two instances there was no mention of a specific agenda item, or an overall conclusion recorded about audit quality for that audit. Both of these ACCs felt that there was sufficient opportunity to for audit committee members to raise any concerns about audit quality, or that the assessment had been implicitly part of other discussions around the auditor.

*We don't have a formal structured template that we follow. It really is more, the directors who are on the audit committee bring a certain level of sort of expertise, and I guess, our view on that get teased out that way.... (AC 15)*

### What issues are considered

The issues that are mainly covered in assessing audit quality were similar to the audit quality issues raised earlier by ACCs.

*So the assessments have been more around, how well have we worked with them? How responsive are they? You know, are they proactive? Are they timely? Is it good reporting? Now, all of those things feed into audit quality. (AC 19)*

*And it would consider various aspects of the auditors performance. So from memory, it goes through their technical capability, the organisational, like the very practical carrying it out, were they organised and upfront, and did they make timetables and things like that? And then there's a third category that, how do they engage with the audit committee? Did we get the information we needed when we needed it? How was the reporting through to us? (AC 4)*



## An evolving approach to assessing audit quality

Some of those running a fairly informal process of assessment of the quality of the auditor identified a likelihood of the process becoming more formal in the future.

*It's informal, I suspect, we're probably going to have to move to a more formal arrangement going forward. I think that'll be the only way ASIC will be satisfied that governance has been exercised. But yeah, I can see that coming. (AC 1)*

*It could be more formal, but we do in a private session as the audit committee, talk about the auditors whether we were happy, what we liked, what we didn't like, all those sorts of things, .... I think there's going to be more formality coming out with guidelines and things. So we will probably go through more of a process which is okay, more of a formal process. (AC 12)*

Even those running a fairly formal approach say their evaluation approach is evolving

*I guess I feel confident, but I keep challenging myself, whether we can do more every year. So even if it's whether it's through that questionnaire, I don't just send out or authorise for the same questionnaire to be sent out every year. But we pause and think around, is there anything we could ask differently? Is there anything extra we could ask? And that's an area where I talk to my peers a bit. Try to get clues from others of me, across the other big companies and say, Well, what do you do? What else are you doing? And I don't mind stealing good ideas. (AC 9)*

## Audit quality indicators used

Most ACC did not see a benefit in establishing further guidance on audit quality indicators. They either tended to indicate that it did not inform them or the use of a list of audit quality indicators may lead to boilerplate assessments, without the required consideration, as indicated by:

*I don't really look at what people might call audit quality metrics, or audit quality indicators. Because frankly, I think all the indicators that are out there don't really give you much useful information about whether or not you've had a quality audit. (AC 2)*

Some indicated that they did or will use such lists to help inform them of their processes including the recent publication by the AUASB and AICD (2022):

*I have right in front of me the guide for audit committees from the AICD. Because one of the things that I've been wanting to do when we do an annual assessment of the auditors... we talk about how well they perform the audit, but we actually don't really talk much about audit quality. So what I've been wanting to do is come up with a better mechanism for us to assess and report back on audit quality (AC 21)*





## 9. Areas where ACCs consider that their auditors perform well

The ACCs were asked to describe areas where they believed that their auditor's performed well. Most concentrated on one area. The key areas identified by ACCs where they believed their auditors perform well were:

- Providing insights on the business to AC, both how it operates and from best practice approaches and disclosure, and source for future trends, standards and regulations
- Use of experts in areas of critical judgment
- Work well with management to resolve issues
- Quality of communication and early identification of issues

The main area identified above was providing insights on the business to the AC, both how it operates and from best practice approaches and disclosures, as illustrated by the following quotes:

*Insight on the sum of the moving parts and where there was sand in the gears, .... auditor was in a position to provide some colour around what the organisation had been through (AC 1)*

*Good at stepping back and, giving you a relative view across the business of areas that are doing well, and less well. (AC 12)*

*The range of assumptions that have been used, and what alternative assumptions could be used. And what impact that would have. (AC 21)*

Their ability to bring in experts in areas of critical judgment was also highlighted, as illustrated by the following quotes:

*In the areas of judgement, they will bring experts to bear and ... they will do their own analysis and compare it to ours, [and] tell us where we need to sharpen it up (AC 4)*

*We've had a lot of engagement with [incumbent auditor], and their technical experts, and they've also shared with us experience from their overseas operations (AC 11)*

Their ability to work well with management to resolve issues was also identified by ACCs as illustrated by the following quotes:

*Working with management and just getting things done in challenging timeframes without compromising quality (AC 3)*

*Very good at bringing management to the point where they could see that the reading of the standard required that it had to be read that way. That was a management exercise on their behalf as much as the standards exercise (AC 6)*





The high quality of their communications including early identification and communication of issues, was also commented on by a number of ACCs, as illustrated by the following quotes:

*Good, open communication early.* (AC 18)

*Clear, open, concise, regular communication. Very transparent, proactive. Don't do things at the last minute, I find that the way they present their reports and summarise issues, is very sort of simple and easy to read.* (AC 19)

*Open... candid conversation, with clear communication on matters of judgement.* (AC 21)



## 10. Areas where ACCs consider there is room for improvement from their auditors

The ACCs were not restricted to identifying and discussing one area of improvement, but most either did not identify areas of improvement, or they concentrated on one issue. The key issues raised by the 21 ACCs are:

- Better use of data analytics/technology and communication of best practice
- Better use/co-ordination or reliance of work of internal auditor
- Improved insights around group operations. AC rely on auditor for insights, but auditor does not visit (e.g. not material to auditor)

The most common area for improvement identified above was better use of data analytics and technology, as illustrated by the following quotes:

*I think they can probably do more around the use of analytics..... But this is a double-edged sword because the more you do in using analytical tools, for the auditor to use analytical tools, that also puts a fair onus on management to organise data in the right way. (AC 11)*

*The capacity to interrogate 100% populations of transactions in a sensible way.. is the future that's not going to detract from their professional judgement. But it does ensure coverage of transactions. (AC 17)*

The second most commonly mentioned area was greater use, co-ordination or reliance on the work of internal audit. ACCs indicated that companies had invested heavily in internal audit, either by internally building that capacity or outsourcing this to {another} audit firm. They saw that there was limited reliance on the work of internal audit, especially given the much broader current mandate for financial statement audits, and the investments in competence and independence of internal auditors.

*I generally think that there can be better dialogue between internal and external auditors. I do think that we've lost our way a little bit generally with the two audit capabilities talking to one another, leveraging one another. And perhaps it's harder nowadays for an external audit firm to leverage the work of internal audit, but I do think that there ought to be better connectivity between the two actually. (AC 7)*

*Collaboration between external and internal auditors is pretty average. ... arguably, there's, you know, the overlapping, concentric circle type thing, but I think, in some internal audits have moved more to operational (AC 18)*

Group audits was also seen as an issue, with the auditors ability to provide insights to the AC on parts of the group seen as beneficial in providing a fresh view from an operational and risk perspective:

*I think they could spend a little bit more time in the field... they tend to hit the projects that they're worried about... And I understand materiality and all that sort of thing. I just think that there are pieces of the business they could just spend a little bit more time in the field. (AC 6)*

*when you've got significant overseas operations ... Its an opportunity for the firms to look at how they bring in an aggregate, and, I guess sort of ensure consistency and quality of the auditing that comes through in those different countries overseas (AC 9)*

## 11. Overall assessment by ACCs of audit quality of the incumbent auditors

Consistent with the categories used by the surveys of ACCs conducted and reported by AUASB (2018, 2021), the ACCs were asked to assess overall quality of their auditor as excellent, above average, average, or below average. 12.5 of 21 ACCs (60%) assessed audit quality as excellent, and 8.5 (40%) as above average, showing a high level of satisfaction.

Category	Number
Excellent	12.5 (60%)
Above average	8.5 (40%)
Average	0
Below average	0

The 100% response of excellent and above average show that ACCs have remained very satisfied with the quality of their external auditor and compares favourably with the 94% rating them 'Above Average' or 'Excellent' for the survey undertaken by AUASB in 2020 (reported in 2021), and the 92% in 2018.

The basis of the assessments were the factors that ACCs rated highly in considering audit quality, as reflected in the following quotes:

*Understanding of the business, and depth of communication and understanding. (AC 16)*

*No surprises. And to me just a lot of good clarity and discussion on the complex issues. And really, being able to articulate well.... And there's quite a bit of support then for the key judgments and the way in which they test those key judgments. (AC 19)*

Many ACCs indicated that an average or below average assessment would reflect areas of improvement were needed, and if this was the situation, this would result in change of audit partner or audit firm. Others identified specific areas where their auditors, or the auditing profession in general could improve. For example:

*Above average. But that whole piece on sustainability, I think is, you know, we're not leading the world on it. And the expectations of stakeholders, particularly shareholders, is rising materially, and I think we need to do a lot in that space. (AC 14)*

Many who assessed as above average commented that excellence was a high barrier at which to assess. For example:

*Above average is what you're looking for. Excellence, it's a superlative that should be reserved. And if you think about it, how can everything be above average? Doesn't make sense... If the average is excellent, then it needs to be recalibrated. (AC 16)*



Others recognised that it was the interactions of the auditor with the client, and sometime the client may restrict the performance of the auditor; For example:

*If you're auditing [a client] who's probably got some very sophisticated systems, I'm sure the auditors of [that client] do some amazing analytics, right? If you're auditing an organisation that's got legacy systems that haven't been updated for 10 years, then you can't possibly do the same level of sophistication. (AC 19)*

## 12. Assurance over other reporting including sustainability assurance

ACCs were also asked a series of questions over assurance of other reporting responsibilities outside the financial statements, including sustainability and climate change reporting. As assurance decisions on these areas did not sit necessarily under the AC, (but if it did not, ACCs were usually involved in these discussions, either at the full Board, or as members of the sub-committee where the conversations took place (e.g. Sustainability Committee). Some of the major themes from these discussions, and the takeaways are described below.

### **Sustainability and other reporting and assurance is currently a major focus of full Boards,**

Sustainability and related reporting and assurance issues are on the agenda of all Boards. In fact, in discussions with key stakeholder groups, including discussions at AGMs, commonly more issues are currently being raised in relation to sustainability related issues compared with financial accounting related issues. The importance of sustainability to the full Board is evidenced by the following quotes:

*On these topics, given how quickly they translate into AGM related discussions, the whole board are vitally concerned with the E and the S and the G (AC 1)*

*We're really talking in the board as a whole, around the strategic approach that we're going to take to sustainability. Because generally it's a licence to operate/ reputational cornerstone, of the strategy of any company in any industry that you're in. So you need an all-board approach to how you're going to deal with sustainability strategy. (AC 17)*

### **Likelihood of ACs being involved in decisions around assurance of sustainability and other reporting**

There was quite a range of approaches related to decisions around assurance or other credibility-enhancing techniques associated with sustainability-related information. In some cases the AC was involved, in other it was either the full Board or another sub-committee. Where it was a separate sub-committee of the Board, the ACC usually mentioned that they were also a member of that separate sub-committee. The variation of approaches in practice is evidenced by the following quotes:

*The XX (sub)committee is the one that's actually looking at this other area of activity. Now, I sit on that committee. (AC 2)*

*We have a separate sustainability committee of the board... And that sustainability committee drives both the development of the ESG strategy, the monitoring of that strategy and the reporting of that strategy. (AC 6)*

*[the audit committee] manage the assurance verification procedures over the whole annual report, with our sustainability work integrated into the annual report (AC 10)*

*The sustainability report is under the purview of XXX (sub)committee, which is a separate committee to the audit committee. Because I sit on that committee, I get to see it all (AC 11).*



*Sustainability reporting is covered by the verification that comes up through the audit committee. The Board looks at it more from a messaging and things. But the audit committee is looking at more from verification. At the moment, we do internal verification. (AC 12)*

*Sustainability reporting is something that's it's captured as part of our annual report, there's a section in the annual report, .... it's definitely the audit committee that takes it to the board.... because it fits into that regime of external reporting. (AC 16)*

In trying to identify the common themes, three major (not unrelated) factors were identified as being associated with the likelihood of the AC being the primary subcommittee for discussion of sustainability related issues.

- **The size and nature of the entity:** larger and more highly regulated industries (such as financial) were seen to be less likely to have the AC as the logical home for sustainability assurance.
- **Other sub-committee structures:** The increased prevalence of sustainability committees meant that these were the logical home for discussions around sustainability related reporting. It was less clear for assurance issues associated with such reporting. ACC's were commonly members of the sub-committees where these discussions were taking place
- **The extent to which the entity embraces integrated reporting:** the more likely the sustainability information is reflected in the annual report, the more it is seen as the domain of the financial statement auditor, and the more likely the AC will have jurisdiction over the information

An interesting issue arising is that the additional focus on sustainability issues and associated assurance is challenging current Board sub-committee structures. This was emphasised by the following observation:

*So you need an all-board approach to how you're going to deal with sustainability strategy. What then tends to follow is, who's going to do the work? And the work tends to be shoved all too often onto the audit committee. So I think there's a big discussion to be had... as to how to actually optimise the use of the committees to cover all of these continually emerging ESG issues. ... these have become very big areas (AC 17)*

### **Is assurance of sustainability reporting (including ISSB standards) essential?**

The view was overwhelming that sustainability reporting, including reporting under the ISSB standards, should be assured. This was based on the view that this information is important to the market, and Boards are continually being questioned about what they are doing by shareholders and stakeholders.

*it should be because you know, it's starting to become information that is sought by the community at large and so has an impact on ASX reporting in that whole kit and kaboodle. (AC 2)*

*Absolutely. I'm an advocate of having information assured. Even in an emerging area, like ISSB stuff. (AC 5)*



Also ACCs saw benefits in the improved perception on this information brought about by assurance.  
For example:

*There's a perception issue that might make it valuable to be assured that if you're confident about having it assured, then that speaks to your maturity and confidence in the numbers that you may have, anyway. But having an external assurance on it just provides, provides that perception, and I think also the value of it is, an external party saying to me as a board member, it's a bit like those areas of judgement and the alternative assumptions, what you've got here, it's fine. Be aware that there are a range of other assumptions you could have taken that could have led to this outcome or their outcomes. So you actually have a bit more insight as to how the material could be presented differently, or what the risks are of achieving your targets (AC 21)*

However, many ACCs commented on the need to get the reporting requirements bedded down first. This is reflected in the following quotes

*Ultimately, yes [there should be assurance]. I just worry about stopping evolution of how you present this information in a meaningful way, by putting an audit requirement around it when we were struggling to, you know, I think we should be heading towards that. But I think the [reporting] standards have got to catch up first. Otherwise, it's just too hard at the moment. I think boards should be encouraged to say, Well, if you're putting this stuff in your annual report, where do these numbers come from? And it makes sense to get somebody to look at that for you to give you independent comfort over those. (AC 10)*

*I'm going to tell you the biggest issue in the sustainability area is, there are just so many different requirements all over the place. So you've got the TCFD, you've got the SASB, you've got the GRI you've got the scientific based target initiative. You've now got the ISSB. Because at the moment, , you say, well, listen, guys, do we have to comply with every one of these? I mean, can't we go to the highest common denominator or do something... (AC 18)*

There were also concerns about the quality of the current systems and processes

*The big question in my mind is the quality of the systems that will be available within the company to be able to collect and analyse the data and then report on it. .... We are at the very early stages of producing quality sustainability data, because the systems are very old legacy systems within the company. ...And the problem with having them, depending on what the standards eventually introduced, having them subject to assurance is that it will go to the quality of the data and the systems that collect all of that. And then if it identifies that, something we already know, that the data is not in a good format, or it's poor quality, or it's inconsistent, or it's not picked up across every piece of the operations of the company. What does the auditor who's doing the assurance now do about that? You end up with a qualified audit report as a consequence. And if that was the case, I think that would be a bad outcome. (AC 11)*

### **Boards currently considering the further evolution of assurance processes.**

Whilst there was recognition of the need for assurance, there is commonly a current discussion at Board level of the assurance processes in place. This is reflected in the following quotes:

*At the moment, this will change but at the moment, it's actually a discussion between management and the auditor. Off the back of an objective having been set by the board that there be some level of assurance. It's not as well connected as it could be, but it will be in the future. (AC 1)*





*Not fully, there are elements that are assured. But we are looking to do more assurance going forward... So yeah, it's an evolving area, this one but we are planning to do it if we don't do it already. (AC 18)*

*Some of my fellow board members instantly go to, we want external assurance on it, because that feels like the safest way of meeting their own director obligations. I was happy to support the management team around look, I think there will be a time we want external assurance, but at this point, we're still I think we need to hear from management, how they're putting together all this and what they're doing and what the level because we don't have external assurance on every single matter we report externally. (AC 21)*

### **Concerns about current assurance practices.**

There were some concerns around the value associated with current assurance practices. Some valued assurance, others less so, for the reasons described in the following quotes

*There's a bit of assurance. I question the value of it to be honest. I know that as we move to more consistent frameworks of reporting, there's a push for assurance over those frameworks, I have some hesitancy about it. You know, so much this information is derived from non-double entry systems, high degree of judgement associated with many of the items, Scope 3 for instance. Other than a party telling you that, from an agreed upon procedures point of view that a equals b, I don't place a great degree of reliance on that sort of quality of assurance by a third party, you can have people within the organisation that can do exactly the same thing. (AC 1)*

*I am quite comfortable with external assurance. And the more of it that can realistically be done, I think, the better. The question is, where's the balance as to whether the assurance is really just checking you said A equals B and B equals C, therefore A equals C and I have followed your formula and your formula works? Or is it a genuine assurance of an outcome? So I think we need to be mindful of what's the additional quality that comes from assurance that to the extent that it can be there, then I think from a board perspective, we're comfortable to see it. ... Whether we will be any better off as a result. I'm not sure also, we need to have a bit of judgement that underlies that. (AC 3)*

*I don't think it's quite the same as a financial report. ... you've got a balance sheet, you've got the P&L, it all fits together, all the bits need to fit together, then the notes get broken out. And it's all disclosures and all that stuff. And you kind of have to audit the whole to make sure it all makes sense. Whereas this is lots of different information. As I said, it can be the number of women in senior roles, it can be this, it can be that and so I think you did you need to look at what could be material risk of misleading stakeholders? And what level of assurance do we need around this? And I, I hope we get to a point where it's more risk based. (AC 12)*

### **Choice of assurance provider**

On the whole, ACC's perceived benefits around the incumbent financial statement auditor also providing this assurance (because of their knowledge of business, systems and processes). However, some ACCs still see roles for other assurance providers. The level of integration of sustainability information into the Annual Report and desire not to deal with a broad range of assurance providers also drove the use of the incumbent auditor.

*I think we will get [our financial statement auditor] to do the sustainability report as well. Largely because there's a degree of overlap I think, efficiency that can come with that in understanding the organisation.. (AC 3)*





*In terms of providing assurance, I want the numbers to come from a reliable source as well and somebody who understands our systems. And I don't want to deal with another firm at the depth of trying to finalise the annual report. So we need to be all integrated, from my perspective. (AC 10)*

*I think the key thing for me is your financial auditors are in there, getting to know who the people are in the organisation, the systems and the processes and how things work. And so they already know the organisation and there should be an amount of scepticism that should be able to be applied. And then ... even though it's non financial information, a lot of the information is coming from similar systems, so they really tried to do it on an integrated basis. So if you're testing, say payroll dollars, through the same system, you'll be gathering information about gender or pay gaps or what have you. You just are extending your audit work to cover the nonfinancial now (AC 19)*

Another reason observed was desire for independence from your assurance provider, as other firms are often conflicted by their providing other services

*So my inclination is quite strongly that it should be the same auditor, you know, you want you want that independent assurance. And you want somebody who understands and knows, knows the organisation and has no interest in being other than independent. Right. So if I was to put that a different perspective, at [name] there's only four big firms. I want one of them to be independent, to provide relevant, independent assurance, the others are too deeply involved in the business to provide that independence (AC 16)*

One ACC described a past explicit decision to use another accounting firm, because of concerns over the level of non-audit to audit services, although this concern was seen to be waning over time. Although not commented on by the ACC, this may be because of the benefits of using the same assurance provider, or because of recent discussions which draw the distinction between assurance services and non-audit services, including the classification fees for assurance services.

*So it's typically been done by another audit firm. That got driven in part because our company auditor had been involved when we were doing acquisitions and other things. And we started to push up against a Non-Audit Services ratio. And so we actually moved quite deliberately to introduce another audit firm so that we could bring that ratio down. Again, I'm not really sure that's the right outcome. But the truth was, at the time, proxy advisors in particular, were really recommending against supporting resolutions of companies, AGMs if that Non-Audit Services ratio was too high, I think we've, you know, I think that settled a little bit. My preference would be that the company auditor did it. (AC 7)*

However the choice of incumbent auditor is not necessarily seen to eliminate the use of other assurance providers, as evidenced by the following quote:

*I don't necessarily see it eliminating those parties who were previously doing discrete pieces of work on your risk of modern slavery in your supply chain or something and that your external auditor won't necessarily and this will be to what extent they can rely on that work, but they will, my belief at the moment is that they would look at that as part of the control framework around getting that data and then they would just make sure that that data was complete and that it was reported properly (AC 21)*



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## UPDATED AUDIT QUALITY ACTION PLAN

### DESCRIPTION

In September 2021, the *FRC Audit Quality Action Plan* (Action Plan) was redrafted to ‘better reflect the actions the FRC and the standard setting boards have taken to address audit quality’ (see item 5A in the 22 September 2021 Minutes [here](#)).

At its 27 October 2022 out-of-session meeting, the FRC further agreed to re-assess the Action Plan to determine whether it can be updated (see the out-of-session minutes at item 3B of the [23 November 2022 Meeting Pack](#)).

The current [Action Plan](#) is at **Attachment A**.

### ACTION

- The FRC to assess the progress of action items in the Action Plan.
- The FRC to review the Action Plan and consider whether any updates are needed.

## FRC AUDIT QUALITY ACTION PLAN - NOVEMBER 2021

### OBJECTIVE: IDENTIFY INITIATIVES TO SUPPORT IMPROVEMENT IN AUDIT QUALITY IN AUSTRALIA.

#### 1. Identify initiatives to respond to ASIC's Inspection Findings

##### Actions to date:

- Revised Guidance Statement 5 *Evaluating the Appropriateness of a Management's Expert's Work* issued.
- Revised ASA 540 *Auditing Accounting Estimates and Related Disclosures* has been released and is now effective. Implementation support has been released.
- Revised ASA 315 *Identifying and Assessing the Risks of Material Misstatement* to require a more robust risk assessment process released and is effective 30 June 2022. Implementation support will be provided.
- Revised Quality Management Standards (QMS) have been issued and are effective 31 December 2022. Implementation support will be provided.
- ASIC have raised substantive testing methods (sampling and substantive analytical procedures) as possibilities of standards to revise.
- ASIC continually benchmark and review its Audit Inspection Program with the programs conducted by other regulators.

##### Future actions:

- Continue discussions with ASIC and the firms to:
  - identify where guidance or amendments to standards will assist in reducing findings; and
  - determine how reporting of Audit Quality Indicators (AQI) will assist communication.
- Release implementation support for ASA 315 and QMS.

#### 2. Implement the recommendations of the PJC Inquiry into Regulation of Auditing

To work with responsible standard-setting and regulatory bodies to implement the recommendations relevant to the FRC and AUASB. The Australian government is yet to respond to the report however planning for implementation of some recommendations is already in progress. Refer to Appendix 1 for the recommendations applicable to the FRC and AUASB.

**Actions to date:**

- The FRC PJC Inquiry Working Group consisting of representatives from the FRC, AUASB, AASB, APESB, and ASIC has been meeting to plan how to implement the recommendations in a co-ordinated manner. Refer to Appendix 1 for more detail.

**Future actions:**

- Continue the FRC PJC Inquiry Working Group meetings.
- Work with the AICD and ASIC on guidance / communication to Audit Committees on their monitoring of audit quality and disclosure of audit tenure.
- Monitor IAASB's projects on going concern and fraud and continue to consider if other actions are required in Australia.

**3. Work with ASIC, Accounting Firms and Professional Bodies to define and report on Audit Quality Indicators**

**Actions to date:**

- The Report of the PJC in February 2019 recommended that ASIC devise and conduct, alongside or within its current Audit Inspection Program, a study which will generate results which are comparable over time to reflect changes in audit quality.
- ASIC have reported some AQIs in Report [649](#) (2019) and [678](#) (220) *Audit Quality Measures, Indicators and Other Information* which accompanied their report on the annual Audit Inspection Program. ASIC have indicated they will not issue this report in 2021 due to concerns that this report was not widely read and was time consuming to produce, however are considering including some limited AQIs in their Audit Inspection Program report.
- A review of professional and academic literature was conducted by the FRC in 2018 which identified a range of AQIs (over 30), with various degrees of measurability. A summary of the literature was prepared and analysed by the FRC.

**Future actions:**

- Work with ASIC and the firms to obtain consensus on what AQI will be reported and by whom. Options for reporting AQIs are by ASIC, the FRC, the AUASB or by the firms in their Transparency Reports.

**4. Obtain views of users of audit services on audit quality**

**Actions to date:**

*Audit Committee Chairs*

- A survey conducted in 2018 and repeated in 2021, which was a joint initiative of the FRC and the AUASB and replicated the selected questions from a survey of this nature carried out previously by the United Kingdom's FRC.
- The survey was sent to ACCs with the assistance of ASIC and the Australian Public Policy Committee (APPC – made up of representatives from the Big 6 accounting firms and the accounting bodies).
- Overall, the results indicate that ACCs are very satisfied with the quality of their auditors (in the 2021 survey 94% considered their external auditor to be 'above average' or 'excellent' which is up from 92% in 2018).
- The reports are available on the FRC and [AUASB](#) websites and the results were included in ASIC's Report [649](#) (2019) and [678](#) (220) *Audit Quality Measures, Indicators and Other Information*.

#### *Investors*

- The FRC and the AUASB conducted a survey of Professional Investors in late 2018 with the assistance of FSC, ACSI, AIST, APRA and CRUF (Corporate Reporting Users Forum) for its distribution to investors. The survey was a replication of a survey conducted by the CFA Institute (a global association of investment professionals). There were 47 responses and final report was distributed in April 2019. Overall, the results revealed that 60 per cent considered that audit quality was above average – however 33 per cent considered that audit quality was average. The full report [Audit Quality in Australia: The Perspectives of Professional Investors](#) is available on the FRC and AUASB websites.
- The results of FRC and AUASB's survey were included in ASIC's Report [649](#) *Audit quality measures, indicators and other information*.
- This survey was repeated in 2021 however the response rate was too low to provide meaningful information. Due to the low response rate this survey will not be repeated.
- CA ANZ issued [Investor Confidence Survey Report](#) in 2020 and 2021 which captured the views of approximately a thousand retail investors in Australia. Results for 2021 showed that 91 per cent (up slightly from 87 per cent of 2020) of retail investors have confidence in the audited financial reports produced by Australian public companies.

#### *Chief Financial Officers*

- A survey was conducted in September 2019 with the assistance of the Group of 100, to CFOs of the ASX top 300 companies.

- The survey response was disappointingly low at 27 responses. Of those, 25 of the 27 responded that their external auditor was ‘above average’ or ‘excellent’. The survey results did not raise any significant concerns over audit quality. Due to the low response rate this survey will not be repeated.

**Future actions:**

- The ACC survey will be conducted every two years to enable the tracking of views over time.

**5. To review the adequacy of repercussions for auditors of poor audit quality**

**Actions to date:**

The Report of the PJC in 2018 recommended that the adequacy of auditor disciplinary functions be reviewed. The Government requested the FRC conduct the review. The FRC’s review was conducted over a period of four months, using evidence provided by the Australian Securities and Investments Commission (ASIC), the Companies Auditors Disciplinary Board (CADB), Chartered Accountants Australia and New Zealand (CA ANZ), CPA Australia and the Institute of Public Accountants (IPA). The FRC’s report Auditor Disciplinary Processes: Review was presented to the Government in March 2019. It included 18 recommendations relating to:

- ASIC detection, investigation and enforcement processes, including that ASIC outline how their ‘why not litigate’ enforcement strategy will apply to misconduct by Registered Company Auditors (RCAs);
- 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.

In its response the Government agreed or supported all but one of the recommendations.

**6. To engage with professional accounting bodies, firms providing audit services, and other stakeholders to support new initiatives that improve audit quality**

**Actions to date:**

- The accounting firms and professional bodies, collaborated and shared best practices for the benefit of the accounting profession and developed the following documents:
  - [\*An External Auditor’s Guide to Improving Audit Quality Using Root Cause Analysis.\*](#)

- [\*An External Auditor’s Guide to Improving Audit Quality Using an Individual Recognition and Accountability Framework.\*](#)
- The accounting bodies conduct a wide range of education and communication initiatives and produce a variety of guidance materials related to audit quality. The FRC meets with the accounting bodies on a regular basis and is confident that they are demonstrating a clear commitment to improve audit quality.
- The International Organisation of Securities Commissions (IOSCO) issued in January 2019 its *IOSCO Report on Good Practices for Audit Committees Supporting Audit Quality*. This document complements the publication *Audit Committees – A Guide to Good Practice – 3rd edition* produced jointly by AUASB, AICD and IIA.
- The FRC is also monitoring developments in the UK and are awaiting the UK government’s response to the report of the CMA, the Kingman Report and the Brydon Report.

**Future actions:**

- Work with ASIC, Professional bodies and AICD on future initiatives to promote audit quality with the director community.

## APPENDIX 1

### PJC Recommendations relevant to the FRC and AUASB

#### Recommendation 3

4.145 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.

**Status**

- The AASB have a project to determine the defined categories and disclosure requirements in relation to audit and non-audit services which includes benchmarking how other jurisdictions define and the associated fee disclosure requirements. The AASB will issue an exposure draft once a government response is received.
- The IESBA have made amendments to the International Code in relation to prohibited non-audit services. Based on this the APESB have issued an ED with proposed amendments to the Australian code ie. APES 110 including a list of non-audit services and defined categories of audit and non-audit services.



## Recommendation 6

4.151 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 disclosure should include both the length of tenure of the entity's external auditor, and of the lead audit partner.

### **Status**

- The FRC, AUASB, AASB and AICD have been considering where this may be disclosed and by which entities. It has been agreed to not amend any standards until a government response is received.
- As an interim measure the AICD, AUASB the Accounting Professional Bodies are considering issuing non-authoritative guidance to Audit Committees on their responsibility in relation to monitoring audit quality including recommending that disclosure is made on this as well as audit tenure

## Recommendation 8

5.64 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.

### **Status**

- The current reporting requirements are consistent with those of the International Accounting Standards Board and the International Auditing and Assurance Standards Board (IAASB).
- The IAASB has recently commenced projects on both these topics, however they will not be completed for several years.
- The IASB do not have going concern on their agenda however the AASB are preparing a thought leadership paper exploring how the reporting requirements may be enhanced, and to request this be prioritised by the IASB.



## AUDIT QUALITY MANAGEMENT REVIEW

### DESCRIPTION

At its meeting on 10 November 2022 the FRC requested the Chair with assistance from Anne Waters (AUASB staff) to determine the scope of a “refresh” of the review conducted in 2019 of the adequacy of auditor disciplinary functions in Australia. The FRC agreed that this would be broader than the 2019 review and would cover matters such as:

- Assessing whether the recommendations in the 2019 Review have been implemented;
- Examining the review processes of individual auditors / firms by ASIC, the firms themselves, and the Professional bodies;
- Examining how the separate review and disciplinary processes could be coordinated between ASIC and the Professional bodies with an overall aim to assess how the current systems work as a continuum.
- If there is still something further that needs to be done to implement the recommendations (this includes investigating the potential privacy barriers raised by the professional bodies).

The objective, scope, activities and deliverables of this project has been documented in **Attachment A**.

### ACTION

- FRC members to review **Attachment A**, provide feedback and determine whether to approve the scope of the project.

# SYSTEM OF MONITORING THE QUALITY OF AUDITORS IN AUSTRALIA

## PURPOSE OF THIS DOCUMENT

This document outlines the objective, scope, activities, and deliverables of the FRC's project to review how audit quality is supported and monitored in Australia for registered company auditors.

## BACKGROUND

One of the key functions of the FRC is to provide strategic advice in relation to the quality of audits conducted by Australian auditors. Refer to appendix 1 for the specific auditor quality functions included in the ASIC Act<sup>1</sup>, and refer to [Performance of FRC's statutory functions](#) which details how the FRC meet these responsibilities.

In 2019 in response to a request from the Assistant Treasurer, the FRC conducted an assessment of the adequacy of auditor disciplinary functions in Australia (2019 review). This included evidence provided by the Australian Securities and Investments Commission (ASIC), the Companies Auditors Disciplinary Board (CADB), Chartered Accountants Australia and New Zealand (CA ANZ), CPA Australia, and the Institute of Public Accountants (IPA). The FRC issued a [report](#) in March 2019.

The 2019 Review included 18 recommendations aimed at increasing transparency in the performance of RCAs and providing a more graduated disciplinary pathway for RCAs. Of those, the Government agreed, agreed-in-principle, or supported 17 recommendations and did not support one recommendation. The FRC has been monitoring developments in this space and is aware that there have been changes to disciplinary processes since the completion of the 2019 Review. However, the FRC have discussed that it lacks visibility and granular data on auditor disciplinary tools, actions and outcomes from professional accounting bodies, audit firms and regulators.

The FRC discussed at its meetings on [2 June 2022](#) and [8 September 2022](#) that they should commence a project to "refresh" the 2019 review. At its meeting [10 November 2022](#) it was agreed the scope of the "refresh" would be wider than the 2019 review and would include as a minimum:

- Assessing whether the recommendations in the 2019 Review have been implemented;
- Examining the review processes of individual auditors / firms by ASIC, the firms themselves, and the Professional bodies;
- Examining how the separate review and disciplinary processes could be coordinated between ASIC and the Professional bodies with an overall aim to assess how the current systems work as a continuum.

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<sup>1</sup> Australian Securities and Investments Commission Act 2001 section 225

- If there is still something further that needs to be done to implement the recommendations (this includes investigating the potential privacy barriers raised by the professional bodies).

## **OBJECTIVE AND SCOPE OF PROJECT**

The objective of this project is to review how audit quality is supported and monitored in Australia holistically and evaluate if any improvements are necessary. The scope is registered company auditors.

The FRC Chair considers it is appropriate that the scope of this review is wider than the 2019 review of auditor disciplinary functions and should cover the end-to-end process of how audit quality is managed in Australia. This recognizes that Australia's auditing regulatory and oversight system involves a number of parties with different roles and responsibilities designed by support and monitor audit quality. The scope will also include compliance with ethical standards as they are an important part of audit quality

The following parties have roles and responsibilities relevant to supporting and monitoring audit quality, and therefore are in scope for this review:

- Audit firms
- Professional bodies
- ASIC
- AUASB
- Companies Audit Disciplinary Board (CADB)
- APESB

## **ACTIVITIES**

This review will involve understanding each parties:

- Responsibilities in relation to supporting and monitoring audit quality, and how they are fulfilled.
- Processes to address identified issues including disciplinary actions for known breaches and unethical behaviour.

Based on this understanding the FRC will consider how the system operates holistically and if there are any gaps or overlaps and whether improvements are necessary.

### **Audit firms**

Firms and individuals who perform audits must comply with Professional standards such as AUASB's Auditing Standards including the Quality Management Standards (QMS), *Corporations Act 2001* and professional and ethical standards set by APESB. The QMS have been recently amended to improve their effectiveness in driving audit quality. The review will involve understanding the firm's approach to supporting audit quality through:

- monitoring compliance with Professional standards and how identified breaches are managed;
- how audit quality is monitored and supported;
- ongoing educative initiatives.

## **Professional bodies**

The following will be considered for CAANZ, CPA and IPA:

- Whether the recommendations to the 2019 review of disciplinary functions have been implemented.
- Whether their processes for supporting and monitoring audit quality are designed effectively considering:
  - Educative programs and CPE requirements
  - Robustness of programs to review firms:
    - How often
    - Compliance with Professional standards ie. AUASB QMS, Corporations Act and ethical standards.
  - Robustness and objective of programs to review individual auditors:
    - How often?
    - Review of individual files (sample size and by who) ie. AUASB QMS, Corporations Act and ethical standards.
    - The policies and processes for elevating negative findings to the disciplinary functions.
  - How they assess compliance with and respond to identified member's breaches of the APESB professional and ethical standards.
  - Effectiveness of disciplinary regimes to effect behavioural change (auditor attitudes)
  - Whether conflicts of interest (ie. Membership fees) have an actual or perceived effect on the robustness of reviews and of disciplinary actions.
  - Consideration of the findings of any benchmarking to overseas jurisdictions conducted by the Professional bodies, or results of any reviews.

## **ASIC**

- Assessing whether the recommendations to the 2019 review of disciplinary functions had been implemented.
- Understanding the scope of their revised audit inspection program including:
  - which firms are in scope, and what coverage that is likely to result in
  - effectiveness in driving behavioural change (auditor attitudes)
  - whether it includes reviews of firm processes to assess and monitor compliance with Professional standards ie. QMS, Corporations Act and the Code.
- Whether and how the learnings from their financial reporting surveillance and audit inspection programs are communicated.
- What is considered when determining whether to forward a case to the CADB

## **AUASB**

- How the standard setter supports and monitors audit quality.
- What standard setting initiatives have been as a result of audit quality concerns.

## **CADB**

- Assessing whether the recommendations to the 2019 review of disciplinary functions had been implemented.
- How many cases have been referred since 2019?
- What is the nature of the cases?
- Is there effective communication of their findings to effect behavioral change?
- Should their powers include referrals from professional bodies?

## **APESB**

The APESB is the body that sets the professional and ethical standards for member of the professional bodies. The APESB does not have a complaint handling process, monitoring, investigatory or disciplinary function. Any such matters are dealt with by the Professional Accounting bodies or ASIC. This review will include understanding how they assess the appropriateness of their standards and whether this includes considering the findings of the Professional Accounting bodies or ASIC about incidences of non-compliance.

## **TIMING AND DELIVERABLES**

The FRC will produce a report by the end of 2023 and will report its findings to the Government.

# APPENDIX 1

## *Specific auditor quality functions<sup>2</sup>*

- S. 225 (2B) 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.
- (2C) Without limiting subsection (2B), the FRC functions also include giving strategic policy advice and reports, to the Minister and professional accounting bodies, in relation to any of the following:
- (a) the systems and processes used by Australian auditors to comply with:
    - (i) the provisions of the Corporations Act dealing with the conduct of audits; and
    - (ii) the auditing standards; and
    - (iii) applicable codes of professional conduct;
  - (b) the systems and processes used by professional accounting bodies for planning and performing quality assurance reviews of audit work undertaken by Australian auditors;
  - (c) the action that Australian auditors who have been subject to such quality assurance reviews have taken in response to the reports prepared as a result of those reviews;
  - (d) the action taken by professional accounting bodies to ensure that Australian auditors who have been subject to such quality assurance reviews respond appropriately to the reports prepared as a result of those reviews;
  - (e) the investigation and disciplinary procedures of professional accounting bodies as those procedures apply to Australian auditors;
  - (f) the adequacy of:
    - (i) the provisions of the Corporations Act dealing with the conduct of audits; and
    - (ii) the auditing standards; and
    - (iii) applicable codes of professional conduct;in light of international developments in relation to audit quality;
  - (g) the teaching of professional and business ethics by, or on behalf of, professional accounting bodies to the extent to which the teaching of those subjects relates to audit quality.

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<sup>2</sup> Australian Securities and Investments Commission Act 2001 section 225



## EXTENDED EXTERNAL REPORTING

### DESCRIPTION

#### Sustainability Matters

At its last meeting on 23 November 2022, the FRC discussed:

- Engaging with stakeholders on sustainability reporting capabilities and education.
- The current uncertainty surrounding companies' responsibility of specific parts of sustainability reports and that there does not appear to be a recognised Chief Sustainability Officer title.
- Adding sustainability stakeholders to the FRC's stakeholder list.

The FRC agreed that it would further discuss these, and any other relevant, sustainability matters. The FRC also agreed to consider the publication of the Australian Sustainability Finance Institute (ASFI) consultation paper on sustainable taxonomy to help the FRC understand the intersection and gaps between different classification systems.

Please find the Taxonomy Report linked [here](#).

#### Stakeholder Engagement and Sustainability

The FRC Chair has organised ongoing annual meetings with stakeholders to discuss sustainability, audit quality and emerging issues. This information will be discussed at FRC quarterly meetings to determine next steps.

#### ACTION

- For further discussion.
- The FRC to consider ASFI's sustainability taxonomy consultation and its implications for the Boards' standards setting.
- The FRC Chair to report information gathered from stakeholder meetings to FRC members (ongoing).





## PUBLIC SECTOR ADVISORY GROUP

### DESCRIPTION

Minutes from the Public Sector Advisory Group (PSAG) meeting on Wednesday 22 February to be provided to the FRC meeting

PSAG minutes are at **Attachment A**.

### ACTION

- FRC to note the minutes of the PSAG meeting on 22 February
- The FRC Chair, Bill Edge or Keith Kendall to respond to any questions or comments. Tracey Carroll can respond out of session.



## ATTACHMENT A

# PSAG MINUTES

**DATE: 22 FEBRUARY**

**TIME: 2:00PM**

**LOCATION: Virtual Teams Meeting**

ITEM	AGENDA ITEM	
	<b>ATTENDEES AND APOLOGIES</b>	
	<b>Members in attendance:</b>	<b>Observers:</b>
	<b>Tracey Carroll</b> (PSAG Chair)	<b>Cooper Tym</b> (Treasury)
	<b>Bill Edge</b> (AUASB Chair)	<b>Athanasios Kallos</b> (Treasury)
	<b>Peter Gibson</b> (HoTARAC)	
	<b>Andrew Hobbs</b> (NSW Treasury)	
	<b>Fridrich Housa</b> (AASB)	
	<b>Keith Kendall</b> (AASB Chair)	
	<b>Jane Meade</b> (ACAG)	
	<b>Andrew Mills</b> (FRC Chair)	
	<b>Sean Osborne</b> (HoTARAC)	
	<b>Apologies</b>	
	<b>MINUTES</b>	
<b>1</b>	<p><b>Chair opens at 2:00pm</b></p> <p><b>Welcome and introductions</b></p> <ul style="list-style-type: none"> <li>The Chair welcomed the attendees and introduced new attendees.</li> </ul>	
<b>2</b>	<p><b>Update from the Chair</b></p> <ul style="list-style-type: none"> <li>The Chair confirmed that she will be an apology for the next FRC meeting due to attendance at the OECD Working Party meeting on Financial Management and</li> </ul>	



	<p>Reporting. The PSAG meeting update for the FRC will be provided by the minutes and any questions will be directed to the AASB, AUASB and the FRC Chair.</p> <ul style="list-style-type: none"><li>• The Chair will report back to PSAG and the FRC regarding the OECD event as well as her separate meetings with UK Treasury officials and public sector directors on matters relevant to the FRC.</li></ul>
3	<p><b>HOTARAC Update</b></p> <ul style="list-style-type: none"><li>• Peter Gibson advised attendees of the history and the current plans and operations of HoTARAC which includes:<ul style="list-style-type: none"><li>– work on fair value and insurance in relation to public sector operations;</li><li>– post implementation reviews;</li><li>– discount rates on long term liabilities; and</li><li>– monitoring and commenting on sustainability reporting for the public sector.</li></ul></li></ul>
4	<p><b>AASB Update</b></p> <ul style="list-style-type: none"><li>• The AASB Chair updated PSAG on completed tasks, current progress and future projects impacting the public sector:<ul style="list-style-type: none"><li>– amendments to standards regarding insurance contracts and fair value were issued;</li><li>– post implementation reviews are underway;</li><li>– significant future projects including on intangibles reporting are planned; and assessment of IPSAS is on the AASB workplan with timing of this work to be determined.</li></ul></li></ul>
5	<p><b>ACAG Update</b></p> <ul style="list-style-type: none"><li>• Jane Meade provided an overview to attendees on the structure and membership of ACAG including, of relevance to FRC, the Financial Reporting and Accounting Committee (FRAC) and the Auditing Standards Committee (ASC). Matters being considered by ACAG related to the public sector include:<ul style="list-style-type: none"><li>– commenting on relevant matters on the AASB work program;</li><li>– sustainability reporting and assurance;</li><li>– implementation of quality auditing management standards including for public sector; and</li><li>– working with the AUASB regarding on public sector matters, particularly through the AUASB Public Sector Advisory Group.</li></ul></li></ul>
6	<p><b>AUASB Update</b></p> <ul style="list-style-type: none"><li>• The AUASB Chair updated attendees on the AUASB’s Public Sector Advisory Group, which evaluates where Australian Auditing Standards do not satisfy the public sector’s needs.</li></ul>



7	<ul style="list-style-type: none"><li>The AUASB Chair noted that the importance of the FRC PSAG would be to monitor the public sector and collate information from several areas of work and report to the FRC on these matters including emerging issues or any strategic direction that could be considered by FRC.</li></ul> <p><b>Closing</b></p> <ul style="list-style-type: none"><li>The Chair noted that the PSAG minutes would be provided to the FRC at the upcoming quarterly meeting and circulated to PSAG members for confirmation prior to public release.</li><li>Next meeting is scheduled on 21 June 2023.</li></ul>
	<p><b>Meeting concluded at 2:50pm</b></p>



## EMERGING ISSUES AND FRC PRIORITIES

### DESCRIPTION

The FRC has been discussing various emerging issues at its past quarterly meetings, including:

- cyber security;
- talent attraction and retention; and
- global economic conditions.

The FRC is currently monitoring these matters as they pertain to financial and reporting and auditing. This is done through Stakeholder Report requests (sent out prior to each quarterly meeting) and FRC Communiques (circulated to stakeholders after each quarterly meeting).

### Accounting Firms – Recent Media Attention

Accounting and auditing firms have recently been subject to domestic and international media attention about:

- cheating allegations in auditor exams; and
- potential breaches of confidentiality by accounting firms.

The following relevant media articles are **attached**:

- *'Exam cheating at UK audit firms uncovered by watchdog'* (The Guardian, published 22 December 2022)
- *'KPMG accountants cautioned over systemic exam cheating'* (AFR, published 13 July 2022)
- *'PwC case prompts search for more consultants leaking government details'* (AFR, published 26 January 2023)
- *'Government puts tax professionals 'on notice' after PwC breach'* (AFR, published 23 January 2023)

It is recommended that the FRC discuss these matters and whether such incidents may be indicative of broader culture issues in accounting firms.

**ACTION**

- The FRC to discuss any relevant developments on the emerging issues it is currently monitoring.
- The FRC to discuss whether it is necessary to recommend to the Government, any additional regulatory requirements on accountants and/or firms in light of recent media attention.



## Accountancy

● This article is more than 2 months old

# Exam cheating at UK audit firms uncovered by watchdog

**Financial Reporting Council urges 'vigilance' after cheating in tests underpinning professional qualifications found at top auditors**

---

**Anna Isaac** *City Editor*

🐦 @Annaisaac

Thu 22 Dec 2022 04:13 AEDT

Cheating in professional exams is still a “live” issue at the UK’s biggest audit firms, the accountancy watchdog warned.

A string of multimillion dollar fines have already been issued to large auditing and accounting firms around the world over allegations of cheating in tests which underpin professional qualifications.

A letter from the Financial Reporting Council (FRC), Britain’s accounting and auditing industry regulator, said its investigation into the issue had already uncovered instances of cheating at audit firms and professional bodies. These were found in some tier-one auditors, a category comprising the so-called Big Four accountants, KPMG, PwC, Deloitte and EY, along with Mazars, Grant Thornton and BDO.

“The issues raised by exam cheating therefore remain live and the FRC’s consideration of them, and any further regulatory action needed in response to them, is ongoing,” the letter said, suggesting that companies could face fresh penalties. “The profession therefore needs to be vigilant and to seek to continually improve the processes and controls in place in this area. The profession must also strive to maintain a culture of integrity in which the highest standards of professional behaviour are upheld.”

The letter referred to the test scams which caused the FRC’s US equivalent, the Public Company Accounting Oversight Board (PCAOB), to impose a fine of **\$2m (£1.66m) on KPMG’s UK arm** this month.

The PCAOB found that questions were shared before exams. Aside from the KPMG fine, the watchdog did not name other firms where it had uncovered cheating.

Jon Holt, chief executive of KPMG, said he was disappointed by employees’ actions in a statement in response to the PCAOB findings. He said that the company “took the appropriate disciplinary action with all those involved and have since put additional monitoring measures in place”.




In June, **EY** agreed to pay the US' Securities and Exchange Commission (SEC) a record \$100m after the SEC found professionals had cheated on an ethics exam and then tried to hide it from regulators. The firm said it was complying with the SEC's order and had taken steps to address compliance issues.

However, rather than name and shame where it had found failings in its review FRC said it was "communicating privately with firms" where it had "identified opportunities for improving their controls, policies, and procedures".

It is understood that this is because it is an ongoing investigation, and companies would only be named if the FRC took enforcement action that met a public interest test. It is not clear when the investigation might end.

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The FRC also found loopholes which could readily allow cheating. These included "the potential for organisations employing students studying for the audit qualification to become involved in the delivery of professional examinations", and "an option was available to students to sit exams at their employers".

However, no evidence had yet emerged that these loopholes for potential cheating had been used, the FRC said.

Cheating had been noted in assessments for those studying for apprenticeships delivered alongside professional qualifications, the FRC said. It would revise how these examinations were delivered, with a mind to preventing and detecting cheating, it said.

## More on this story



**Deloitte fined £900,000 by watchdog over SIG audit failures**

🕒 22 Dec 2022



**PwC says graduates no longer need at least 2:1 degree to work at firm**

🕒 15 Aug 2022



**PwC fined total of £5m over Galliford Try and Kier audits**

🕒 7 Jun 2022



**EY plans to spin off audit business in shake-up for industry**

🕒 27 May 2022



**KPMG firm 'serious for Royce au'**

🕒 24 May 20



# KPMG accountants cautioned over systemic exam cheating

**Hannah Wootton** *Reporter*

Jul 13, 2022 – 1.09pm

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Eight KPMG accountants have been formally sanctioned by the auditing industry watchdog after [partners and staff were found to have systemically cheated on courses](#) about independence, audit and accounting rules for at least five years until early 2020.

The accountants will also have to pay Chartered Accountants ANZ for the costs incurred by its investigation into the wrongdoing. CA ANZ has launched a review of its own academic integrity processes in response to the matter.

CA ANZ member Tony Alizzi said the findings took “far too long” and were too soft, building on [complaints from members](#) that it allowed KPMG to get away with systemic exam cheating because of the firm’s size and influence.

More than 1100 KPMG staff were accused of sharing test answers from 2016 to 2020 in a scheme involving people “at all levels of the firm”. The allegations have been largely upheld by internal firm investigations and an inquiry last year by the US Public Company Accounting Oversight Board (PCAOB).

Announcing the conclusion of its review of KPMG’s behaviour on Wednesday, CA ANZ said it had sanctioned eight of the 12 people it was investigating. The other four were let off.

The eight will have cautions recorded on their chartered accountant member records and will have to pay CA ANZ’s costs, but the watchdog is keeping their names and details of the sanctions confidential.

Simon Grant, CA ANZ’s group executive of advocacy and professional standing, told members the body took “all allegations of academic misconduct, including cheating, seriously”.

But Mr Alizzi said the investigation had “taken far too long”, especially given the US audit watchdog had already made findings it “handballed” to the CA ANZ. He called for the Australian government to regulate professional bodies.

“If this was a university there would be mass expulsions,” he said.

“KPMG’s case is much worse – clients are paying for assurance services under the misguided belief all of the audit staff are not cheaters.”

The PCAOB last year [fined KPMG \\$US450,000 \(\\$615,000\)](#) over the cheating, while KPMG forced two partners to resign, docked the pay of another 16 partners and 30 staff and issued warnings to more than 1100 staff.

CA ANZ chief executive Ainslie van Onselen defended the watchdog’s comparatively soft response, saying the sanctions announced on Wednesday recognised the penalties the top four firm and its staff had already incurred from the PCAOB and an internal KPMG investigation.

She said she was “comfortable [the CA ANZ] process was considered expeditiously” as “it’s important to remember when matters are before a court or a regulator, we avoid [starting] investigations that could prejudice that process”.

## **Review of processes**

But Ms van Onselen said CA ANZ was reviewing its professional conduct processes and bylaws to ensure they were “meeting contemporary challenges and expectation” and were in line with best practice abroad, which would “provide an opportunity” for it to consider the adequacy of its response.

Noting that there had been “significant findings overseas in the past year” against KPMG for the cheating scandal and EY in an unrelated matter, she said the review would look at how CA ANZ dealt with “issues of similar size and scale” in future.

The review would also consider “the balance between due process and what information can be shared publicly to enforce confidence in the profession”, despite the body keeping the details of the KPMG cheats confidential.

Mr Alizzi said there was no point to CA ANZ launching a review as the KPMG matter had “proven [it] is not capable”.

CA ANZ members last year [accused it](#) of refusing to take disciplinary action against KPMG, despite the US regulator doing so, because it was too reliant on the firm’s funding and the firm’s sway over its leadership.

CA ANZ receives funding from auditing firms such as KPMG and has a KPMG partner on its board. It is the primary regulator of its members in Australia.

A KPMG spokeswoman said the firm’s “people and partners remain very clear that our integrity is not up for negotiation”.

“We have implemented a comprehensive remediation plan designed to respond to this matter, and we continue to strengthen our ethical culture,” she said.

# PwC case prompts search for more consultants leaking government details

Edmund Tadros and Neil Chenoweth

Federal officials are examining if there are other instances of consultants leaking confidential government information after certain PwC partners and staff were caught sharing secret policy information with clients while advising on measures to combat tax avoidance.

Treasurer Jim Chalmers said he was furious with PwC, the nation's largest accounting firm, over the leak and that Commonwealth agencies were already examining the work being done by advisers to ensure similar leaking "isn't happening in other cases".

The Department of Finance has also warned that federal government contracts can be terminated over breaches of confidentiality, a move that adds yet another threat to PwC's lucrative government sector business.

"Most Commonwealth contracts have clauses allowing for termination for cause (for example breaches of confidentiality)," a Finance Department spokesman said.

PwC [entered into contracts worth \\$329 million](#) with the government in the year ended last June 30, up 58 per cent from the previous financial year's \$208 million.

## 'Aggressive' tax advice

The firm has had a difficult relationship with the Tax Office over the advice it has provided clients, and in 2018 [acknowledged its operatives](#) were behind a tax structure viewed by the ATO as "aggressive", and which triggered an investigation into the firm and its clients.

"Obviously, when something like this is alleged, we make sure that we are being diligent, making sure that it's not happening elsewhere," Dr Chalmers told reporters on Wednesday.

"And that it doesn't happen again. And there is no doubt a process at the individual agency level to make sure that this isn't happening in other cases.

"But my focus is in getting the structures right, getting any necessary changes in place, working closely with my colleague [Assistant Treasurer] Stephen Jones to make sure that it doesn't happen again."

The Tax Practitioners Board (TPB) [terminated the registration of PwC's former head of international tax, Peter Collins](#), as a tax agent after an investigation found he had shared confidential information about the government's tax plans to other staff at PwC despite signing a series of confidentiality agreements from 2013 to 2018.

PwC was also found to have failed to regulate other partners and staff who knew the secret information would be used to help clients sidestep new tax laws and market to new clients.

The TPB, which polices the nation's tax advisers, ordered the firm to train relevant partners and staff on how to handle conflicts of interest.

The TPB investigation was based on information initially provided by the ATO as part of the tax agency's long-running battle against advisers who promote aggressive schemes that help clients avoid paying tax.

The Tax Office would not comment directly on the PwC investigation but pointed out that it referred advisers and firms to the TPB when it was concerned about their behaviour.

An ATO spokeswoman said there is a specialised team within the Tax Avoidance Taskforce focused on detecting when advisers sell or promote "tax avoidance arrangements" or attempt to obstruct its investigations.

## **'Breach of trust'**

Dr Chalmers called the behaviour "[a shocking breach of trust](#), an appalling breach of trust" that put at risk the established process of consulting business experts when designing policy.

He said it was a wake-up call: "You know we all hear, rightly and understandably, there's always a call for more consultation, when it comes to policy changes, particularly tax policy changes. That is not possible without integrity and trust in the system.

"We need to find where this has happened, and throw the book at people. And we need to make sure it doesn't happen again."

He also vowed to implement recommendations effectively ignored by the previous Coalition government to beef up the powers of the TPB to police the nation's tax advisers.

A 2019 review led tax consultant Keith James was effectively ignored by the previous Coalition government. Both the review and a separate report by the Inspector General of Tax recommended the TPB be given a wider range of possible sanctions to impose for behaviour breaches including infringement notices, enforceable undertakings and quality assurance audits.

## **PwC is sorry**

PwC chief executive Tom Seymour has apologised for the breaches and promised the firm had updated its policies to “protect against this happening again”.

The firm now has a Confidentiality Agreements register for partners and staff and introduced training to help its advisers identify and avoid conflicts.

The TPB investigation did not find that any client arrangements or structures were impacted in connection with this matter, according to the firm.

# Government puts tax professionals ‘on notice’ after PwC breach

Edmund Tadros and Neil Chenoweth

Jan 23, 2023 – 5.47pm

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Assistant Treasurer Stephen Jones says the government may rethink its approach to consulting tax professionals but did not rule out continuing to use PwC despite the firm and its former head of international tax being sanctioned for breaching confidentiality rules.

Mr Jones declined to say whether PwC’s tax professionals would be cut out of the tax policy development process over the breaches, [which involved sharing confidential government briefings with partners and clients.](#)

“The tax advice profession is now on notice. The government wants effective consultation with the industry – our policies are better for it,” Mr Jones said.

“This sometimes needs to be done on a confidential basis to allow effective collaboration on issues as they arise. When the integrity of that process is breached, we may need to rethink our approach.”

Comment has also been sought from Finance Minister Katy Gallagher over the continued use of PwC professionals by the government when developing policy. PwC chief executive Tom Seymour on Monday said the firm had “failed the high standards we set for ourselves” and had updated its policies to “protect against this happening again”.

“We now maintain a central Confidentiality Agreements register and we also have a single initial contact point (non client facing) for all Treasury, Board of Tax and other similar consultations,” Mr Seymour said. “We proactively reviewed and strengthened our controls and policies and introduced a comprehensive education program to help all our people identify and avoid any conflict risks. These actions were undertaken in consultation with the relevant agencies.”

The Tax Practitioners Board terminated the registration of former PwC partner Peter Collins as a tax agent after an investigation found he had shared secret information about the government’s tax plans despite signing a series of confidentiality agreements from 2013 to 2018.

## ‘Failed to regulate’

PwC was also found to have failed to regulate its partners and staff who knew the confidential information would be used to help clients sidestep new tax laws and attract new clients. The firm was ordered to provide training to relevant partners and staff on how to handle conflicts of interest.

Mr Collins was a member of consultation groups set up by Treasury and the Board of Taxation to provide confidential advice to the government on its base erosion and profit shifting (BEPS) measures to combat international tax avoidance.

These consultation groups are used by the government to develop taxation policy that is workable without being too burdensome on the compliance side. Partners from firms such as PwC, which is the nation's largest accounting firm, are also brought in because they can provide insight into how clients are likely to respond to changes.

However, the process is only effective if there is trust that external parties will adhere to the confidentiality agreements they sign to participate.

Mr Collins signed confidentiality agreements with Treasury that allowed him wide access to policy deliberations as he advised on Australia's Multinational Anti-Avoidance Law, the diverted profits tax and hybrid mismatch rules.

This allowed him to help shape legislation as part of a consultation committee, and meant he knew in advance what the final form of the new laws would likely be.

The TPB report says PwC was in a position to use the information to prepare ways to minimise their effect.

[PwC also entered into contracts worth \\$329 million](#) across the government in the 2022 financial year, up from \$208 million in the previous year.

## **'Not tolerated'**

Tax Practitioners Board chairman Ian Klug said that there would be zero tolerance for tax professionals who abused their position of trust.

"We are very concerned when tax practitioners abuse their positions of trust, or fail to act with integrity," Mr Klug said. "Tax practitioners who breach this confidence will not be tolerated."

When tax professionals were involved in confidential law reform discussions, "leaking confidential information ... might be seen to elevate personal and commercial profit, breaching public interest, legal and ethical obligations", he said.



The TPB oversees Australia's 80,000 tax agents and has taken a proactive role in overseeing tax professionals under Mr Klug and the board's CEO/secretary Michael O'Neill.

The professional body for tax professionals, The Tax Institute, said it was reviewing Mr Collins' membership. He is a fellow of the institute and in 2016 was named the body's corporate tax adviser of the year.

"We are aligned with the TPB in taking ethical standards very seriously and require our members to act with the highest degree of compliance and professionalism," said institute president Marg Marshall.



## ITEM 11A

### 10 MARCH 2023

## STAKEHOLDER REPORTS

### DESCRIPTION

At its 2 June 2022 meeting, the FRC agreed to change its expectations around stakeholder engagement, including by:

- requesting targeted information from stakeholders on matters relevant to the FRC's work agenda, while maintaining the FRC's general request for information for matters relevant to the FRC's objectives.

On 6 February 2023, the FRC Secretariat sent specific questions (available at **Attachment A**) to all stakeholders.

Out of requests to 19 stakeholders, the FRC received 8 Stakeholder Reports and a response from 3 confirming nil updates.

At its 8 September 2022 meeting, the FRC agreed to internally track stakeholder responses over time. A report of stakeholder response rates was circulated to FRC members prior to the 10 March 2023 meeting.

The FRC also agreed to further discuss and agree on whether to:

- implement a mechanism through which it can respond to Stakeholder Reports, when appropriate
- modify its stakeholder list used for the purpose of requesting Stakeholder Reports.
  - A list of FRC stakeholders is at **Attachment B**.

### ACTION

- Chair to report.
- The FRC to further discuss and agree on:
  - a mechanism through which it can respond to Stakeholder Reports, when appropriate
  - whether any additional stakeholders should be included on the list at Attachment B.

## STAKEHOLDER REPORT: [ORGANISATION]

### FOR ATTENTION OF THE FRC

*In this section, please insert a summary of key issues in this report.*

- [Insert]

### KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

*Insert 2 - 3 bullet points of key activities relevant to the FRC's objectives undertaken by your organisation since the last reporting period.*

- Details .

- Details .

### SPECIFIC QUESTIONS FOR STAKEHOLDER

*The FRC considers the responses to the following specific questions to your organisation are relevant to its objectives and current work agenda. Please respond as substantively as possible.*

To fulfil its oversight functions under the ASIC Act, the FRC monitors and advises the Government about financial reporting and auditing matters. Please advise the FRC of any emerging trends or issues in relation to the following:

- the processes for setting accounting and auditing standards in Australia
- the development of international accounting and auditing standards
- the quality of audit in Australia – including the conduct of audits, and the provision of professional and business ethics education
- any other matters in the financial reporting and audit space.

- Details .

- Details .

### OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

*Insert 2 - 3 bullet points of any other activities not covered above which are relevant to the FRC's objectives and were undertaken by your organisation since the last reporting period.*

- Details .

- Details .

### FRC STAKEHOLDERS – REPORT REQUESTS

Below is the list of stakeholders from which the FRC Secretariat regularly requests reports for the FRC to consider at each of its quarterly meetings.

- Association of Superannuation Funds of Australia
- Australian Charities and Not-for-profits Commission
- Australian Institute of Company Directors
- Australian Institute of Company Directors
- Australian Prudential Regulation Authority
- Australian Securities Exchange
- Australian Shareholders' Association
- Australian Institute of Superannuation Trustees
- Business Reporting Leaders Forum
- Business Council of Australia
- Chartered Accountants Australia and New Zealand
- CPA Australia
- **Department of Finance** - as agreed at the 8 September 2022 FRC meeting, Tracey Carroll will provide any relevant public sector updates under the PSAG agenda item - this may include Department of Finance updates.
- Governance Institute of Australia
- Group of 100
- HoTARAC
- Institute of Internal Auditors
- Institute of Public Accountants
- PSWG (NSW Secretariat)

The following stakeholders are also included on the FRC stakeholder contact list. The FRC Secretariat has contacted these stakeholders with targeted questions but does not reach out to request a Stakeholder Report regularly before each FRC meeting.

- Accounting Professional and Ethical Standards Board
- Australian Council of Auditors-General
- Australian Council of Superannuation Investors
- Australian Investment Council
- Australian Prudential Regulation Authority
- Australian Public Policy Committee

- Australian Public Policy Committee/Audit Quality Committee
- BDO
- Bentleys
- Companies Auditors Disciplinary Board (CADB)
- Crowe Australasia
- Deloitte
- Ernst & Young
- Grant Thornton
- KPMG
- Pitcher Partners
- PKF
- PricewaterhouseCoopers
- RSM Australia
- William Buck



ITEM 12  
10 MARCH 2023

## STAKEHOLDER REPORT: AUSTRALIAN CHARITIES AND NOT-FOR-PROFITS COMMISSION (ACNC)

### FOR ATTENTION OF THE FRC

*In this section, please insert a summary of key issues in this report.*

- Sue Woodward AM has been appointed as ACNC Commissioner for a five-year period commencing on 12 December 2022.

### KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

*Insert 2 - 3 bullet points of key activities relevant to the FRC's objectives undertaken by your organisation since the last reporting period.*

- The ACNC made a submission to the Accounting Professional & Ethical Standards Board's Exposure Draft regarding the proposed revisions to the definitions of listed entity and public interest entity in APES 110 Code of Ethics for Professional Accountants (including Independence Standards).
- The ACNC launched [public consultation](#) seeking input on the reporting of related party transactions from the 2023 Annual Information Statement, in accordance with a recommendation from the ACNC legislation review. We aim to achieve a balance between transparency and minimising unnecessary regulatory burden on charities.
- The ACNC continued to develop our free [online learning](#) resources by introducing new courses about fraud prevention and financial management to support leadership and accountability in the charity sector.

### SPECIFIC QUESTIONS FOR STAKEHOLDER

*The FRC considers the responses to the following specific questions to your organisation are relevant to its objectives and current work agenda. Please respond as substantively as possible.*

*To fulfil its oversight functions under the ASIC Act, the FRC monitors and advises the Government about financial reporting and auditing matters. Please advise the FRC of any emerging trends or issues in relation to the following:*

- *the processes for setting accounting and auditing standards in Australia*
- *the development of international accounting and auditing standards*
- *the quality of audit in Australia – including the conduct of audits, and the provision of professional and business ethics education*
- *any other matters in the financial reporting and audit space.*



- The ACNC is in the process of examining 250 financial reports submitted by charities in the 2021 reporting period to assess the trend and quality for the reviewed or audited financial reports.
- The ACNC is in the process of preparing the following submissions:
  - AASB's Discussion Paper — Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities)
  - AASB's Invitation to Comment – ITC 50 post-implementation review on income of not-for-profit entities
  - AASB's Invitation to Comment – ITC 51 post-implementation review on control, structured entities, related party disclosures and basis of preparation of special purpose financial statements.
  - AUASB's Discussion Paper – Expanding Key Audit Matters beyond listed entities
  - The International Non-Profit Accounting Guidance (INPAG) Exposure Draft 1 (our focus is on the AASB Discussion Paper. If the submission takes longer than anticipated, we may not be able to prepare a submission for the INPAG).

## **OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES**

*Insert 2 - 3 bullet points of any other activities not covered above which are relevant to the FRC's objectives and were undertaken by your organisation since the last reporting period.*

- The ACNC published guidance about [charities and crypto-assets](#) and urged charities to fully consider the risks and benefits before accepting donations of crypto-assets, or investing in crypto-assets.
- Over 550 charities had their registration entitlement revoked by the ACNC because they failed over successive years in fulfilling their annual reporting obligations to the ACNC.



## STAKEHOLDER REPORT: AUSTRALIAN INSTITUTE OF COMPANY DIRECTORS

### FOR ATTENTION OF THE FRC

*In this section, please insert a summary of key issues in this report.*

- The AICD has made a detailed submission to Treasury on its climate reporting consultation. To support directors in the transition to mandatory climate reporting the AICD has published a short primer and has hosted a free webinar.
- The AICD has hosted a Director Roundtable on the Taskforce on Nature-related Financial Disclosures (TNFD).
- The establishment of a mandatory climate reporting framework in Australia will require a significant upskill for report preparers, directors and auditors. There is concern within the director community that mandating climate disclosures without providing for appropriate and proportionate liability settings will reduce the quality and usability of disclosures.

### KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

*Insert 2 - 3 bullet points of key activities relevant to the FRC's objectives undertaken by your organisation since the last reporting period.*

- Following a significant member and stakeholder consultation process, on 22 February 2023, the AICD made a comprehensive submission to Treasury on its mandatory Climate reporting consultation. The implementation of a mandatory climate disclosure framework based on the International Sustainability Standards Board (ISSB) standards will require a significant uplift in climate reporting practice, with issues of assurance and liability critical to ensure robust and high-quality disclosures. In an effort to assist directors prepare themselves for the coming regime:
  - On 23 February 2023, the AICD organised a [webinar](#) on the proposed climate reporting standards. The webinar covered what the ISSB standards are, recent developments in Australia, and key takeaways for directors. The webinar had over 1200 registrations, including 385 registrations by first-time webinar users.
  - On 1 March 2023, the [Climate Governance Initiative](#) hosted by the AICD and in conjunction with partners Deloitte and Minter Ellison, released a [short primer](#) outlining what directors need to know about the mandatory climate reporting regime, including what the proposed standards are, risk (including legal risk) and opportunities, actions boards can take now to get ready, and key questions directors can ask to determine their level of preparedness.





- On 2 March 2023, the AICD hosted a Director Roundtable on the Taskforce on Nature-related Financial Disclosures (TNFD). The roundtable featured the Executive Director of TNFD, Tony Goldner, who provided an overview of the emerging TNFD framework. Other key attendees included Dr Ken Henry AC, former Treasury Secretary and NAB Chair, Lyn O’Connell PSM GAICD (Deputy Secretary at Department of Climate Change, Energy, the Environment and Water), and CGI Australia Steering Committee chair Geoff Summerhayes GAICD. The purpose of the roundtable was to discuss how directors are currently considering nature within their risk management and strategy, and their businesses, and what opportunities arise in respect of nature and nature markets.
- The AICD is planning on hosting a major climate governance focused event on 11 August in Sydney to continue building capacity at board level. The AICD is in the early planning stages and will seek to feature a mixture of domestic and international voices.

*The FRC considers the responses to the following specific questions to your organisation are relevant to its objectives and current work agenda. Please respond as substantively as possible.*

To fulfil its oversight functions under the ASIC Act, the FRC monitors and advises the Government about financial reporting and auditing matters. Please advise the FRC of any emerging trends or issues in relation to the following:

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- the development of international accounting and auditing standards
- the quality of audit in Australia – including the conduct of audits, and the provision of professional and business ethics education
- any other matters in the financial reporting and audit space.

#### **AICD views on emerging reporting trends and issues**

- Our engagement with members both directly and through the Policy Committees<sup>1</sup> has made clear that non-financial reporting (particularly ESG) matters continue to dominate the agenda. Directors are consistently telling us that, whilst they support the need for reporting on ESG issues, there are number of liability, data and capacity gaps which will need to be addressed to ensure that they are able to make high quality and fulsome disclosures. There is also a call to consolidate the number of reporting frameworks to avoid disproportionate cost on business, particularly on smaller entities and NFPs.
- There is strong support amongst directors for internationally comparable disclosure standards. This includes the implementation of the ISSB sustainability and climate standards in Australia.
- There is general support that the focus of enforcement action for ESG reporting should be on clearly deficient conduct, rather than focusing on organisations who have made errors as a

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<sup>1</sup> Being the Reporting Committee, Corporate Governance Committee, Law Committee, ASX Chairs Committee, NFP Chairs’ Forum and APRA Forum.



result of data uncertainty, notwithstanding making good faith, best endeavours disclosure. As such, there is strong support for regulators taking stronger actions in clear cases of greenwashing.

- OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

*Insert 2 - 3 bullet points of any other activities not covered above which are relevant to the FRC's objectives and were undertaken by your organisation since the last reporting period.*

- Please see responses above.



## STAKEHOLDER REPORT: AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY

### FOR ATTENTION OF THE FRC

*In this section, please insert a summary of key issues in this report.*

### KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

*Insert 2 - 3 bullet points of key activities relevant to the FRC's objectives undertaken by your organisation since the last reporting period.*

- APRA is monitoring the implementation of AASB 17 by insurers. This new standard has commenced from 1 January 2023.
- APRA is also monitoring the progress being made with the baseline sustainability reporting standards being developed by the ISSB.

### SPECIFIC QUESTIONS FOR STAKEHOLDER

*The FRC considers the responses to the following specific questions to your organisation are relevant to its objectives and current work agenda. Please respond as substantively as possible.*

To fulfil its oversight functions under the ASIC Act, the FRC monitors and advises the Government about financial reporting and auditing matters. Please advise the FRC of any emerging trends or issues in relation to the following:

- the processes for setting accounting and auditing standards in Australia
  - the development of international accounting and auditing standards
  - the quality of audit in Australia – including the conduct of audits, and the provision of professional and business ethics education
  - any other matters in the financial reporting and audit space.
- AASB 17 applies from 1 January 2023 onwards. APRA is monitoring how insurers are progressing with their preparation and implementation of the new requirements.
  - APRA is monitoring the work of the baseline sustainability reporting standards developed by the ISSB. These standards are connected to financial statements. The financial statement numbers feed into the regulatory requirements for banks and insurers.



- APRA continues to monitor AASB 9 provisioning practices through its engagement with auditors and banks.

**OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES**

*Insert 2 - 3 bullet points of any other activities not covered above which are relevant to the FRC's objectives and were undertaken by your organisation since the last reporting period.*

- N/A



## STAKEHOLDER REPORT: AUSTRALIAN SHAREHOLDERS' ASSOCIATION

### FOR ATTENTION OF THE FRC

*In this section, please insert a summary of key issues in this report.*

- The introduction of Sustainability standards S1 and S2 and phased mandating in AUstralia

### KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

*Insert 2 - 3 bullet points of key activities relevant to the FRC's objectives undertaken by your organisation since the last reporting period.*

- We have made submission on Treasury's request for comment on [Climate-related financial disclosure](#), as well as participating in a joint submission with peak bodies (Australasian Investor Relations Association, Australian Shareholders Association, Australian Sustainable Finance Institute, Centre for Policy Development, CFA Societies Australia, Chartered Accountants Australia and New Zealand, CPA Australia, Governance Institute of Australia, The Group of 100, Institute of Public Accountants, UN Global Compact Network Australia.)

### SPECIFIC QUESTIONS FOR STAKEHOLDER

*The FRC considers the responses to the following specific questions to your organisation are relevant to its objectives and current work agenda. Please respond as substantively as possible.*

To fulfil its oversight functions under the ASIC Act, the FRC monitors and advises the Government about financial reporting and auditing matters. Please advise the FRC of any emerging trends or issues in relation to the following:

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- the development of international accounting and auditing standards
- the quality of audit in Australia – including the conduct of audits, and the provision of professional and business ethics education
- any other matters in the financial reporting and audit space.

We have been impressed with the recent consultation on sustainability standards, S1 and S2, leveraged off the existing IASB practise and procedures for development of standards and appeared to manage a broad fulsome engagement. The goal to observe and satisfy investor stakeholders need for disclosures and preparer stakeholders need for clarity and efficiency in navigating multi-jurisdictional requirements appears to be met.



On audit we are monitoring the impact of UK's Audit, Reporting and Governance Authority and how their retail shareholders respond.

- Details .

### **OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES**

*Insert 2 - 3 bullet points of any other activities not covered above which are relevant to the FRC's objectives and were undertaken by your organisation since the last reporting period.*

- Details .

- Details .



**ITEM 12**  
**10 MARCH 2023**

**STAKEHOLDER REPORT: BUSINESS REPORTING LEADERS FORUM**

**FOR ATTENTION OF THE FRC**

*In this section, please insert a summary of key issues in this report.*

- Integrated reporting developments are mentioned below and will be brought to the attention of the FRC at its meeting on 10 March 2023.
- The Deakin University Integrated Reporting Centre lodged its submission to Treasury on its climate-related financial disclosure consultation on 17 February 2023. It recommended an enhancement of Potential Structure Two.

**KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES**

*Insert 2 - 3 bullet points of key activities relevant to the FRC's objectives undertaken by your organisation since the last reporting period.*

- The international integrated reporting system continues to change at a rapid scale and pace. The FRC will be well-appraised of most of this through the activities of the AASB and AUASB, including Bill Edge's membership of the IAASB.
- The FRC may be less well-informed at this stage on developments related to integrated reporting, integrated thinking, the use of the Integrated Reporting Framework in the final IFRS Sustainability Standards S1 and S2 and planned 2023 activities relating to integrated reporting by the IFRS Foundation.

Michael Bray will update the FRC on these and other international developments at its meeting on 10 March 2023. He is a member of the IFRS Foundation's Connectivity and Integrated Reporting team and leads the renewed Integrated Reporting Communities Program, a program to keep approximately 30 jurisdictional Integrated Reporting Communities around the world.

The first event for these communities (on 28 February / 1 March) will have taken place by 10 March. Leaders of Integrated Reporting Communities will be brought up to date on the integrated reporting activities of the IFRS Foundation since an anchor point was established by the 25 May 2022 announcement by the Chairs of the IASB and ISSB recommending continued adoption of the Integrated Reporting Framework.

- Andrew Mills has been invited to the 28 February event and the follow up event to be held on 28 March 2023. Andrew cannot attend the first event but will attend the second event. A meeting to bring the messages from these events to a wider Australian audience of the IFRS Foundation's designated integrated reporting community, the Australian Business Reporting Leaders Forum (BRLF), is being targeted for late-April / early May.





- The Deakin Integrated Reporting Centre, which provides the Secretariat for the BRLF, lodged its submission to Treasury on its climate-related financial disclosure consultation on 17 February 2023. In relation to Question 19, it recommended an enhancement of Potential Structure Two, with the FRC being resourced to play a role similar to that of the IFRS Foundation in relation to integrated reporting and the Integrated Reporting Framework.

## **SPECIFIC QUESTIONS FOR STAKEHOLDER**

*The FRC considers the responses to the following specific questions to your organisation are relevant to its objectives and current work agenda. Please respond as substantively as possible.*

To fulfil its oversight functions under the ASIC Act, the FRC monitors and advises the Government about financial reporting and auditing matters. Please advise the FRC of any emerging trends or issues in relation to the following:

- the processes for setting accounting and auditing standards in Australia
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- any other matters in the financial reporting and audit space.

These matter will all be addressed in the report on international developments at the 10 March FRC meeting, and were covered in the Deakin submission on the Treasury climate disclosure consultation.

## **OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES**

*Insert 2 - 3 bullet points of any other activities not covered above which are relevant to the FRC's objectives and were undertaken by your organisation since the last reporting period.*

- Nothing to report.





## STAKEHOLDER REPORT: CHARTERED ACCOUNTANTS AUSTRALIA AND NEW ZEALAND

### FOR ATTENTION OF THE FRC

*In this section, please insert a summary of key issues in this report.*

- None noted

### KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

*Insert 2 - 3 bullet points of key activities relevant to the FRC's objectives undertaken by your organisation since the last reporting period.*

- CA ANZ has released the December 2022 editions of its Australian and New Zealand [Reporting](#) and [Assurance](#) Essential Guides. Designed to help members cope with the new financial reporting and assurance developments this reporting season, these publications highlight the impact of the key reporting and assurance developments for this reporting season, as well as regulatory focus areas. Following that, we held a [webinar](#) on the guides that had over 650 member registrations.
- The 2022 CA ANZ [IFRS Survey](#) has found for a third year running that the impact of adopting IFRS 9, 15 and 16 is still being felt, with the complexity of financial statements being the most impacted area. 3 in 5 respondents agree that the changes to the Tier 2 accounting standards framework in Australia have reduced the reporting burden. The survey feedback will be used directly in engagement with local and international standards setters and inform CA ANZ's advocacy efforts toward simplifying and improving accounting standards and the Australia financial reporting framework.
- [New research](#) by CA ANZ, the University of Melbourne and the University of Queensland has found that the proportion of financial statements impacted by climate-related risks is increasing worldwide. Critical accounting estimates is the financial statement area that is most impacted by climate risks and the reporting of climate risks in financial statements is most prevalent in the utilities and energy industries. This report provides an update to our [previous research](#) into balance dates between 31 December 2021 and 31 July 2022.
- CA ANZ's comprehensive [audit quality management resources](#) has been updated to incorporate requirements around Engagement Quality Reviews and the Monitoring and Remediation Process. Plus, an e-version has been made available by Inflo and Audit Assistant via a licencing agreement. By demand, license agreements have also been entered with the ICAEW, and SAICA to make the toolkit available to their members, and an agreement with IFAC is in progress to develop a co-branded international version of this resource. In addition, we held a half day workshop where participants had the opportunity to work through and apply the CA ANZ Audit Quality Toolkit to their individual firm circumstances.



## SPECIFIC QUESTIONS FOR STAKEHOLDER

*The FRC considers the responses to the following specific questions to your organisation are relevant to its objectives and current work agenda. Please respond as substantively as possible.*

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  - the quality of audit in Australia – including the conduct of audits, and the provision of professional and business ethics education
  - any other matters in the financial reporting and audit space.
- In-depth reporting and assurance planning day has identified key themes and stakeholders as focuses for 2023, including ESG, economic uncertainty, serving SMPs, and technology; with talent and trust remaining central cross-cutting themes. We have refreshed our technical [reporting](#) and [assurance](#) webpages to reflect our current priorities.
  - We curate a fortnightly enewsletter (Reporting and Assurance News) and would be happy to provide a subscription to the FRC to help stay informed about developments.

## OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

*Insert 2 - 3 bullet points of any other activities not covered above which are relevant to the FRC's objectives and were undertaken by your organisation since the last reporting period.*

- We facilitated input from members and completed several [submissions](#) including: APESB definitions of listed entity and PIE, Superannuation Auditor Registration Imposition Regulations 2022, Treasury Laws Amendment (Measures for Consultation) Bill 2022: Sustainability Standards, APRA Approved Audit Form - June 2023, Treasury Laws Amendment (2022 Measures No. 4) Bill 2022, Treasury CP: Climate-related Financial Disclosures.
- We have made progress in our proactive advocacy with the Queensland Building and Construction Commission (QBCC) to reform the Minimum Financial Requirements (MFR) reporting regime in response to SMP member concerns.



## STAKEHOLDER REPORT: CPA AUSTRALIA

### FOR ATTENTION OF THE FRC

#### KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

*Insert 2 - 3 bullet points of key activities relevant to the FRC's objectives undertaken by your organisation since the last reporting period.*

- **Audit and assurance:**
  - On 7 March 2023, we are conducting a webinar on "[Climate risks and its impacts on the audit of financial statements](#)". At this webinar, we will also be announcing the launch of our guide on "[climate risk and the audit of financial statements](#)".
  - We have provided a [submission](#) to the New Zealand MBIE on their proposals to licence and regulate climate report assurance practitioners.
- **Financial reporting:**
  - We are in the process of developing joint submissions (with CA ANZ) on the AASB NFP Tier 3 financial reporting proposals and post-implementation reviews arising from ED 50 and ED 51.
  - We are also developing a submission to the IASB on its ED on amendments to IAS 12 relating to the OECD Pillar two tax reforms.
  - We participated as a panellist in the AASB Dialogue series event on accounting for digital assets.
  - We provided evidence (together with CA ANZ) at a Senate Economics Legislation Committee hearing into the *Treasury Laws Amendment (2022 Measures No. 4) Bill 2022*. This Bill includes proposals to introduce financial reporting and audit requirements into the Corporations Act 2001 for Registrable Superannuation Entities.
- **Sustainability reporting:**
  - We have made a joint submission (with CA ANZ) on the Treasury consultation on climate-related financial disclosures.



## SPECIFIC QUESTIONS FOR STAKEHOLDER

*The FRC considers the responses to the following specific questions to your organisation are relevant to its objectives and current work agenda. Please respond as substantively as possible.*

**To fulfil its oversight functions under the ASIC Act, the FRC monitors and advises the Government about financial reporting and auditing matters. Please advise the FRC of any emerging trends or issues in relation to the following:**

**1. the processes for setting accounting and auditing standards in Australia**

For standard-setting as it relates to financial reporting, auditing and assurance, the current standard-setting framework involving the FRC, AASB and AUASB works well. Both Boards engage extensively with stakeholders, including CPA Australia, in developing their standards for financial reporting, auditing and assurance.

Whilst we acknowledge that, in the short-term, the AASB should undertake standard-setting as it relates to climate and sustainability disclosures, we believe a separate standard setting board should be set up to undertake sustainability reporting standard-setting activity in the medium to long-term.

**2. the development of international accounting and auditing standards**

We have not identified any recent trends or issues in relation to the development of international accounting and auditing standards that warrants highlighting.

**3. the quality of audit in Australia – including the conduct of audits, and the provision of professional and business ethics education**

We have no further comments to offer.

**4. any other matters in the financial reporting and audit space.**

None.

## OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

Nothing in addition to what has been provided above.



## STAKEHOLDER REPORT: INSTITUTE OF PUBLIC ACCOUNTANTS

### FOR ATTENTION OF THE FRC

*In this section, please insert a summary of key issues in this report.*

- Enhanced focus on SMSF Auditors who are a major enforcement focus for the ATO and ASIC.

### KEY ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES

*Insert 2 - 3 bullet points of key activities relevant to the FRC's objectives undertaken by your organisation since the last reporting period.*

- See below

### SPECIFIC QUESTIONS FOR STAKEHOLDER

*The FRC considers the responses to the following specific questions to your organisation are relevant to its objectives and current work agenda. Please respond as substantively as possible.*

To fulfil its oversight functions under the ASIC Act, the FRC monitors and advises the Government about financial reporting and auditing matters. Please advise the FRC of any emerging trends or issues in relation to the following:

- the processes for setting accounting and auditing standards in Australia
  - the development of international accounting and auditing standards
  - the quality of audit in Australia – including the conduct of audits, and the provision of professional and business ethics education
  - any other matters in the financial reporting and audit space.
- Submissions, consultation and resource development have been undertaken on: sustainability reporting; Consultative Document on Review of Audit Exemption Criteria for Private Companies in Malaysia; and ASQM 1.
  - The IPA is further developing its professional and business ethics education through stackable microcredentials and promoting the ethics course developed for IPA by Deakin University. Professional standards and ethics CPD are mandatory for IPA members, at an average of just over 7 hours per annum or 20 hours per triennium.
  - The annual Professional Standards Declaration is currently underway with the report due to the Professional Standards Councils by 31 March. We will be able to report on results and trends pertaining to RCAs and SMSF Auditors during the next quarter after the reporting and survey period have closed.



- With ASIC continuing to breach SMSF Auditors (374 noted in the last media release), the IPA continues its focus on SMSF Auditors through the Quality Review Program, risk rating system, CPD audit and complaints and disciplinary system.
- In addition, we are continuing to enhance our SMSF Audit training and education, review of quality assurance and CPD enforcement. The same applies to RCAs, however, we have far fewer RCA members.

### **OTHER ACTIVITIES / MATTERS RELEVANT TO THE FRC OBJECTIVES**

*Insert 2 - 3 bullet points of any other activities not covered above which are relevant to the FRC's objectives and were undertaken by your organisation since the last reporting period.*

- NA





**ITEM 12A**  
**10 MARCH 2023**

## **NOMINATIONS COMMITTEE**

### **DESCRIPTION**

#### **Recruitment Update**

On 20 November 2022, the FRC reappointed the following AASB and AUASB members from 1 January 2023 to 31 December 2025, on the recommendations of the Nominations Committee:

- Professor Stephen Taylor – for a 3<sup>rd</sup> term on the AASB
- David Holland – for a 2<sup>nd</sup> term on the AASB
- Andrew Porter – for a 2<sup>nd</sup> term on the AUASB.

The FRC Nominations Committee Chair to provide a brief verbal report.

### **ACTION**

- Suzanne Bell to provide a verbal report.



**ITEM 12B**  
**10 MARCH 2023**

**CORRESPONDENCE RECEIVED AND SENT**

**DESCRIPTION**

The FRC Chair to provide a verbal update about correspondence with stakeholders since the 23 November 2022 FRC meeting,

**ACTION**

- FRC Chair to provide a verbal update.





**ITEM 12C**  
**10 MARCH 2023**

## **KEY ACTION ITEMS SUMMARY**

### **DESCRIPTION**

FRC Chair and Secretariat to provide a brief initial summary of the action items arising from the 10 March 2023 meeting.

The FRC Secretariat will circulate an action items list to FRC members following the finalisation of the meeting minutes.

### **ACTION**

- For the FRC to note.



**ITEM 13A**  
**10 MARCH 2023**

**NEXT MEETING**

**DESCRIPTION**

The FRC Chair would like to discuss how the quarterly meetings are organised and confirm whether there is an appropriate amount of time to get through the agenda or if the meetings need to be structured differently.

**ACTION**

- FRC members to determine whether the current meeting arrangements are suitable.



**ITEM 13B**  
**10 MARCH 2023**

**NEXT MEETING**

**DESCRIPTION**

Next meeting date will be 5 July 2023 in Melbourne, followed by 6 September 2023.

**ACTION**

- FRC Secretariat to identify suitable future meeting dates.