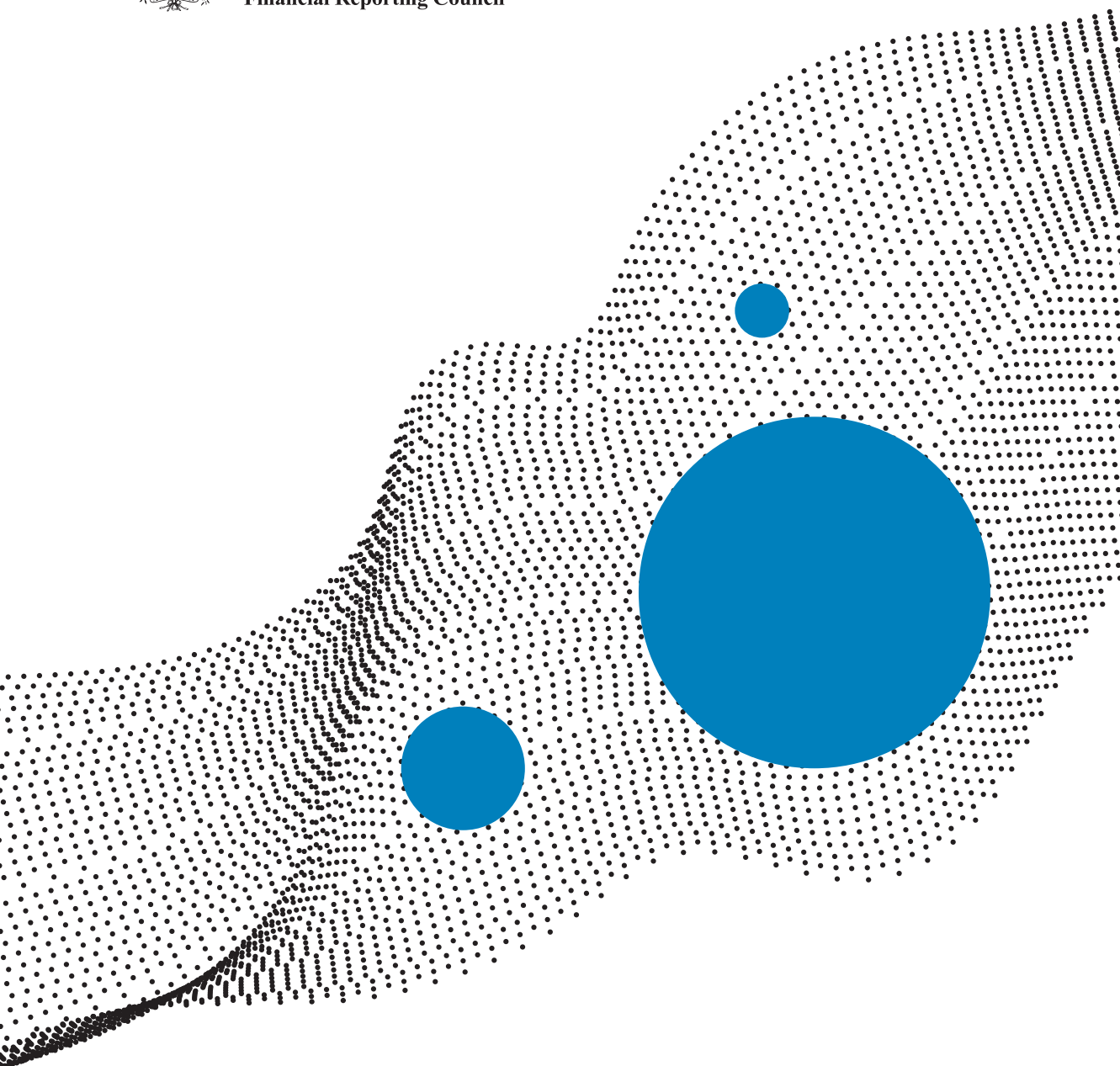




Australian Government
Financial Reporting Council



FINANCIAL REPORTING COUNCIL

2022
-23
ANNUAL
REPORT

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19 September 2023

The Hon Stephen Jones MP
Assistant Treasurer
Parliament House
CANBERRA ACT 2600

Dear Minister

I have pleasure in presenting the annual report of the Financial Reporting Council (FRC) for the year ended 30 June 2023.

It has been a dynamic period for the financial reporting system and the accountancy and auditing profession, with significant developments globally, especially around sustainability standards. Of course, the profession has not been without its challenges over the past twelve months, such as matters regarding ethics in the Big Four firms, and a shortfall of sustainability-related expertise across the profession.

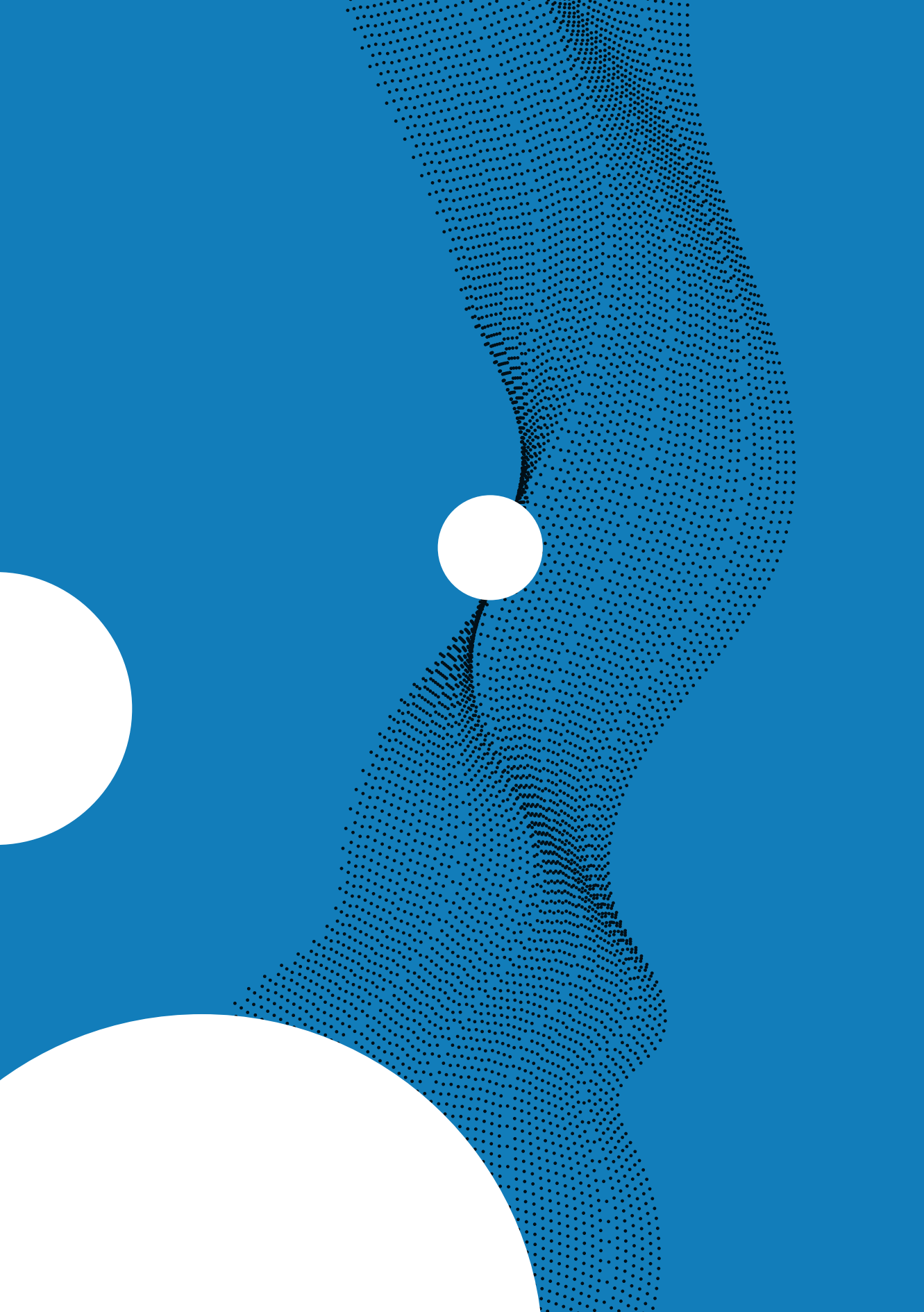
The FRC's current review is examining the existing settings over the quality of audit, compliance with professional and ethical standards and processes to identify breaches and escalation to disciplinary action. The review will be finalised soon. The opportunities and challenges these developments bring will continue in coming years and the FRC looks forward to contributing to developments in these areas.

This report has been prepared in accordance with section 235B of the Australian Securities and *Investments Commission Act 2001*, which requires the report to be tabled in each House of Parliament as soon as practicable.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Andrew Mills'.

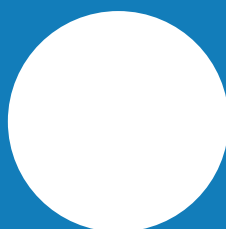
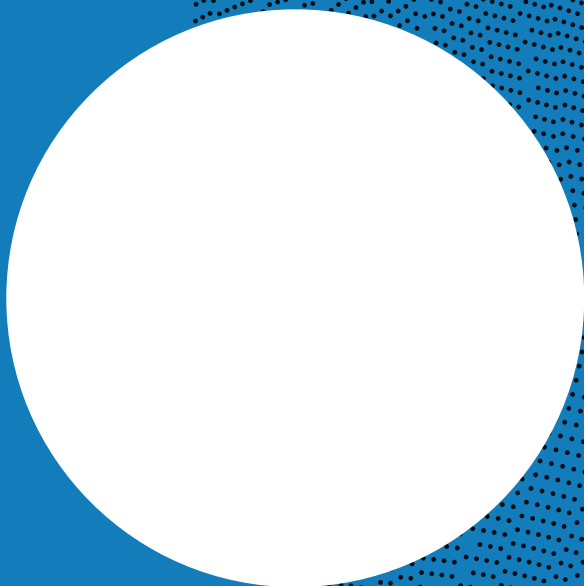
Andrew Mills
Chair



FRC MEMBERS



Left to Right: Suzanne Bell, Michele Embling, Dr Keith Kendall, Tracey Carroll, Andrew Mills (Chair), Doug Niven, Emma Herd, Pru Bennett, Rachel Grimes.



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OUR PAST YEAR

The 2022–23 reporting year proved to be an eventful year for the accounting and auditing profession, and for the Financial Reporting Council (FRC). Developments in climate reporting are taking centre stage and there is much work to be done in the years ahead to implement requirements in that space.

The FRC will continue to be active on these and other policy matters to ensure the robustness of the Australian corporate reporting framework. This report contains an overview of the FRC's activities during the year.

A SNAPSHOT OF KEY AND ONGOING INITIATIVES

CLIMATE AND SUSTAINABILITY-RELATED STANDARDS

The FRC, Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) have expressed support for the establishment of the International Sustainability Standards Board (ISSB). They recognise the urgent demand for consistent and comparable disclosure of sustainability-related information. As a result, the bodies have directed their focus and resources on sustainability-related work.

On 9 November 2022, the FRC appointed 3 new members to the AASB and 2 new members to the AUASB, to support the focus on sustainability.

Appointees to the standard-setting bodies all had previous environmental, social and governance (ESG) sustainability executive and service roles.

On 16 February 2023 a bill was introduced into Parliament that seeks to amend parts of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) to:

- empower the AASB to formulate sustainability reporting standards
- empower the AUASB to formulate sustainability assurance standards
- give the FRC oversight of sustainability standards.

In anticipation of the amendment to the ASIC Act, the AASB and AUASB have been making submissions regarding international sustainability standards and establishing the foundations for sustainability-related financial reporting and assurance in Australia.

On 26 June 2023, the ISSB issued its inaugural standards – International Financial Reporting Standards (IFRS) S1 and IFRS S2. The primary focus for the 2023–24 financial year will be to decide how IFRS S1 and IFRS S2 can be appropriately adopted within the Australian framework. On 28 June 2023, the International Auditing and Assurance Standards Board (IAASB) announced its publication of a draft standard International Standard on Sustainability Assurance (ISSA) 5000.

AUDIT QUALITY MANAGEMENT REVIEW

The FRC is currently reviewing audit quality processes in Australia, including audit surveillance by the Australian Securities and Investments Commission (ASIC), professional accounting bodies' quality review programs, and audit firms' compliance with professional standards.

The review focuses on how audit quality and compliance with professional and ethical standards are monitored and supported, including processes to identify breaches and escalation to disciplinary action. The scope of this review includes systems and processes in place at the 6 largest audit firms and a sample of smaller firms, professional accounting bodies and ASIC.

The review builds on a previous review and report released by the FRC in 2019, which examined the disciplinary processes for registered company auditors. 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.

IMPACT OF GLOBAL ECONOMIC CONDITIONS ON FINANCIAL REPORTING

The FRC acknowledges that recent domestic and international macroeconomic conditions have increased uncertainty and posed significant difficulties in Australia, such as higher interest rates. On 27 October 2022, the FRC discussed the difficulty of measuring the objectives of the financial reporting system, for example, the weighted average cost of capital (WACC). The FRC agreed to monitor financial reporting indicators in the market relative to other markets and whether IFRS disclosures provide Australia with economic benefits.

The FRC understands from historical research studies that there has been a downward trend in Australian WACC since approximately 2019 and that a one standard deviation increase in the

IFRS disclosures score (the proportion of IFRS disclosures relative to total disclosures) leads to a 7.05 per cent decrease in the WACC relative to the sample mean. Findings suggest that IFRS disclosures are providing economic benefits to users by reducing firms' cost of capital.¹

The FRC looks to understand how access to capital has been affected for carbon-intensive operators. Media commentary suggests that while carbon-intensive operators are experiencing restrictions on access to capital, they have not been significantly affected overall.² High prices and longer journeys from rerouted exports did drive the increased working-capital needs of coal traders last year. Although finance for new projects is becoming harder to attain, there is still availability. A problem with relying on finance to limit fossil fuels is that it does not target the demand for carbon-intensive operation.

The FRC will continue to monitor and report on financial reporting indicators in Australia.

TALENT ATTRACTION AND RETENTION

Since the 2021–22 financial year, stakeholders have continued to identify talent attraction and retention as a significant challenge for preparers of financial reports and the broader audit profession. In its 2022 Australian Skills Priority List, the National Skills Commission determined that accountants were no longer in shortage (the National Skills Commission has since been abolished and succeeded by Jobs and Skills Australia).

1 Amitav Saha and Sudipta Bose, 'Do IFRS disclosure requirements reduce the cost of capital? Evidence from Australia' (2021) 61(3) *Accounting & Finance*, 4669–4701.

2 The Economist, "Who is keeping coal alive?" (4 June 2023); The Economist, "The struggle to kill King Coal" (8 June 2023); Reuters, "Financiers' move away from coal is accelerating, report says" (3 May 2023).

This finding runs contrary to information the FRC received from professional accounting bodies (comprising Chartered Accountants Australia and New Zealand (CA ANZ), Institute of Public Accountants (IPA) and CPA Australia). Since climate and sustainability reporting is becoming a priority in Australia's corporate reporting agenda, there is increasing demand for corporate reporting services to be delivered in the future. Understanding that there could be staffing pressures experienced by the accounting and auditing profession during a period of transition in corporate reporting, the FRC decided to investigate the nature of the statistics and determine why accountants were deemed to not be in shortage.

In March 2023, the FRC Chair and Deputy Chair met with Jobs and Skills Australia to discuss the 2022 Australian Skills Priority List. FRC and Jobs and Skills Australia agreed that the emergence of sustainability reporting will pose additional challenges for the companies that hire auditors and accountants in the near future.

The FRC Chair and Deputy Chair also met with the Department of Home Affairs to discuss its Skilled Migration Program. The Department of Home Affairs noted auditors and accountants were currently on occupation lists governing eligibility for skilled migration. The Department noted these lists drew on advice from relevant labour market authorities. Professional accounting bodies are already reporting a critical shortage of labour in the sector. As companies develop strategies to pre-empt mandatory sustainability reporting, the present accounting and audit workforce will need to grow. Companies will need to advertise quickly and it is unclear whether there is adequate supply to fill the labour shortage in a timely manner.

The FRC will continue to monitor this space and advocate for the accounting occupation to be reverted to the 'in shortage' category on the Australian Skills Priority List, and included on relevant lists governing eligibility for skilled migration.

The FRC is also looking at data on talent attraction for accounting and auditing within tertiary education. Anecdotally, there is a continuing downward trajectory of enrolments in accounting and auditing-related tertiary courses.

OTHER INTERNATIONAL DEVELOPMENTS

The FRC continues to monitor and participate in international developments to ensure international best practice is considered for adoption in Australia. In 2022–23:

- The FRC Chair and AASB Chair attended the annual IFRS Foundation conference in London. The conference offered a unique opportunity to hear about key developments at the IFRS Foundation. It highlighted the work of the International Accounting Standards Board (IASB) and the ISSB. The opportunity was taken to meet with international influencers, stakeholders and decision makers.
- The FRC oversaw and supported AASB engagement with the ISSB.
- The FRC supported the AASB's proposal to nominate the AASB Chair as the Vice Chair of the Asian-Oceanian Standard-Setters Group (AOSSG).

STAKEHOLDER ENGAGEMENT

In 2022–23 the FRC agreed the FRC Chair should have annual meetings with senior level executives from Australian organisations in the financial sector to maintain oversight of the challenges that they face and report these findings to the Australian Government.

In June 2023, the FRC Chair met with representatives from international bodies including the IASB Chair and Vice-Chair, UK FRC Chair, Executive Director of the IFRS Foundation and one of the ISSB Vice-Chairs.

The FRC considers it essential that regular contact be maintained, and communication continually strengthened with all stakeholders interested in, or affected by, financial reporting. Additionally, the FRC is making efforts to build relationships with sustainability stakeholders to help the introduction of sustainability reporting standards in Australia.

FRC STAKEHOLDERS

We thank those stakeholders who communicate with us, particularly:

- Australian Business Reporting Leaders Forum
- Australian Charities and Not-for-profits Commission
- Australian Institute of Company Directors
- Australian Institute of Superannuation Trustees
- Australian Public Policy Committee
- Australian Shareholders' Association
- Australian Prudential Regulation Authority

- Australian Securities and Investments Commission
- Chartered Accountants Australia and New Zealand
- CPA Australia
- Commonwealth Department of Finance
- Heads of Treasuries Accounting and Reporting Advisory Committee
- Institute of Internal Auditors–Australia
- Institute of Public Accountants
- New South Wales Treasury
- Commonwealth Treasury
- External Reporting Board (XRB).

This list indicates the broad range of stakeholders who demonstrate an interest in Australia's financial reporting framework. This list of stakeholders is not intended to be exclusive and the FRC welcomes engagement with other stakeholders that might have a significant interest in Australia's financial reporting framework.



1

FRC OBJECTIVES AND FUNCTIONS

THE FINANCIAL REPORTING SYSTEM

Part 12 of the ASIC Act establishes the framework for Australia's financial reporting system. The objectives of Part 12 are set out in section 224 of the ASIC Act and include:

- facilitating the development of accounting standards that:
 - Allow users to make and evaluate financial decisions.
 - Assist directors to fulfil their statutory financial reporting obligations.
 - Are relevant, reliable, easy to understand and facilitate comparability.
- Facilitating the development of auditing and assurance standards that provide Australian auditors with relevant and comprehensive guidance in determining whether financial reports comply with statutory requirements and require auditors' reports to be reliable and readily understood by users.
- Facilitating the Australian economy by:
 - Reducing the cost of capital.
 - Enabling Australian entities to compete effectively overseas.
 - Having accounting and auditing standards that are clearly stated and easy to understand.
- Maintaining investor confidence in the Australian economy (including its capital markets).

FUNCTIONS OF THE FRC

The FRC is the peak body responsible for overseeing the effectiveness of the financial reporting system in Australia. The FRC's functions, as set out in the ASIC Act, include:

- Providing broad oversight of the accounting and auditing standard setting processes and giving the Minister reports and advice about such matters.
- Establishing appropriate consultative mechanisms.
- Appointing members of the AASB and AUASB (other than the Chairs).
- Giving advice or feedback to the AASB and AUASB on their priorities, business plans and procedures.
- Giving advice or feedback to the offices of the AASB and AUASB on their budget and staffing arrangements.
- Determining the broad strategic direction of the AASB and AUASB.
- Monitoring the operation of accounting and auditing standards and the effectiveness of consultative arrangements of the AASB and AUASB.
- Giving strategic policy advice and reports to the Minister and professional accounting bodies in relation to the quality of audits conducted by Australian auditors.
- Monitoring the development of international accounting and auditing standards.
- Furthering the development of a single set of accounting and auditing standards for world-wide use.
- Promoting the continued adoption of international best practice standards in the Australian standard setting processes.

The FRC is also responsible for advancing and promoting the main objects of Part 12 of the ASIC Act, concerning the Australian financial reporting system.

STATUTORY OBLIGATIONS

The FRC has met its statutory obligations under the ASIC Act through the following activities.

- Appointed 3 new members and reappointed 2 members of the AASB. Each appointee brought significant depth of expertise in areas relevant to the work of the AASB such as sustainability, and so facilitated the development of relevant, reliable, comparable, understandable, and usable accounting standards.
- Appointed 2 new members and reappointed one member to the AUASB. Each appointee brought significant depth of expertise in areas relevant to the work of the AUASB including sustainability. As such, they facilitated AUASB's development of auditing and assurance standards and related guidance materials. These standards and materials provided relevant and comprehensive guidance, and supported reliable and understandable auditor reports.
- Continued work directed at enhancing the quality of financial reports, which contributed to the development of common international accounting and auditing standards, and facilitated the harmonisation of Australian standards with international standards. This work included monitoring developments in international standards and promoting a coordinated approach to Australian standards.

- As a result, the FRC facilitated investor confidence in Australian firms, promoted cross-border comparisons by investors, and enhanced the ability of Australian firms to access international capital markets at lower cost.
- Monitored the impact of macroeconomic conditions and skill shortages on the financial reporting system and audit quality. Continued to obtain qualitative and quantitative data from stakeholders on matters including auditor disciplinary processes, talent retention, skill shortages and sustainability. This work facilitated the development of financial reporting standards and investor confidence by enabling any impacts of such matters on accounting and auditing standards and practices to be identified and addressed.
- Submitted several letters to Ministers about the contemporary financial environment including international funding, talent attraction, recommendations of appointment to international bodies, and the Audit Quality Management Review.
- Supported the AASB's proposal to nominate the AASB Chair as the Vice Chair of AOSSG. Australia has been asked to host the 2023 Annual Meeting of AOSSG in Brisbane in November 2023. Australia's involvement in AOSSG's work aims to enable Australia to be involved in the convergence process of the Asian-Oceanic region and make contributions to a single set of high-quality global accounting standards.
- Continued to monitor financial reporting and auditing issues relevant to the public sector through its FRC Public Sector Working Group, comprising members of the FRC and the public sector.





2

OVERSIGHT OF AUSTRALIAN STANDARD SETTING

FRC'S ROLE IN THE STANDARD-SETTING PROCESS

The FRC oversees Australia's accounting and auditing standard-setting processes, and the standard setting boards themselves. This role extends to:

- appointing members of the AASB and AUASB (other than the Chairs)
- advising AASB and AUASB on their priorities, business plans and procedures
- advising the offices of the AASB and AUASB on their budgets and staffing arrangements
- determining the broad strategic direction of the AASB and AUASB
- monitoring the development of international accounting and auditing standards and furthering the development of a single set of accounting and auditing standards for worldwide use
- promoting the continued adoption of international best practice accounting and auditing standards in Australian standard setting practices
- monitoring the operation of accounting and auditing standards to assess their continued relevance and effectiveness in achieving their objectives in both the private and public sectors
- monitoring the AASB and AUASB's consultative arrangements.

APPOINTING AASB AND AUASB MEMBERS

In 2022–23, the FRC appointed 3 new members and reappointed 2 members to the AASB. These appointments deepened the AASB’s depth of experience and expertise of the AASB, particularly relating to sustainability reporting with a view to the need to align Australia with international standards in the near term.

The FRC also appointed 2 new members and reappointed one member to the AUASB. These appointments deepened the AUASB’s depth of experience and expertise in sustainability-related assurance as well as on accounting and assurance practices.

GIVING ADVICE OR FEEDBACK TO THE AASB, AUASB AND THEIR OFFICES

The FRC primarily provides advice to the AASB, AUASB and their Offices at meetings of the FRC. The Chairs of the AASB and AUASB attend and provide written and oral reports on the activities of their respective boards at each FRC meeting. In 2022–23, the AASB and AUASB reports included items covering:

- AASB and AUASB strategies
- AASB and AUASB Corporate Plans for 2022–23
- AASB and AUASB’s key activities including progress on key strategic priorities.

FRC members reviewed these reports and provided advice and feedback to the AASB and AUASB at FRC meetings, including on AASB and AUASB strategic priorities, business plans and emerging topics.

The FRC also provided advice and feedback to the AASB and AUASB on staffing arrangements through its recruitment and appointment of appropriate AASB and AUASB members to meet relevant skills and qualifications needed by those Boards. The FRC did not provide advice to the Offices of the AASB and the AUASB on their budgets in 2022–23.

The FRC continued to encourage alignment of AASB and AUASB plans, projects and activities where practicable and welcomed the ongoing collaboration between the boards in 2022–23. In particular, the FRC supported the boards working closely together to consider how the following items can be adopted in Australia:

- IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information
- IFRS S2 Climate-related Disclosures
- proposed assurance standard ISSA 5000 General Requirements for Sustainability Assurance Engagements.

The AASB and AUASB published a joint research report, *Australian Listed Entities: Recognised intangible assets and key audit matters*. They also reissued a joint publication, *Going Concern and Related Assessments* (previously published in 2020). The reissued publication offers a comprehensive overview of the responsibilities of directors and management in assessing solvency and going concern. It examines how the assessment of going concern impacts the preparation of financial statement disclosures, as well as the auditor’s responsibilities.

In addition to the work conducted in preparation for IFRS S1 and S2 and related assurance, the AASB and the AUASB undertook the following activities in 2022–23:

AASB

- Issued a Feedback Statement on the AASB Agenda Consultation 2022–26.
- Issued Discussion Paper – Development of Simplified Accounting Requirements (Tier 3 Not-for-Profit Private Sector Entities).
- Issued the following amendments to Australian Accounting Standards:
 - AASB 2023–3 *Amendments to Australian Accounting Standards – Disclosure of Non-current Liabilities with Covenants: Tier 2*
 - AASB 2023–2 *Amendments to Australian Accounting Standards – International Tax Reform – Pillar Two Model Rules*
 - AASB 2023–1 *Amendments to Australian Accounting Standards – Supplier Finance Arrangements*
 - AASB 2022–10 *Amendments to Australian Accounting Standards – Fair Value Measurement of Non-Financial Assets of Not-for-Profit Public Sector Entities*
 - AASB 2022–9 *Amendments to Australian Accounting Standards – Insurance Contracts in the Public Sector*
 - AASB 2022–8 *Amendments to Australian Accounting Standards – Insurance Contracts: Consequential Amendments*
 - AASB 2022–7 *Editorial Corrections to Australian Accounting Standards and Repeal of Superseded and Redundant Standards*
 - AASB 2022–6 *Amendments to Australian Accounting Standards – Non-current Liabilities with Covenants*
 - AASB 2022–5 *Amendments to Australian Accounting Standards – Lease Liability in a Sale and Leaseback*.
- Issued the following exposure drafts:
 - ED 325 *International Tax Reform – Pillar Two Model Rules: Tier 2 Disclosures*
 - ED 324 *Amendments to the Classification and Measurement of Financial Instruments*
 - ED 323 *Disclosure of Non-current Liabilities with Covenants – Proposed Amendments to Tier 2*
 - ED 322 *International Tax Reform – Pillar Two Model Rules*.
- Commenced post-implementation reviews of specific accounting pronouncements for not-for-profit public and private sector entities, including control, structured entities, related party disclosures and basis of preparation of special purpose financial statements, income of not-for-profit entities, and AASB 1059 Service Concession Arrangements: Grantors.
- Commenced a post-implementation review on IASB's request for IFRS 9 Financial Instruments–Impairment.
- Released the following research reports:
 - Research Report 19: Common Financial Statement Items: Charities with \$0.5–\$3 million in revenue
 - Research Report 18: AASB 17 Insurance Contracts Presentation, Disclosure, Transition and Other Accounting Policy Decisions: A Survey on Australian Insurance Entities
 - Research Report 16: Transition Relief and Ongoing Practical Expedients in IFRS 16 Leases
 - Research Report 10: Legislative and Regulatory Financial Reporting Requirements (Updated).

- Made the following submissions:
 - AASB Comment Letter on IASB ED/2023/1 International Tax Reform – Pillar Two Model Rules
 - AASB submission to IASB Exposure Draft ED/2022/1 Third edition of the IFRS for SMEs Accounting Standard – IFRS for SMEs Accounting Standard
 - AASB submission to IFRS Interpretations Committee's Tentative Agenda Decision Premiums Receivable from an Intermediary
 - AASB submission to the Australian Bureau of Statistics' consultation: Help Shape the Future of Classification on Industries in Australia
 - AASB submission on the Queensland not-for-profit subordinate legislation review discussion paper
 - AASB submission to Exposure Draft on Australian Charities and Not-for-profits Commission Regulations 2022.
- The AASB and RMIT College of Business and Law co-hosted the annual AASB Research Forum on 5 December 2022. This year the AASB offered the opportunity to attend in Melbourne, at the University of Queensland in Brisbane from the live-viewing satellite broadcast venue, or virtually (from any other location worldwide).
- Released the AASB pronouncements Web Portal. The portal versions are now suitable for use for the financial year 2022/23 reporting requirements.

AUASB

- Issued a series of Sustainability Assurance Updates.
- Issued the following exposure drafts:
 - narrow scope amendments to ISA 700 *Forming and Opinion and Reporting on Financial Statements* and ISA 260 *Communication with Those Charged with Governance*
 - proposed revised ISA 500 *Audit Evidence*
 - Part 10, Audits of Group Financial Statements of the Proposed International Standard on *Audits of Financial Statements of Less Complex Entities*
 - proposed revised ISA 570 *Going Concern*.
- Issued the following implementation support materials:
 - ASA 600 *Special Considerations – Audits of a Group Financial Report (Including the Work of Component Auditors)*
 - ASA 315 *Identifying and Assessing the Risks of Material Misstatement*.
- Issued the following revised guidance statements (GS):
 - GS 003 *Assurance Related to Australian Financial Services Licenses issued under the Corporations Act 2001*
 - GS 023 *Special Considerations – Public Sector Engagements*.
- The AUASB and Australian National Centre for Audit and Assurance Research (ANCAAR) co-hosted a joint research and regulation workshop to explore research relevant to the AUASB's standard-setting agenda.
- Issued with the Australian Institute of Company Directors a publication titled *Periodic Comprehensive Review of External Auditor*.

- Issued the following research reports:
 - AASB-AUASB joint research report, *Climate-Related Disclosure and Assurance in the Annual Reports of ASX Listed Companies*
 - AUASB research report, *Perceptions of Audit Quality by Audit Committee Chairs in Australia*
 - AASB-AUASB joint research report, *Australian Listed Entities: Recognised Intangible Assets and Key Audit Matters*.
- Issued the following bulletins:
 - Supporting Auditors in Enhancing Audit Quality
 - Evaluating the Reliability of Data obtained for Use in Audit Technology Tools
 - Technology Update
 - Auditing Fundraising Revenue of Not-for-Profit Entities in a Digital Age.
- Completed its 2022–23 Agenda Consultation Process and released Feedback Statement on 2022–23 Agenda Consultation.
- Issued the IAASB's Proposed Strategy and Work Plan for 2024–27 Consultation Paper and provided a submission to the IAASB.
- Issued Discussion Paper – *Expanding Key Audit Matters beyond Listed Entities* and Feedback Statement.
- Performed a post implementation review of ASAE 3500 *Performance Engagements* and Feedback Statement.
- The accessibility and functionality of AUASB Standards has been enhanced with continued enhancement of the AUASB Digital Standards Portal.

DETERMINING THE STRATEGIC DIRECTION OF THE AASB AND AUASB

Since its establishment, the FRC has made 3 determinations concerning the broad strategic direction of the AASB and AUASB:

- to require the AASB to work towards the adoption of accounting standards that are the same as those issued by the IASB (direction approved 5 September 2002)
- to require the AASB to pursue the harmonisation of Government Finance Statistic (GFS) and generally accepted accounting principles (GAAP) reporting (direction approved 12 December 2002)
- to require the AUASB to use auditing standards issued by the IAASB as a base from which to develop the Australian standards, to develop auditing and assurance standards other than for historical financial information, and to participate in audit research that is conducive to the AUASB's standard-setting activities (direction approved 4 April 2005).

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

MONITORING INTERNATIONAL DEVELOPMENTS

The FRC monitors the development of international standard-setting in a range of ways. This includes inviting speakers from international corporate reporting organisations to present at its meetings and reviewing media from international bodies and other jurisdictions. The FRC also engages with these organisations in one-on-one stakeholder meetings and at international conferences.

The AASB and AUASB also provide regular reports to the FRC on their efforts to build and enhance relationships with global and national standard setters, through which the FRC and the boards can monitor and influence international developments.

The FRC consistently seeks opportunities to further the development of internationally harmonised standards and the adoption of international best practice in Australian standard-setting practices.

International accounting standards

In line with its mandate to further the development of a single set of accounting standards for worldwide use, the FRC supports the AASB's adoption of the IFRS international accounting standards issued by the IASB. These standards continue to have the most widespread impact, having been adopted in over 100 countries.

The FRC and the AASB regularly reassess the appropriateness of using the IFRS (rather than International Public Sector Accounting Standards Board (IPSASB) standards) as a base for the Australian public sector. The AASB also utilises IPSASB guidance to modify IFRS for the not-for-profit sector where appropriate.

International auditing standards

In line with its mandate to further the development of a single set of auditing standards for worldwide use, the FRC supports the AUASB's adoption of the international auditing standards issued by the IAASB. These standards continue to have the most widespread impact, having been adopted in over 120 countries.

The AUASB monitors and contributes to the work of the IAASB, including through Mr Bill Edge (former Chair of the AUASB and member of the FRC during the year) who is a member of the IAASB. Mr Edge is also a member of the IAASB's Sustainability and Fraud task forces.

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

International sustainability standards

On 26 June 2023, the ISSB released its new sustainability standards, International Financial Reporting Standards (IFRS) S1 and IFRS S2, which will help to improve trust and confidence in company disclosures about sustainability to inform investment decisions.

The FRC has closely monitored the establishment and activities of the ISSB, including its release of exposure draft standards on general requirements for disclosure of sustainability-related financial information and climate-related disclosures.

On 28 June 2023, the IAASB approved draft International Standard on Sustainability Assurance (ISSA) 5000 *General Requirements for Sustainability Assurance* for public consultation. Mr Bill Edge was a member of the

IAASB's Task Force which ensured Australia was heavily involved in the development of the draft standard.

The FRC notes the Australian standard-setting boards have been proactive in taking preparatory steps to support future implementation of Australian sustainability-related and climate-risk disclosure and assurance standards. The AASB and AUASB have had on-going discussions with representatives from the accounting professional bodies, the Australian Professional & Ethics Standard Board and ASIC, on the broader implications for the accounting and auditing profession. Additionally, the AASB and AUASB consulted through a Sustainability Reporting Project Advisory Panel that consists of representatives from a wide cross-section of stakeholder groups.

The AASB and AUASB have:

- published a joint research report, *Climate-Related Disclosures and Assurance in the Annual Reports of ASX Listed Companies*
- made a joint submission with the FRC on IPSASB Consultation Paper Advancing Public Sector Sustainability Reporting
- made a joint submission to the ISSB on the ISSB's Exposure Drafts on [Draft] IFRS S1 and [Draft] IFRS S2. As part of the submission, the AASB and AUASB raised several key issues for the ISSB to consider as it moves forward with the redeliberation of the proposals

The AASB has:

- developed a [Draft] Sustainability Reporting Standard-Setting Framework to test as part of developing climate-related financial disclosure requirements for Australia

- made the following submissions:
 - submission to ISSB Exposure Drafts on [Draft] IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information and [Draft] IFRS S2 Climate-related Disclosures
 - submission to the Global Sustainability Standards Board's (GSSB's) Draft GSSB Work Program 2023–25 for public consultation
 - AASB submission to GSSB's Global Reporting Initiative (GRI) Sector Standards Project for Mining – Exposure Draft.

International appointments

In 2022–23, the FRC welcomed the following international appointments of Australian accounting and auditing profession leaders:

- Mr Fridrich Housa (Director, AASB) was appointed by the IFRS Foundation to the SME Implementation Group (SMEIG). The mission of the SMEIG is to support the international adoption of the IFRS for small and medium-sized entities and to monitor its implementation.
- Ms Kris Peach (former Chair, AASB) was appointed as the chair of the IFR4NPO Steering Group, which oversees the governance of the IFR4NPO project.
- Ms Siobhan Hammond (Sustainability Director, AASB) and Ms Nikole Gyles (formerly AASB Technical Director) were appointed as members of the NSS Sustainability Forum established by the UK Endorsement Board. The purpose of the forum is to develop an understanding of connectivity issues between IFRS Accounting Standards and IFRS Sustainability Disclosure Standards, consider possible solutions that would address stakeholder needs for connectivity between the information presented in companies'

- sustainability reports and financial reports, and share them with the ISSB and IASB as they develop high-quality international standards.
- Mr Bill Edge was appointed to the IAASB's Sustainability Assurance and Fraud task forces.

Regional relationships

Australia and New Zealand continue to work closely together to facilitate harmonisation of trans-Tasman standard setting. This relationship is enhanced by the arrangement for cross-appointment to financial reporting oversight and standard setting boards between Australia and New Zealand.

The FRC Chair has been appointed as a member of the External Reporting Board (XRB). The XRB Chair is a member of the FRC as part of the arrangement for cross-appointments between Australia and New Zealand. The Chairs of the AASB and AUASB and the New Zealand Accounting Standards Board (NZASB) and New Zealand Auditing and Assurance Standards Board (NZAuASB) are also members of their counterpart board.

MONITORING THE OPERATION OF ACCOUNTING AND AUDITING STANDARDS

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

- have incorporated IFRS and ISA within reasonable timeframes in accordance with the strategic directions issued by the FRC
- have adequate post-implementation review processes to assess the effectiveness of new standards and guidance
- have regular consultation processes to identify if further guidance is necessary for existing accounting and auditing standards
- consult appropriately before issuing new standards or guidance
- have consultation mechanisms that appropriately include roundtables, targeted outreach, education sessions, webinars, and relevant social media.





3

AUDIT QUALITY

FRC'S ROLE ON AUDIT QUALITY

Australia's legislative framework for audit is mainly set out in the *Corporations Act 2001* (Corporations Act). ASIC has key regulatory responsibility for the regime, including for surveillance, investigation, and enforcement of audit requirements.

The Corporations Act framework gives legal effect to the auditing standards developed by the AUASB. The auditing standards require auditors to adhere to relevant ethical standards issued by the Accounting Professional & Ethical Standards Board (APESB).

The FRC's functions under the ASIC Act include giving strategic policy advice and reports to the Minister and the professional accounting bodies in relation to the quality of audits conducted by Australian auditors. This advice may include advising and reporting on the Corporations Act audit framework, auditing standards or codes of conduct, and the quality assurance reviews, auditor disciplinary processes and education on professional ethics undertaken by the professional accounting bodies.

In 2022–23, the FRC continued to engage with ASIC and the professional accounting bodies to progress its work related to audit quality, including the adequacy of auditor disciplinary processes.

FRC AUDIT QUALITY ACTION PLAN

In fulfilling its obligations relating to the quality of audits in Australia, the FRC has an Audit Quality Action Plan with the objectives to:

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

The FRC is implementing the Audit Quality Action Plan with the support of the AUASB. However, the FRC notes implementation is an ongoing process that relies on many stakeholders – particularly ASIC, the accounting firms and the professional accounting bodies – to improve audit quality.

In 2022–23 the FRC and AUASB progressed the following elements of the Audit Quality Action Plan:

- revising or issuing new standards and guidance to respond to matters raised in ASIC's audit inspection findings, including by:
 - issuing AUASB bulletins:
 - *Supporting Auditors in Enhancing Audit Quality*
 - *Evaluating the Reliability of Data obtained for Use in Audit Technology Tools*
 - *Enhancing Audit Quality Using Technology*
 - *Auditing Fundraising Revenue of Not-for-Profit Entities in a Digital A*

- issuing implementation support for ASA 600 *Audit of a Group Financial Report (Including the Work of Component Auditors)*
- continuing to consult with ASIC and other stakeholders on the results of ASIC's audit inspection program
- continuing to progress the recommendations of the PJC inquiry into regulation of auditing in Australia (see below)
- Commenced an Audit Quality Management Review (see below)
- engaging with academics to interview a sample of audit committee chairs on their perspectives on audit quality. As a result, FRC and AUASB published Research Report 9, *Perceptions of Audit Quality by Audit Committee Chairs in Australia*.

PJC inquiry into regulation of auditing

The Parliamentary Joint Committee on Corporations and Financial Services (PJC) undertook an inquiry into the regulation of auditing in Australia in 2019 and 2020. On 11 November 2020, the PJC's report, *Regulation of Auditing in Australia: Final Report* was tabled in Parliament. In the report, the PJC noted that it stood by the recommendations in its interim report of February 2020.

The interim report recommendations propose actions by the Australian Government, FRC, ASIC and APESB. The recommendations directed to the FRC are:

- **Recommendation 3:** that the FRC, 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.
 - A list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity.
- **Recommendation 6:** that the FRC, by the end of the 2020–21 financial year, oversee the revision and implementation of Australian standards to require audited entities to disclose auditor tenure in annual financial reports. Such disclosures should include both the length of tenure of the entity’s external auditor, and of the lead audit partner.
 - **Recommendation 8:** that the FRC 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.
 - Management’s assessment of going concern.

The FRC has taken steps to progress these recommendations.

FRC’s Audit Quality Management Review

The FRC is currently reviewing how audit quality is managed in Australia. The review focuses on how audit quality and compliance with professional and ethical standards is monitored and supported, including processes to identify breaches and escalation to disciplinary action. The scope of this review includes ASIC’s audit surveillance, the review programs of professional accounting bodies, and the systems and

processes in place at Australia’s 6 largest audit firms and a sample of smaller firms. The FRC will finalise this review and issue its report shortly.

ASIC INITIATIVES TO SUPPORT AND REVIEW AUDIT QUALITY

ASIC audit surveillance program³

ASIC reviews audit firms that audit listed entities and significant public interest entities. The reviewed audit partners are all RCAs. The objective of ASIC’s audit surveillance is to promote the improvement and maintenance of audit quality. ASIC’s Information Sheet 224 *ASIC audit surveillances* provides further information on ASIC’s approach to audit surveillances.

In October 2022, prior to changes to ASIC’s program, ASIC released the results of reviews of audit firms for the 12 months to 30 June 2022 (ASIC Report 743 *Audit inspection report 1 July 2021 to 30 June 2022*).

Report 743 relates to the audits of financial reports up to 31 December 2021. The report on ASIC’s reviews of audits in the 12 months to 30 June 2023 will be issued in late October 2023.

The results from ASIC’s audit firm reviews are summarised in Table 4.1.

³ At the end of November 2022 ASIC discontinued using the terms ‘audit firm inspection’ and ‘audit inspections’ and all audit files reviewed by ASIC are now described as ‘audit surveillances’. ASIC documents issued before the end of November 2022 that used the terms ‘audit firm inspection’ and ‘audit inspection’ should be read as using the term ‘audit surveillance’.

Table 4.1: Negative findings from ASIC reviews of key audit areas

	12 months to 30 June 2020	12 months to 30 June 2021	12 months to 30 June 2022
Audit firms reviewed	13	16	14
Total audit file population of firms reviewed	N/A	N/A	N/A
Audit files reviewed	53	45	45
Key audit areas reviewed	179	149	146
Key audit areas with findings	27%	32%	36%

ASIC has also published individual audit inspection reports for each of the largest 6 audit firms for 2021–22 on its website. ASIC found the largest numbers of negative findings were in the audit of revenue and receivables and the audit of asset values, particularly impairment of non-financial assets. As these areas have historically had large numbers of negative finding, Report 743 includes case studies of good practice in these audit areas.

ASIC has advised that the findings of Report 743 do not necessarily mean the audited financial reports were materially misstated. Rather, ASIC considered the auditors did not have a sufficient basis to support their opinion on the financial report. ASIC’s inspections considered a limited number of files from higher risk audit areas and the results may not necessarily apply across the entire market.

In October 2022, ASIC also released findings from reviews of root cause analysis performed by the largest 6 audit firms (ASIC Report 739 *Root cause analysis: Audit firm thematic review*). Report 739 relates to root cause analysis of negative audit quality findings performed by the firms between 1 July 2020 and 31 December 2021.

The report compared how the firms conduct root cause analysis and identified better practices across the firms in the areas of planning, conducting the root cause analysis and actions.

ASIC found the 2 most common underlying root causes of audit deficiencies identified by the firms were inadequate skills of audit team members carrying out the work and application of professional scepticism and mindset.

Following an internal review in October 2022, ASIC announced changes to its financial reporting and audit surveillances. For the 12 months to 30 June 2023, ASIC will issue a single report with all findings in late 2023. It should be noted that this change in ASIC’s methodology to reviewing audit quality, along with the recent restructure at ASIC, might lead to fewer audit reviews being performed by ASIC.

Given the role that a company’s directors and audit committee can play in supporting audit quality, ASIC commenced routinely reporting negative findings from audit file reviews to the directors and audit committees of entities from 1 July 2022 as set out in Regulatory Guide RG 260 *Communicating findings from audit files to directors, audit committees or senior managers*.

Other ASIC activities

ASIC's other activities to review audit quality include its financial reporting surveillance program, (the outcomes from these financial report reviews and other intelligence informs the selection of the audit files that ASIC reviews), surveillance of auditors (which is not related to inspections of their audit files), investigations into corporate collapses and addressing complaints and other intelligence. The financial reporting surveillance program, a risk-based surveillance of the financial reports of listed entities and other public interest entities, led to material changes to 4 per cent of financial reports reviewed in recent years.

In 2022–23, ASIC's focus on auditor enforcement actions contributed to charges, fines, or disciplinary action against one auditor.

ASIC international engagement

ASIC is a member of the International Organisation of Securities Commissions (IOSCO) and the International Forum of Independent Audit Regulators (IFIAR).

In March 2023, IFIAR released its eleventh annual survey of inspection findings from its member regulators' individual inspections of audit firms affiliated with the 6 largest global audit firm networks. Since first tracking this statistic in 2014, the percentage of audits with findings declined from 47 per cent to 26 per cent in the 2022 survey. The rate of findings remains high and IFIAR urges the 6 largest audit firm networks and their member firms to continue efforts to address the high level of findings to achieve consistently high-quality audit performance.

On 25 July 2023, IOSCO endorsed the ISSB's first 2 Sustainability-related Disclosure Standards.

Professional accounting bodies

Each professional accounting body conducts a review program to support the quality of audits and auditors in Australia. The program at each organisation is different, with complementary management of different risks, participants, and types of engagement. Accordingly, statistics gathered by each organisation may not be comparable. Professional accounting bodies also support their members to adhere to professional standards.

This section lists notable audit quality initiatives implemented in 2022–23.

CA ANZ

Audit quality initiatives

- In 2022 CA ANZ formed a committee to review CA ANZ's professional conduct framework and ensure it continued to uphold integrity and trust in the profession. The review, completed in May 2023, assessed the framework against that of other professional accounting organisations globally, other professional associations in Australia and New Zealand, and the standards set by the International Federation of Accountants and the Professional Standards Councils. In its report, the committee concluded that the CA ANZ framework meets or exceeds relevant standards and benchmarks. Nevertheless, the review also identified several opportunities for enhancement of the framework. Subject to member approval of relevant by-law amendments, these will be progressed during 2024. The Hon. Dennis Cowdroy AO KC was engaged to complete an independent review of the committee's recommendations.

- CA ANZ undertook a research program aimed at informing key trends and issues impacting audit quality. These include the *2022 Australian Investor Confidence Survey*, *Differences in the Judgements of Experts*, and *Key Audit Matters: Insights 2022 reports*.
- CA ANZ launched a large-scale ongoing training program for auditors focusing on enhancing audit quality.
- To monitor the level of resourcing constraints in the Australian auditing sector – one of the most pressing challenges being managed by firms to achieve high quality audits – CA ANZ conducted a survey with audit firms on vacancies in the audit market.
- CA ANZ also provided extensive input and facilitated outreach with professional accountants on consultations of the local and international auditing standards setters impacting audit quality.

CPA

Audit quality initiatives

CPA Australia has continued to support its members with the ongoing implementation of the new system of quality management within their firms. Last year, CPA Australia developed a bespoke toolkit designed to support firms implement a system of quality management, required by ASQM 1 *Quality Management for Firms that Perform Audits or Review of Financial Reports and Other Financial Information* (ASQM 1). This year, CPA Australia revised the toolkit to support members with an approach to conducting and evidencing the monitoring of their system of quality management. To assist with the monitoring, CPA Australia also developed e-Learnings for members on applying root cause analysis within their system of quality management.

Both resources, together with the new quality management requirements and learnings from CPA Australia’s Best Practice Program assessments, will be presented to members in a webinar in October 2023.

2022 saw the first full year of implementation of the new CPA Australia Best Practice Program, which aims to educate members on their professional and ethical obligations, and the importance of upholding a high level of integrity in their role as professional accountants. The program also focusses on identifying business needs, mitigating risks and developing an ongoing support plan that connects members to CPA Australia’s learning tools and resources. Learnings from the first full year of program assessments were reflected in updated tools and resources and refinement of the assessment methodology to better meet members’ needs.

CPA Australia made written submissions during the year in response to consultations from Australian and international standard-setters to improve auditing standards and regulations. CPA Australia continues to engage regularly with key stakeholders, including standard-setters and regulators to contribute to the upkeep and improvement of audit quality in Australia.

With increasing attention being given to the impact of climate change on society, CPA Australia is undertaking initiatives to raise awareness and assist members and other stakeholders better address risks arising from climate change. As part of this, it developed and published a *Guide on climate risks and its impacts on the audit of the financial statements*.

IPA

Audit quality initiatives

IPA responded to recent changes to APES 320 *Quality Management for Firms that provide Non-Assurance Services* and ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Information, or Other Assurance or Related Service Engagements*. It revised existing resources and developing extensive new member tools, resources and guidance, including the quality management and risk management templates, and the Public Practice Manual.

IPA's overall focus is on small to medium-sized practices. It raised members' awareness through journal articles, other media and communications, webinars, and professional development activities, including:

- Providing ongoing and advanced professional development courses on financial auditing, SMSF auditing, and professional and ethical standards (including a focus on auditor independence).
- Commissioning Deakin University to develop an ethics module and a refresher course. The module is mandatory for IPA members to complete.
- Further enhancing IPA's Quality Review Program (QRP) review question sets. The enhancements accommodate recent amendments in professional and ethical standards, member communications relating to the benefits of the QRP, and active management of the number of QRP reviews to ensure compliance with the International Federation of Accountants Statement of Member Obligations.
- Developing a fully digitised QRP system with enhanced automation and reporting capabilities. The new system is about to enter the testing phase with deployment expected in Q3/Q4 2023.
- Active monitoring of ASIC, Tax Practitioners Board and other professional body compliance actions with the view to pursuing further compliance and disciplinary actions.

The results of IPA's, CA ANZ's and CPA Australia's programs are summarised in Tables 4.2 and 4.3:

Table 4.2: Outcomes of review programs – Quality assurance reviews of audit firms

	IPA ¹				CA ANZ ²				CPA Australia ³			
	2021–22		2022–23		2021–22		2022–23		2021–22		2022–23	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Satisfactory / fully compliant	33	80	50	59	56	80	110	81	44	96	55	48
Requires re-review / non-compliant	8	20	35	41	12	17	23	17	2	4	N/A	N/A
Corrective actions required	-	-	-	-	-	-	-	-	N/A	N/A	51	44
Unsatisfactory / disciplinary action required	0	0	0	0	2	3	2	2	0	0	9	8
Total ⁵	41	100	85	100	70	100	100		46	100	115	100

Notes:

1. IPA's Quality Review Program includes an assessment of a firm's compliance with APES 320 Quality Management for Firms that provide Non-Assurance Services, APES 325 Risk Management for Firms and ASQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Information, or Other Assurance or Related Service Engagements. Reviews are conducted on individual Members regardless of whether they are sole practitioners or partners in a small or larger multi-practitioner firm. A significant proportion of IPA auditors operate as sole practitioner firms and the statistics provided in this section relate only to sole practitioner firms that provide audit/assurance services. Reviews of auditors operating in multi-practitioner firms are not included here as the reported outcomes may include compliance with non-audit/assurance areas of practice.
2. CA ANZ's review program assesses whether a firm has implemented an appropriate system of quality control as set out in APES 320 *Quality Management for Firms that provide Non-Assurance Services and ASQM 1 Quality Management for Firms 5. Engagements and antecedent standards*.
3. The CPA Australia Best Practice Program no longer leads to an outcome that results in a re-review. Instead, the Program now identifies members with high priority findings which they were required to address and confirm to CPA Australia that they have been satisfactorily addressed, which are shown as "Corrective actions required". Assessments classified as satisfactory/fully compliant refer to members for whom the findings have resulted in moderate or low rated recommendations for improvement. Findings are not necessarily limited to audit engagement files.
4. CA ANZ's review of these 135 practices included the work of 188 individual members who complete audit engagements and 270 audit files.
5. Results may differ because the professional accounting bodies use different ways to categorise the statuses of "satisfactory" or "requires review". As such, this would affect direct comparability between the bodies' results.

Table 4.3: Outcomes of review programs – Quality assurance reviews of individual members¹

	IPA ²				CPA Australia ³			
	2021–22		2022–23		2020–21		2022–23	
	No.	%	No.	%	No.	%	No.	%
Satisfactory / fully compliant	33	80	50	59	60	97	66	50
Requires re-review / non-compliant	8	20	35	41	2	3	57	43
Unsatisfactory / disciplinary action required	0	0	0	0	0	0	9	7
Total	41	100	85	100	62	100	132	100

Notes:

1. CA ANZ review program completes quality assurance reviews based on firms, not individual members. Inclusion of individual members is in Table 4.2.
2. See note 1 to Table 4.2. The IPA requires all members to undertake a quality review every 3 to 6 years. All RCAs and SMSF Auditors are required to be reviewed every 3 years. All RCAs and SMSF auditors were either compliant or compliant after remediation. The IPA separates findings of non-compliance into 2 categories – minor non-compliance and major non-compliance. In 2022–23, of the 35 non-compliant findings, 12 were minor and 23 were major non-compliances.
3. See note 3 to Table 4.2.

The FRC will continue to seek updates from these bodies on their audit quality initiatives and review processes and outcomes. Access to this information better positions the FRC to identify and advise on the processes used by the professional accounting bodies for audit quality assurance and auditor discipline. It also better positions the FRC to advise on potential gaps and overlaps in auditor disciplinary responsibilities within the broader financial reporting and regulatory regime. As noted in section 1, the FRC is currently conducting its refresh of the 2019 *Auditor Disciplinary Processes: Review* and will provide valuable insight into audit quality processes.





4

FRC NOMINATIONS COMMITTEE

FRC NOMINATIONS COMMITTEE MEMBERS

As at 30 June 2023, the FRC Nominations Committee comprised Suzanne Bell (Chair), Andrew Mills, Keith Kendall and Bill Edge.

The FRC acknowledges the contributions of Bill Edge, whose term ended with the AUASB in 2022–23.

OPERATIONS OF THE FRC NOMINATIONS COMMITTEE

In 2022–23, the FRC Nominations Committee:

- reviewed the composition of, and criteria for appointment to, the AASB and the AUASB
- made recommendations to the FRC for the appointment of members to the AASB and AUASB
- reviewed the succession needs of the AASB and AUASB
- considered and reported to the FRC on the performance of the AASB and AUASB members including through peer review
- recommended changes to the Nominations Charter to the FRC and effectively streamlined nominations processes
- recommended to the FRC for Suzanne Bell to be the Nominations Committee Chair.

APPOINTMENT OF MEMBERS
TO THE AASB AND AUASB

In 2022–23, the FRC Nominations Committee recommended the following appointments and reappointments to the AASB and AUASB. These recommendations were accepted by the FRC.

AASB

- Adrian King
(appointment commencing 1 January 2023)
- Liza Maimone
(appointment commencing 1 January 2023)
- Mathew Nelson
(appointment commencing 1 January 2023)
- David Holland
(reappointment commencing 1 January 2023)
- Stephen Taylor
(reappointment commencing 1 January 2023)

AUASB

- Chi Mun Woo
(appointment commencing 1 January 2023)
- Terence Jeyaretnam
(appointment commencing 1 January 2023)
- Andrew Porter
(reappointment commencing 1 January 2023)

On 1 November 2022, the FRC agreed to proposed amendments to the Nominations Charter. The amendments streamline the reappointment of existing AASB and AUASB members who are no longer required to have an open interview process until the end of their third term if they are not with a Big 4 firm.

ATTENDANCE AT FRC
NOMINATIONS COMMITTEE
MEETINGS

The FRC Nominations Committee held 2 meetings in 2022–23. Members’ attendance is shown in Table 5.1.

Table 5.1: FRC Nominations Committee meeting attendance in 2022–23

Member	Number of eligible meetings attended
S Bell (Chair)	2 of 2
A Mills	2 of 2
B Edge	2 of 2
K Kendall	2 of 2





5

FRC PUBLIC SECTOR ADVISORY GROUP

The FRC monitors financial reporting and auditing issues relevant to the public sector through its FRC Public Sector Advisory Group (PSAG) (formerly the Public Sector Working Group), comprising of members of the FRC and the public sector.

As at 30 June 2023, the PSAG members were:

- Tracey Carroll (Chair) – Deputy Chair of FRC
- Keith Kendall – Chair of AASB
- Bill Edge – Chair AUASB
- Jane Meade – Australasian Council of Auditors General (ACAG) representative
- Sean Osbourne – Heads of Treasury Accounting and Reporting Advisory Committee (HoTARAC) representative
- Peter Gibson – HoTARAC representative

Areas of focus for the PSAG for 2023 include:

- Talent attraction and retention in the public sector.
- Public sector sustainability reporting.
- Audit quality and audit themes in the public sector.
- Simplified financial reporting for the public sector.





6

FRC MEMBERSHIP

FRC MEMBERS

Members of the FRC are appointed on a part-time basis by the Minister.

The FRC was constituted by a Chair and 9 members during the reporting year. The terms of 2 members expired on 3 April 2023 and 30 June 2023 respectively.

In 2022–23:

- Emma Herd was appointed as a member of the FRC from 22 November 2022 to 21 November 2025.
- Rachel Grimes was appointed as a member of the FRC from 9 June 2023 to 8 June 2026.
- Pru Bennett was appointed as a member of the FRC from 9 June 2023 to 8 June 2026.
- Cameron McDonald's term on the FRC expired on 3 April 2023.
- Bill Edge's term as the AUASB Chair, and consequently FRC membership, expired on 30 June 2023.
- The FRC would like to thank Bill for his significant contribution to the FRC and the AUASB while serving numerous terms. Bill was the Chair of the FRC from 29 April 2016 to 31 December 2020, having been a member of the FRC since 29 July 2014. Bill was appointed Chair of the AUASB on 1 July 2021, having acted in the role since 1 January 2021. He was also previously Chair of the AuASB from 2002 to 2004.

The FRC thanks Cameron for his contribution to the FRC over the term of his appointment. Cameron was appointed to the FRC in 2020. The experience and knowledge that was brought to the FRC during Cameron’s term has been greatly appreciated by the Government and the FRC.

**MEMBERS AS AT
30 JUNE 2023**



**ANDREW MILLS
(CHAIR)**

Andrew is a Principal Fellow/Associate Professor of the University of Melbourne Law School, Chair of Cemeteries & Crematoria NSW and a Commissioner of the Independent Planning Commission.

Andrew has over 40 years’ experience in public practice, commercial, government and academic roles including Second Commissioner of Taxation at the Australian Taxation Office, Executive Director of The Tax Institute, Director-Partner and Managing Director at Greenwoods & Freehills and as a member or chair of various Audit and Risk Committees.

Andrew was first appointed as Chair of the FRC and as an FRC member on 30 March 2022.



**MS TRACEY
CARROLL
(DEPUTY CHAIR)**

Tracey is First Assistant Secretary, Shared Services Transformation Program in the Department of Finance, where she is responsible for the Australian Government’s corporate shared services policy, and for delivering corporate shared services to 15 client agencies.

Tracey has over 20 years’ experience in the financial reporting sector with more than 15 years’ experience in public sector finance and accounting, including in senior roles at the Department of Social Services and the National Disability Insurance Agency.

Tracey was first appointed to the FRC on 16 April 2021 and currently serves as Chair of the FRC Public Sector Advisory Group and Deputy Chair of the FRC.



**DR KEITH
KENDALL**

Keith is the Chair of the AASB, where he helms the AASB’s work to develop, issue and maintain principles-based Australian accounting and external reporting standards that meet user needs and enhance external reporting consistency for the Australian economy.

Keith has 25 years’ experience across law, academia, accounting and government, having previously been a partner at Rigby Cooke Lawyers, a barrister, a Senior Lecturer at La Trobe University and a member of the Administrative Appeals Tribunal.

Keith was first appointed to the FRC on 3 May 2020.



**MS SUZANNE
BELL**

Suzanne is a partner at KPMG, where she specialises in the audits of large, multinational listed clients in the transportation and logistics, and consumer and industrial markets industries.

Suzanne has over 30 years' experience in the provision of audit and advisory services, including to clients ranging from start-ups to some of Australia's largest global companies. She is also a member of the Audit Executive and has previously led People Experience. Suzanne is a former Board member of Plan International Australia and the Melbourne Fringe Festival.

Suzanne was first appointed to the FRC on 29 April 2019 and currently serves as Chair of the FRC Nominations Committee.



**MS MICHELE
EBLING**

Michele has over 10 years' experience as a Chair and Board Member for private, not for profit, and public sector entities, including her current appointments as Chair of the External Reporting Board, Board member of Transpower New Zealand and Toitū Tahua – The Centre for Sustainable Finance. Michele served as Chair of PwC in New Zealand from 2016 to 2020. She was Co-Chair of Champions for Change and Deputy Chair of Global Women from 2018 to 2020.

Other Board roles include the Australian Financial Reporting Council and Deputy Chair of the University of Auckland's Business School Advisory Board. She is a fellow of Chartered Accountants Australia and New Zealand and a former member of their Nominations and Governance Committee.

Michele was first appointed to the FRC on 10 October 2019.



**MS EMMA
HERD**

Emma has 25 years' experience in finance, sustainability, and non-financial reporting with specialisation in commercial climate change finance and investment. She is currently a Partner of Climate Change and Sustainability Services at Ernst and Young Oceania.

Emma's previous roles include Chief Executive Officer of Investor Group on Climate Change, Environment Commissioner with the Greater Cities Commission, Head of Sustainability and Executive Director, Emissions and Environment both at Westpac Institutional Bank.

Emma's qualifications include a Bachelor of Asian Studies (Thai) and United Nations Environment Programme Finance Initiative/United Nations Institute for Training and Research Climate Change: Risks and Opportunities for the Finance Sector certification.

Emma was appointed to the FRC on 22 November 2022.



MS RACHEL GRIMES AM

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Rachel has more than thirty years’ experience in the financial services sector. Rachel is an experienced non-executive director and Chartered Accountant. Rachel has held senior roles in Finance at Westpac, BT and Challenger including CFO and Director of Mergers and Acquisitions. Rachel is currently on the HUB24 Board, the Australian payments Plus Board, The Accounting Professional and Ethical Standards Board and is Deputy Chair of the Digital Finance Co-operative Research Centre.

Rachel was elected President of the International Federation of Accountants 2016 to 2018 and was President of Chartered Accountants Australia and New Zealand in 2011.

In 2022, Rachel was appointed a Member of the Order of Australia for significant service to business in the field of accountancy and to professional associations.

Rachel was appointed to the FRC on 9 June 2023.



MS PRU BENNETT

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With over 30 years’ experience, Pru is a Partner at global advisory firm, Brunswick Group and Chair of the National Foundation for Australia China Relations.

Pru is a director of Global Compact Network Australia, a member of the Monetary Authority of Singapore’s Corporate Governance Advisory Committee, a council member of the Asian Corporate Governance Association and a member of Deakin University Integrated Reporting Centre Advisory Board. She is a Fellow of Chartered Accountants Australia and New Zealand, a graduate of the Australian Institute of Company Directors, and has a Bachelor of Commerce from the University of New South Wales.

Pru was appointed to the FRC on 9 June 2023.

FORMER MEMBERS

CAMERON MCDONALD

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Cameron is Head of Research for Evans and Partners, where he oversees the research team, and makes investment recommendations.

Cameron has 28 years’ experience in the financial services sector, including as a Director and Deputy Portfolio Manager for The Utilities Trust of Australia at Hastings Funds Management, non-executive director on the Perth Airport Board, and Director and Head of Transport and Infrastructure Research at Deutsche Bank.

MR BILL EDGE

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Bill is the Chair of the AUASB, where he helms the AUASB’s work to develop, issue and maintain auditing and assurance standards for the Australian economy. He was also Chair of the AUASB from 2002 to 2004.

Bill has over 40 years' experience in the financial reporting sector, having been a partner of PwC for 18 years, including as lead of the PwC Australia Risk and Quality Group and PwC Australia Professional Standards Group.

Bill is a member of IAASB and is also a member of the IAASB's Sustainability and Fraud task forces.

TRANSPARENCY

In 2022–23, the FRC continued to allow members of the public to observe its meetings, demonstrating the FRC's strong commitment to transparency and stakeholder engagement.

DISCLOSURE AND CONFLICT OF INTERESTS

The FRC has processes to manage conflicts of interest of members. Members are required to disclose relevant interests both on their appointment and at the commencement of FRC meetings. The FRC also maintains a register of interests.

ATTENDANCE AT FRC MEETINGS

The FRC held 3 meetings in 2022–23 in September, November, and March. Members' attendance is shown in Table 7.1.

Table 7.1: FRC meeting attendance in 2022–23

Member	No. meetings attended/No. eligible to attend
A Mills (Chair)	3 of 3
E Herd	2 of 2
K Kendall	3 of 3
B Edge	3 of 3
S Bell	2 of 3
T Carroll	2 of 3
M Embling	3 of 3
C McDonald	3 of 3



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OTHER MATTERS

COMMUNICATION AND CONSULTATION

The FRC primarily communicates and consults with stakeholders and other interest groups via meetings and through its website (www.frc.gov.au). Key stakeholders are invited to prepare a stakeholder report for each FRC meeting. A communique from each FRC meeting is published on the website and distributed to key stakeholders. The website also includes information about FRC members, minutes of meetings, published reports and procedural rules.

The FRC did not utilise its formal information gathering powers under section 225A of the ASIC Act in 2022–23.

The FRC thanks all stakeholders who supported its work by providing requested information and data.

FINANCES

In 2022–23, the Australian Government provided funding through the Treasury to support the FRC. The FRC's Secretariat is provided by staff of Treasury's Markets Group. Expenditure and performance of its functions are included in Treasury's annual financial statements.

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

Australian Public Service Net Zero 2030 – Public Reporting on Government Emissions

As a secondary statutory body, the FRC is not separately reporting on the emissions from their operations as part of the Australian Public Service (APS) Net Zero 2030 policy.

The FRC has been accounted for as part of the emissions reporting in the 2022–23 Annual Report of the Department of the Treasury.⁴

INFORMATION PUBLICATION SCHEME

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

REGULATION IMPACT STATEMENTS

The FRC did not submit any Regulation Impact Statements in 2022–23.

4 Treasury Annual Report 2022–23, ‘Appendices–Ecologically sustainable development and environmental performance’ (2023).



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GLOSSARY

AASB	Australian Accounting Standards Board
ACNC	Australian Charities and Not-for-profits Commission
APESB	Accounting Professional and Ethical Standards Board
APRA	Australian Prudential Regulation Authority
APS	Australian Public Service
ASIC	Australian Securities and Investments Commission
ASIC Act	Australian Securities and Investments Commission Act 2001
ASX	Australian Securities Exchange
AUASB	Auditing and Assurance Standards Board
CA ANZ	Chartered Accountants Australia and New Zealand
CPA	CPA Australia
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principles
HoTARAC	Heads of Treasury Accounting and Reporting Advisory Committee
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IESBA	International Ethics Standards Board for Accountants
IFIAR	International Forum of Independent Audit Regulators
IFRS	International Financial Reporting Standards
IOSCO	International Organisation of Securities Commissions
IPA	Institute of Public Accountants
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
ISSA	International Standard on Sustainability Assurance
ISSB	International Sustainability Standards Board
NZASB	New Zealand Accounting Standards Board
NZAuASB	New Zealand Auditing and Assurance Standards Board
PJC	Parliamentary Joint Committee on Corporations and Financial Services ¹
PSAG	Public Sector Advisory Group
QRP	Quality Review Program

RCA	Registered Company Auditor
SMEIG	Small and Medium Enterprise Implementation Group
SMSF	Self-Managed Superannuation Fund
WACC	Weighted Average Cost of Capital
XRB	External Reporting Board of New Zealand