

Chapter 3

Bodies established under Part 12 of the ASIC Act

3.1 This chapter considers the 2012–13 annual reports of the:

- Financial Reporting Council (FRC);
- Australian Accounting Standards Board (AASB); and
- Auditing and Assurance Standards Board (AUASB).

Financial reporting framework

3.2 Part 12 of the *Australian Securities and Investments Commission Act 2001* (the ASIC Act) establishes Australia's financial reporting system. As outlined in section 224 of the ASIC Act, the objectives of the financial reporting system include:

- facilitating the Australian economy;
- maintaining investor confidence in the Australian economy;
- developing accounting standards that require the provision of information that is relevant, reliable, easy to understand, allows investors to make and evaluate financial decisions, and assists directors to fulfil their statutory financial reporting obligations; and
- developing auditing and assurance standards that provide Australian auditors relevant and comprehensive guidance in determining whether financial reports comply with statutory requirements, and require auditors' reports to be reliable and capable of being readily understood by investors.¹

3.3 Three agencies are established under Part 12 of the ASIC Act as the administrative arms of the financial reporting system; namely, the FRC, the AASB and the AUASB. All three bodies are required to advance and promote the object of Part 12 of the ASIC Act.² The FRC annual report is required to include an analysis of its achievements against the objects of the financial reporting system.³ The Chairs of AASB and AUASB must, as soon as practicable after the end of each financial year, prepare and give to the Minister, for presentation to the Parliament, reports of the operations of the AASB, the AUASB and their respective offices.⁴

3.4 ASIC is also involved in the administration of the financial reporting system. ASIC's role in overseeing auditor independence has been significantly increased with the new division 5A in the ASIC Act, which covers 'Audit deficiency

1 *ASIC Act 2001*, s. 224.

2 *ASIC Act 2001*, s. 225, s. 227, s. 227B.

3 *ASIC Act 2001*, s. 235B.

4 *ASIC Act 2001*, s. 235J, s. 236DG.

notifications and reports'.⁵ During the 2012–13 financial year, ASIC inspected one Australian audit firm jointly with the United States Public Company Accounting Oversight Board.⁶ The committee examines the annual reports prepared by ASIC as part of the committee's ongoing oversight of ASIC. Therefore, the ASIC annual report is not examined further in this report.

Coordination between the FRC, the AASB and the AUASB

3.5 The ASIC Act requires interaction between the FRC, the AASB and the AUASB. Accordingly, FRC's specific accounting standards functions and specific auditing standards functions also include oversight of certain activities of the AASB and the AUASB. The FRC is required to:

- appoint members of the AASB and the AUASB, other than the Chair;
- determine the broad strategic direction of the AASB and AUASB;
- advise the AASB and the AUASB on the Boards' priorities, business plans and procedures;
- monitor the effectiveness of the Boards' consultative arrangements; and
- advise the Office of the AASB and the Office of the AUASB on the Offices' budgets and staffing arrangements.⁷

3.6 The FRC held a number of meetings and provided feedback on the strategic plans developed by the AASB and the AUASB. The FRC indicated that it was very pleased with the finalised plans, suggesting that the AASB and the AUASB had regard to the FRC's advice as required under Part 12 of the ASIC Act.⁸ The ASIC Act also sets out restrictions on the FRC's oversight of the AASB and the AUASB:

The FRC does not have power to direct the AASB in relation to the development, or making, of a particular standard.

The FRC does not have power to veto a standard made, formulated or recommended by the AASB.

The FRC does not have power to direct the AUASB in relation to the development, or making, of a particular auditing standard.

The FRC does not have power to veto a standard made, formulated or recommended by the AUASB.⁹

3.7 In addition to the oversight provided by the FRC, the interaction between the AASB and AUASB occurs through administrative arrangements. The AASB and

5 *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, Schedule 2.

6 ASIC, *Annual report 2012-13*, p. 153.

7 *ASIC Act 2001*, ss. 225(2–2D).

8 FRC, *Annual report: 2012–13*, pp 1, 3; *ASIC Act 2001*, s. 235G, s. 236AA, s. 236DE, s. 236EA.

9 *ASIC Act 2001*, ss. 225(5–8).

AUASB operate according to a shared service agreement under which seven of the AASB's eight administrative staff work concurrently for the AUASB.¹⁰

The Financial Reporting Council

Changes to the FRC's role

3.8 The FRC was established in 1989 and operates pursuant to Part 12 of the ASIC Act 2001.¹¹ On 27 June 2012 the *Corporations Legislation Amendment (Audit Enhancement) Act 2012* repealed the FRC's auditor independence functions and related reporting requirements. Instead, the FRC now has a strategic policy role of advising the Minister while ASIC assumes the responsibility of monitoring auditor independence as noted above.¹² The changes are intended to streamline the monitoring of auditor independence and clarify the FRC's role to provide strategic policy advice.¹³ Therefore, as part of the financial reporting system, the FRC's role in the operation of Australia's corporations law includes:

- providing broad oversight of the processes for setting accounting standards and auditing standards in Australia; and
- advising the Minister on these matters.¹⁴

3.9 The ASIC Act also confers on the FRC 'specific accounting standards functions' and 'specific auditing standards functions'. The *Corporations Legislation Amendment (Audit Enhancement) Act 2012* added provisions conferring 'specific auditor quality functions' on the FRC.¹⁵ As part of its new strategic role on audit quality the FRC Audit Quality Taskforce has been reconstituted as the Audit Quality Committee:

The Audit Quality Committee is tasked with assisting the FRC through facilitating engagement with stakeholder bodies, reviewing international developments related to audit quality and providing input on the strategic advice provided to the Minister.¹⁶

3.10 The FRC's specific auditor quality functions direct the FRC to give the Minister strategic policy advice and reports on the quality of audits conducted by Australian auditors. In undertaking this function, the FRC is to advise the Minister on:

10 AASB, *Annual report: 2012–13*, p. 51; AUASB, *Annual report: 2012–13*, p. 40.

11 Section 261 of the ASIC Act directs that bodies established under the *Australian Securities and Investments Commission Act 1989* continue in existence as if they had been established under the *ASIC Act 2001*.

12 *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, schedule 2.

13 Explanatory Memorandum, *Corporations Legislation Amendment (Audit Enhancement) Bill 2012*, p. 8.

14 *ASIC Act 2001*, ss. 225(1).

15 *Corporations Legislation Amendment (Audit Enhancement) Act 2012*, schedule 2.

16 FRC, *Annual report: 2012–13*, p. 11.

- systems and processes used by Australian auditors and professional accounting bodies in overseeing auditors;
- the procedures and outcomes of reviews;
- investigations and disciplinary procedures applied to Australian auditors;
- the adequacy of audit legislation;
- standard and codes of conduct; and
- the teaching of professional and business ethics.¹⁷

3.11 The FRC noted in its annual report that the report for the year ending 30 June 2013 is the first opportunity for the FRC to provide strategic advice on audit quality.¹⁸ The annual report includes a chapter on audit quality, which covers stakeholder engagement, international developments and several audit quality review programs.¹⁹ The FRC developed a working definition of the term ‘audit quality’ for consideration by international standard bodies. This definition is set out below:

...the likelihood of the audit achieving the fundamental objective of the audit which is to obtain reasonable assurance that material misstatements in the overall financial report are detected, and addressed or communicated to relevant stakeholders.²⁰

3.12 The FRC's annual report notes ASIC's disappointment with the results of the ASIC Audit Inspection Program Report 2011–12.²¹ The key findings of the inspection included the following:

We have identified three broad areas requiring improvement by audit firms:

- the sufficiency and appropriateness of audit evidence obtained by the auditor;
- the level of professional scepticism exercised by auditors; and
- the extent of reliance that can be placed on the work of other auditors and experts.

We found that, in 18% of the 602 key audit areas reviewed by us across 117 audit files over firms of all sizes, auditors did not obtain sufficient appropriate audit evidence, exercise sufficient professional scepticism, or otherwise comply with auditing standards in at least one significant audit area.

17 *ASIC Act 2001*, ss. 225 (2B –C).

18 FRC, *Annual report: 2012–13*, transmittal letter.

19 FRC, *Annual report: 2012–13*, chapter 2.

20 FRC, *Annual report: 2012–13*, p. 3.

21 FRC, *Annual report: 2012–13*, p. 11.

While the financial reports audited may not have been materially misstated, in these instances, the auditor had not obtained reasonable assurance that the financial report as a whole was free of material misstatement.²²

3.13 The committee considered the audit quality results in some detail in its May 2012 ASIC oversight report.²³ Therefore, the committee will not cover the matter further in this report but will continue to monitor developments on audit quality.

3.14 The FRC's specific accounting standards functions and the specific auditing standards functions recognise the position of Australia's financial system within the international economy.²⁴ The functions also reflect the object in section 224 of the ASIC Act which is 'facilitating the Australian economy by enabling Australian entities to compete effectively overseas'.²⁵ Accordingly, the FRC is required to:

- monitor developments in international accounting standards and auditing standards;
- further the development of a single set of accounting standards and auditing standards for world-wide use; and
- promote the continued adoption of international best practice accounting standards and auditing standards if doing so would be in the best interests of the private and public sectors of the Australian economy.²⁶

3.15 As detailed in the 2012–13 annual report, the FRC's view of its purpose and functions reflects its statutory responsibilities:

Under Part 12 of the ASIC Act one of the FRC's functions is to provide broad oversight of the processes for setting accounting and auditing standards in Australia and to give the Minister reports and advice about these processes. Specific accounting and auditing standard setting functions for which the FRC was responsible in 2012–13 are contained in subsections 225(2) and (2A) of the ASIC Act. The activities of the FRC in executing these functions and responsibilities can be grouped as follows:

- activities in relation to the standard setting boards in Australia;
- activities in relation to developments in Australia; and
- activities in relation to international developments.²⁷

22 ASIC, *ASIC audit inspection program report for 2011-12*, December 2012, p. 5.

23 Parliamentary Joint Committee on Corporations and Financial Service, *Statutory Oversight of the Australian Securities and Investments Commission*, Number 2, May 2013, pp 5–23.

24 *ASIC Act 2001*, ss. 225(2), ss. 225(2A).

25 *ASIC Act 2001*, paragraph 224(b)(ii).

26 *ASIC Act 2001*, ss. 225(2), ss. 225(2A).

27 FRC, *Annual report: 2012–13*, p. 7.

Annual report of the FRC

3.16 This section covers the FRC's annual report, including the strategic plan, and FRC work on managing complexity in financial reporting and financial literacy of directors.

FRC Strategic plan

3.17 The FRC reviewed its 2011–2014 Strategic Plan in light of the changes to its role. The new FRC Strategic Plan indicates that:

In summary, its functions are to provide broad oversight of the processes for setting accounting and auditing standards for the public and private sectors, to provide strategic advice on the quality of audits conducted by Australian auditors, and to advise the Minister, and in some areas the professional accounting bodies, on these and related matters to the extent that they affect the financial reporting system in Australia.²⁸

3.18 The Strategic Plan includes a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis of Australia's financial reporting framework. Identified weakness in, and threats to, Australia's financial reporting system shown in Table 3.1.

Figure 3.1: Extract from FRC's analysis of the financial reporting framework

SWOT analysis – Financial Reporting Framework	
Weaknesses	Threats
Complexity and length of financial reports, due to a variety of reasons including extensive disclosure requirements.	The momentum made towards having a single set of international standards may be reduced if the US decides not to join the international movement.
The level of financial literacy among many company directors and investors may not be sufficient to understand the complexity of current financial reports.	Concerns arising from perceived audit failures during the GFC (especially in the EU) and the trend towards uniform regulation internationally could lead to inappropriate regulation of the audit profession globally.
The outcome of the financial reporting system may not be appropriately serving the diverse needs of investors and other stakeholders.	As financial reporting develops further around the world, Australia's influence could be diluted.
Australia and New Zealand have often needed to develop public sector and not-for-profit reporting without much international context as few countries have devoted the resources to these areas.	Additional reporting requirements being advocated that could increase the complexity of financial reports and decrease their perceived usability by stakeholders generally.

Source: FRC *Annual report: 2012–13*, pp 41–42.

3.19 The committee considers the SWOT analysis to be a useful tool and notes that the list of weaknesses and threats has changed significantly since the previous annual report. The committee sought additional information from the FRC on why the weaknesses and threats have changed. The FRC responded with the following information:

28 FRC *Annual report: 2012–13*, p. 39.

1. Weaknesses

Three of the four weaknesses in the 2011-2012 are repeated in 2012-2013, albeit with some slight differences in wording reflecting more specific observations and/or the work of the FRC in 2012-2013 in surveying the financial literacy of directors and investors.

The weakness not repeated from 2011 -2012 is “exclusive focus on financial reporting, neglecting to some extent the wider context in which economic entities operate”. This omission reflects considerations by the FRC during 2012-2013, most specifically its contribution to the work of the International Integrated Reporting Council (IIRC) and the increased focus that the work of the IIRC received during the year.

The new weakness identified in 2012-2013 – “the outcome of the financial reporting system may not be appropriately serving the diverse needs of investors and other stakeholders” – again reflects the work of the FRC during 2011-2013, most specifically the work it did on managing complexity in financial reports.

2. Threats

Three threats have been repeated from 2011-2012, albeit with some slight word changes to be more specific about the threat.

The other two threats in 2011-2012 – “failure of a big 4 accounting firm, potentially leading to a lack of competition in the audit market” and “complexity caused by...financial reporting for not-for-profit entities” – have been replaced with a new threat “as financial reporting develops further around the world, Australia’s influence could be diluted.” This change reflects a re-prioritisation of the threats, and in particular in relation to the risk of Big 4 failure the steadily reducing impact of the events around the GFC; the functions of the FRC; and the increase in the number of jurisdictions that have now adopted International Financial Reporting Standards (IFRS).²⁹

Committee view

3.20 The committee suggests that such analysis and commentary is entirely consistent with FRC's role in providing strategic advice and should be included in future annual reports.

FRC outputs during the year

3.21 The Chairman's report in the annual report identified the main outputs of the FRC during the financial year, including:

- a number of significant submissions to international financial reporting organisations;
- a report on *Managing Complexity in Financial Reporting*;

29 Financial Reporting Council, *Strengths, weaknesses, opportunities, and threats analysis*, received 20 December 2013.

- a report on *Board Education*; and
- a report on audit quality by the FRC Audit Quality Committee, which has been discussed earlier in this chapter.³⁰

3.22 The FRC taskforce report on *Managing Complexity in Financial Reporting* made a number of recommendations aimed at simplifying reporting. The recommendations addressed further deregulation, coordination of reporting requirements across government, material disclosures, and supporting a proposal to simplify remuneration reporting.³¹ The annual report indicates that the FRC is assiduously following the implementation of the recommendations'.³² A further taskforce on financial reports was established in February 2013 to provide policy advice on:

...examining how the current financial reporting regimes for the various types of reporting entities in Australia can best be understood and, if needed, make recommendations regarding rationalisation of the regimes.³³

3.23 The FRC's Board Education Taskforce and the Australian Stock Exchange conducted a survey of board education. The survey was designed to identify whether there were any issues in terms of the financial literacy of directors in Australia and, if so, how to address them. The survey results indicated that:

Directors generally rated their personal level of financial literacy marginally higher than the financial literacy of their fellow directors. The financial professionals who deal with directors rated their financial literacy at notably lower levels than the directors themselves.

Financial professionals who regularly deal with directors on average rated the general financial literacy of the directors of the top 200 ASX listed entities (good to very good) higher than that of other ASX listed entities (fair to good) and substantially higher than non-listed entities (poor to fair).³⁴

3.24 The survey showed that while relevant accounting courses exist to educate directors; awareness, access and use of the courses may need to be improved. Respondents to the survey also drew attention to a recent finding by the Federal Court that:

30 FRC, *Annual report: 2012–13*, p. 1.

31 FRC Media Release, *Managing Complexity in Financial reporting Finding from the Consultation process*, 3 October 2012, http://www.frc.gov.au/press_releases/2012/02.asp, (accessed 4 December 2013).

32 FRC, *Annual report: 2012–13*, p. 3.

33 FRC, *Annual report: 2012–13*, p. 26.

34 FRC, *Results of Survey on the Financial Literacy of Australian Directors*, September 2012, pp 20–21.

...it is the duty of every director to read the financial statements carefully and to consider whether what they disclose is consistent with the director's own knowledge of the company's affairs.³⁵

Committee view

3.25 The committee notes that FRC's response to the survey identifies a number of efforts to mitigate the deficiencies in the financial literacy of directors. The committee considers that it would be appropriate to regularly repeat the survey and publish the results to monitor the effectiveness of the efforts to improve the financial literacy of directors. The committee will continue to monitor these issues.

Recommendation 5

3.26 The committee recommends that the Financial Reporting Council implement regular surveys of the financial literacy of directors and publish the results.

3.27 The committee is satisfied with the FRC's annual report. The committee will continue to monitor the effects of the repealed auditor independence functions of the FRC.

The Auditing and Assurance Standards Board

3.28 The AUASB is established under Subdivision C, Division 1, Part 12 of the ASIC Act. The AUASB's responsibilities include facilitating an Australian financial reporting system that provides guidance to auditors about auditing standards and requirements.³⁶ The AUASB formulates auditing standards, in the form of legislative instruments, which operate under the *Corporations Act 2001* (the Corporations Act).³⁷ Consistent with the object in section 224 to 'enable Australian entities to compete effectively overseas', the AUASB is required to contribute to the 'development of a single set of auditing standards for world-wide use.'³⁸ The ASIC Act also establishes the Office of the AUASB, which provides technical services and administrative support to the AUASB.³⁹

3.29 The AUASB's statutory responsibilities are reflected in the Board's mission statement as contained in the 2012–13 annual report:

The mission of the AUASB is to develop, in the public interest, high-quality auditing and assurance standards and related guidance, as a means to enhance the relevance, reliability and timeliness of information provided to users of audit and assurance services.

35 FRC, *Annual report: 2012–13*, p. 58.

36 *ASIC Act 2001*, s. 224, s. 227A, s. 227B.

37 *ASIC Act 2001*, s. 227B; *Corporations Act 2001*, s. 336.

38 *ASIC Act 2001*, s. 227B.

39 *ASIC Act 2001*, s. 227AB.

Sound public–interest oriented auditing and assurance standards are necessary to reinforce the credibility of the auditing process for those who use audited financial and other related information.

The AUASB contributes to public confidence in the financial reporting and corporate governance frameworks by issuing auditing standards, which are legally enforceable for audits and reviews of financial reports required under the *Corporations Act 2001*, other auditing and assurance pronouncements and related guidance.

The role of the AUASB also extends to liaison with other national standard setters and participating in standard setting initiatives of the IAASB to develop a single set of auditing standards for worldwide use. Such involvement seeks to contribute ultimately to the quality of AUASB pronouncements.⁴⁰

Annual report of the AUASB

3.30 The annual report indicates the main efforts of the AUASB during 2012–13 included promoting audit quality and enhanced auditor reporting, as well as other initiatives to promote high quality independent audit and assurance services.⁴¹ The committee welcomes this effort given the problems with audit quality that were previously identified by the committee and ASIC.⁴² The committee notes that the following outputs generated by AUASB that are intended to address audit quality:

- a submission to the International Auditing and Assurance Standards Board on a framework for audit quality;
- a bulletin titled, *Professional Scepticism in an Audit of a Financial Report*, intended to alert practitioners to the continuing need to operate with a challenging mindset;
- a revision of its bulletin – *Auditing Considerations in a Prolonged Uncertain Economic Environment*, aimed at reminding auditors to remain alert to issues associated with prolonged economic uncertainty that may affect auditing;
- an exposure draft of the proposed revised standard, *Using the Work of Internal Auditors*, which included provisions to prohibit the use of internal auditors to provide direct assistance in an audit or review, conducted in accordance with the Australian Auditing Standards; and
- the release of eight standards and guidance compilations.⁴³

40 AUASB, *Annual report: 2012–13*, p. 18.

41 AUASB, *Annual report: 2012–13*, p. 3.

42 Parliamentary Joint Committee on Corporations and Financial Services, *Statutory Oversight of the Australian Securities and Investments Commission*, Number 2, May 2013, pp 7–11; FRC, *Annual report: 2012–13*, p. 4; see also paragraphs 3.11 to 3.13 of this report.

43 AUASB, *Annual report: 2012–13*, pp 5–8.

3.31 The 2009–10 financial year marked the introduction of the *Clarity* standards, discussed below. Forty-three revised auditing standards were amended as part of a three-year review process:⁴⁴

In line with the strategic direction provided by the Financial Reporting Council, the Auditing and Assurance Standards Board (AUASB) has revised and redrafted the Australian Auditing Standards. The revised and redrafted standards use the equivalent International Standard on Auditing (ISA) as the underlying standard and therefore conform with the equivalent ISAs, issued by the International Auditing and Assurance Board (IAASB).

Clarity is the title given to the IAASB project, initiated in 2004, to improve the consistent application of International Auditing Standards worldwide.

The IAASB has redrafted, in *Clarity* format, the entire suite of ISAs. In a number of cases, the ISAs have also been substantively revised in addition to being redrafted in *Clarity* format.⁴⁵

3.32 The AUASB continued to monitor and facilitate the implementation of the *Clarity* standards during the 2012–13 financial year.⁴⁶

Committee view

3.33 The committee specifically requested that an assessment of the impact of the *Clarity* standards be included in the 2012–13 and future annual reports.⁴⁷ The committee is disappointed that this has not been provided. The committee subsequently requested an assessment of the *Clarity* standards in December 2013 and the AUASB responded informing the committee that:

The AUASB believes that relevant and reliable auditor reports are a function of both high quality standards and effective implementation and use of the standards by auditors, overseen by regulator inspections and reinforced by audit committees. In its ongoing consideration of the achievements of the *Clarity* versions of the *Standards*, the AUASB has adopted a number of direct and indirect methods to provide a basis for conclusion. The approach taken is preferred to a point-in-time assessment exercise as it provides a far broader, and therefore valuable, basis to gauge the results of implementing the *Standards*. This broader approach facilitates a practical and efficient methodology that utilises the AUASB's day to day activities and is favoured over a more costly, and time-consuming, single assessment exercise. This approach also considers both the standards themselves and their implementation.

44 Parliamentary Joint Committee on Corporations and Financial Services, *Report on the 2009–10 annual reports of bodies established under the ASIC Act*, February 2011, p. 3.

45 AUASB, *ASA redrafting in Clarity Format*, <http://www.auasb.gov.au/ASA-Redrafting-in-Clarity-Format.aspx>, (accessed 19 December 2013).

46 AUASB, *Annual report: 2012–13*, p. 12; AUASB, *Annual report: 2011–12*, p. 12.

47 Parliamentary Joint Committee on Corporations and Financial Service, *Report on the 2011–12 annual reports of bodies established under the ASIC Act*, February 2013, p. 26.

...

In view of the above, we have not, in Australia, undertaken a formal assessment, per se, of the achievements of the *Standards*. Nonetheless, please refer to the attachment to this letter, and pages 25 to 29 of the *2012-13 AUASB Annual Report* that detail the AUASB's targets and outputs, in relation to the development and maintenance of high quality auditing standards. From our considerations and the information contained in the *AUASB Annual Report*, I conclude that the *Standards* contribute positively to promoting relevant and reliable auditor reports.⁴⁸

3.34 The committee also drew the AUASB's attention to reports prepared by this committee and the Senate Economics Legislation Committee and requested that such reports be referred to in the annual report.⁴⁹ The annual report states that:

During the financial year, there were no judicial decisions or decisions of administrative tribunals or reports by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman concerning the performance of the AUASB.⁵⁰

3.35 The committee is not satisfied with the above statement. As noted above, the committee previously recommended changes to the annual report. In addition, the Senate Economics Legislation Committee put forward a whole page of recommendations in its examination of the AUASB's 2011-12 annual report.⁵¹

Recommendation 6

3.36 The committee recommends that the AUASB examine relevant Parliamentary committee reports and include appropriate discussion in the section on external scrutiny of the AUASB annual reports.

3.37 The committee remains concerned about audit quality and will continue to monitor the AUASB's contribution to improving audit quality. Aside from the issues raised above, the committee is generally satisfied with the annual report of the AUASB.

The Australian Accounting Standards Board

3.38 The AASB was first established in 1989 and is currently established by Subdivision B, Division 1, Part 12 of the *ASIC Act 2001*.⁵² The AASB's role is to

48 AUASB, *Clarity Standards in the 2012-13 Annual Report*, Additional Information, received 31 January 2014.

49 Parliamentary Joint Committee on Corporations and Financial Service, *Report on the 2011-12 annual reports of bodies established under the ASIC Act*, February 2013, p. 26.

50 AUASB, *Annual report: 2012-13*, p. 39.

51 Senate Economics Legislation Committee, *Annual reports*, No. 1 of 2013, March 2013, pp 21-22.

52 Section 261 of the *ASIC Act* directs that bodies established under the *Australian Securities and Investments Commission Act 1989* continue in existence as if they had been established under the *ASIC Act 2001*.

develop and evaluate accounting standards based on a conceptual framework. The AASB contributes to the development of 'a single set of accounting standards for world-wide use'.⁵³ The ASIC Act also establishes the Office of the AASB, to provide the AASB administrative and technical support.⁵⁴

3.39 As detailed in the 2012–13 annual report, the AASB's mission statement captures the Board's statutory responsibilities and role in Australia's financial reporting framework:

The mission of the AASB is to:

(a) develop and maintain a high quality conceptual framework for all sectors of the Australian economy;

(b) develop and maintain high quality accounting (i.e. financial reporting) standards for reporting entities in those sectors; and

(c) contribute, through thought leadership and participation, in the development of global financial reporting standards and standard-setting.⁵⁵

Annual report of the AASB

3.40 The annual report indicates that 2012–13 was a mixed year for the AASB:

The projects on financial instruments, revenue, insurance and leasing, which the International Accounting Standards Board (IASB) and the AASB have considered to be core, were not completed as hoped, and yet hard won progress has been achieved on each.⁵⁶

3.41 During 2012–13, the AASB has encouraged rationalisation of requirements in standards, avoidance of exceptions and anti-abuse provisions, as well as having accentuated the importance of developing and consistently applying concepts and principles.⁵⁷ The implications of the global financial crisis for accounting standards continued to be a significant focus for the AASB and its projects during 2012–13:

In relation to the outputs, most of the Standards issued during the year were to maintain conformity with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). Many of these can be attributed to the IASB's ongoing response to the global financial crisis. Similarly, most of the AASB Exposure Drafts issued incorporated IASB proposals. During the year, the Board made submissions to proposals of both the IASB and the International Public Sector Accounting Standards Board (IPSASB).⁵⁸

53 ASIC Act 2001, s. 227.

54 ASIC Act 2001, s. 226A.

55 AASB, *Annual report: 2011–12*, p. 16.

56 AASB, *Annual report: 2012–13*, p. 3.

57 AASB, *Annual report: 2012–13*, p. 8.

58 AASB, *Annual report: 2012–13*, p. 21.

3.42 Significant outcomes for the AASB discussed in the annual report include:

- progress on public sector and not-for-profit projects;⁵⁹
- the issue or re-issue of ten standards, one interpretation and 19 exposure drafts;⁶⁰
- progress on accounting by superannuation entities, accounting for carbon, and accounting by government for concession arrangements;⁶¹ and
- several contributions to international projects:
 - the revision of the International Accounting Standards Board's *Conceptual Framework for Financial Reporting*;⁶²
 - chair of the Asian-Oceanian Standards-Setters Group;⁶³
 - selection as a founding member of the Accounting Standards Advisory Forum;⁶⁴ and
 - completion of work to harmonise cross-Tasman reporting requirements for for-profit entities.⁶⁵

3.43 The annual report indicates that during 2012–13 the AASB had 64 active projects.⁶⁶ While the annual report suggests that a number of projects are nearing completion,⁶⁷ there appears to be a large increase in the number of projects relative to previous years. Significantly, 27 of the 64 projects were not in the 2012–13 work program, but were additional projects initiated during the year.⁶⁸ The work program for 2013–14 provided in the annual report has 54 projects. The AASB subsequently informed the committee that:

There are various reasons behind the addition of projects to the work program.

One major source of new AASB projects is change emanating from the International Accounting Standards Board (IASB) work program, because we adopt the IASB's International Financial Reporting Standards (IFRS).

59 AASB, *Annual report: 2012–13*, p. 3.

60 AASB, *Annual report: 2012–13*, pp 23–24.

61 AASB, *Annual report: 2012–13*, p. 4.

62 AASB, *Annual report: 2012–13*, p. 3.

63 AASB, *Annual report: 2012–13*, p. 3.

64 AASB, *Annual report: 2012–13*, p. 3.

65 AASB, *Annual report: 2012–13*, p. 8.

66 AASB, *Annual report: 2012–13*, p. 38.

67 AASB, *Annual report: 2012–13*, p. 3.

68 AASB, *Annual report: 2012–13*, p. 38.

The AASB also considers the work of the International Public Sector Accounting Standards Board (IPSASB) when it looks at issues of specific interest in the not-for-profit and public sectors.⁶⁹

Committee view

3.44 The committee is generally satisfied with AASB's annual report. However, the committee previously drew the Board's attention to reports prepared by this committee and the Senate Economics Legislation Committee and requested that such reports be referred to in the annual report.⁷⁰ The annual report states that:

During the financial year, there were no judicial decisions or decisions of administrative tribunals or reports by the Auditor-General, a Parliamentary Committee or the Commonwealth Ombudsman concerning the performance of the AASB.⁷¹

3.45 The committee is not satisfied with the above statement. The committee previously recommended changes to the annual report. In addition, the Senate Economics Legislation Committee put forward a whole page of requirements in its examination of the AASB's 2011–12 annual report.⁷²

Recommendation 7

3.46 The committee recommends that the AASB examine Parliamentary committee reports and include appropriate discussion in the section on external scrutiny of the AASB annual reports.

Senator David Fawcett
Chair

69 AASB, *Reasons for additional project in the 2012–13 work program*, Additional Information, received 19 December 2013.

70 Parliamentary Joint Committee on Corporations and Financial Service, *Report on the 2011–12 annual reports of bodies established under the ASIC Act*, February 2013, p. 29.

71 AASB, *Annual report: 2012–13*, p. 50.

72 Senate Economics Legislation Committee, *Annual reports*, No. 1 of 2013, March 2013, pp 22–23.