

Chapter 3

Bodies established under Part 12 of the ASIC Act

3.1 This chapter considers the 2014–15 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

3.4 ASIC is also involved in the administration of the financial reporting system. ASIC's role in oversighting auditor independence is set out under division 5A of the ASIC Act, which covers 'Audit deficiency notifications and reports'.³ During the 2014–15 financial year, ASIC conducted an inspection of one Australian audit firm jointly with the United States Public Company Accounting Oversight Board.⁴

3.5 The FRC annual report is required to include an analysis of its achievements against the objects of the financial reporting system.⁵ The Chairs of AASB and

1 *ASIC Act 2001*, s. 224.

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

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

4 ASIC, *Annual Report 2014–15*, p. 169.

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

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.⁶

Coordination between the FRC, the AASB and the AUASB

3.6 The ASIC Act requires interaction between the FRC, the AASB and the AUASB. Accordingly, the 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

3.7 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.⁸

Committee view

3.8 The committee notes the recommendation by the National Commission of Audit to merge the AASB and the AUASB and/or their offices.⁹ At the time of drafting this report no action has been taken in regards to the recommendation, however, the committee will continue to monitor any developments.

6 ASIC Act 2001, s. 235J, s. 236DG.

7 ASIC Act 2001, s. 225(2–2D).

8 ASIC Act 2001, s. 225(5–8).

9 National Commission of Audit, *Towards Responsible Government*, Appendix Volume 2, February 2014, pp 170, 179.

The Financial Reporting Council

3.9 The FRC was established in 1989 and operates pursuant to Part 12 of the ASIC Act 2001.¹⁰ 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.¹¹

3.10 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.¹²

3.11 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:

- 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.¹³

3.12 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.¹⁴ 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'.¹⁵ 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

10 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*

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

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

13 *ASIC Act 2001*, ss 225 (2B–C).

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

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

- 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.¹⁶

Annual report of the FRC

3.13 As detailed in the 2014–15 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 2014–15 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 standards setting boards in Australia;

activities in relation to audit quality;

activities in relation to developments in Australia; and

activities in relation to international developments.¹⁷

3.14 Although the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board ceased formally working together on convergence during 2014–15, the FRC noted in its annual report that this does not detract from Australia's decision to adopt the International Financial Reporting Standards (IFRS).¹⁸

3.15 The FRC continued to actively monitor ongoing international developments in relation to financial reporting and audit and assessed their potential impact on, and usefulness for, Australian practitioners and the financial reporting industry. In the annual report the FRC noted that the current Australian accounting and audit standards, and their respective standard-setting processes, are relevant and appropriate but that it would continue to maintain 'a watching brief' on developments. It also noted that the Australian financial reporting framework continued to be robust during the reporting period and that it was not necessary to propose changes at this time.¹⁹

3.16 During 2014–15 the FRC's Financial Report Taskforce (the Taskforce) delivered its report into the current financial reporting regime in Australia. This report found that the legislative requirements for the preparation of financial reports significantly differed and/or overlapped between government jurisdictions and different types of organisations. The Taskforce noted that the requirements were not

16 ASIC Act 2001, ss 225(2), ss. 225 (2A).

17 FRC, *Annual Report 2014–15*, p. 5.

18 FRC, *Annual Report 2014–15*, p. 26.

19 FRC, *Annual Report 2014–15*, pp 1, 9.

often related to risk profiles or accountability and should be the focus of sustained reform efforts.²⁰

3.17 The Taskforce made a number of recommendations to assist in reducing the noted complexity in the financial reporting framework and the FRC in conjunction with the AASB are in the process of considering how a number of these recommendations can be progressed.²¹ The committee will continue to monitor the adoption and implementation of the Taskforce recommendations.

3.18 The FRC highlighted in its annual report that, as part of the government's deregulation agenda, it had provided advice during 2014–15 in relation to determining deregulation priorities and identified future deregulation initiatives in the financial reporting sphere.²²

Committee view

3.19 The committee considers that FRC has fulfilled its regulatory and reporting responsibilities during the 2014–15 financial year.

3.20 The committee will continue to monitor deregulation initiatives in relation to financial reporting standards.

The Auditing and Assurance Standards Board

3.21 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.²³ The AUASB formulates auditing standards, in the form of legislative instruments, which operate under the *Corporations Act 2001* (the Corporations Act).²⁴

3.22 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.'²⁵ The ASIC Act also establishes the Office of the AUASB, which provides technical services and administrative support to the AUASB.²⁶

Annual report of the AUASB

3.23 The AUASB's statutory responsibilities are reflected in the Board's mission statement as contained in the 2013–14 annual report:

20 FRC, *Annual Report 2014–15*, pp 1, 21.

21 FRC, *Annual Report 2014–15*, pp 1, 21.

22 FRC, *Annual Report 2014–15*, pp 1, 22.

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

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

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

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

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.

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.²⁷

3.24 The main activities of the AUASB during 2014–15 included promoting enhanced auditor reporting and other initiatives to promote audit quality. In line with this approach, revised assurance standards were issued on various topics including:

- controls engagements;
- auditing grant acquittals and multi-scope engagements;
- auditing prudential reporting requirements of life companies;
- audit reports under the Franchising Code of Conduct; and
- auditor's use of the work of management experts.

Global developments

3.25 The annual report indicates that the AUASB continued to contribute to the setting of international standards. This involved participating in International Auditing and Assurance Standards Board (IAASB) international taskforces, making submissions to the IAASB on exposure drafts, participating in National Standard Setters meetings and harmonising Australian and New Zealand Auditing standards.

3.26 Following the completion of the IAASB's Auditor Reporting project in late 2014 the new and revised Auditor Reporting Standards were released by the IAASB in late 2014 and early 2015. Following the release of exposure drafts on the proposed changes for auditor reporting and auditing disclosures, new and revised Australian standards were issued by AUASB at the end of 2015. The AUASB annual report noted that:

A key change in the auditor reporting related standards is the requirement for placement of the auditor's opinion at the front of the report for all

27 AUASB, *Annual Report: 2014–5*, p. 21.

entities, and for listed entities to provide details of matters of most significance to the audit, Key Audit Matters (KAM), and how these were addressed by the auditor.²⁸

3.27 During 2014–15 the AUASB released an exposure draft of the revised International Auditing Standard ISA 720, *The Auditor's Responsibilities Relating to Other Information*. The revised standard will seek to clarify the nature and extent of 'other information' in an entity's annual report that an auditor is responsible for considering.²⁹

Local developments

3.28 During 2014–15 the AUASB issued a new assurance engagement standard on controls which requires the 'assurance practitioner to conclude on the suitability of the design of controls to achieve identified control objectives for these engagements.'³⁰

3.29 The AUASB worked closely with a number of regulatory bodies during the reporting period, including the Clean Energy Regulator and the Department of Environment whom they advised on requirements for assurance under the newly introduced Emission Reduction Fund (ERF).³¹

3.30 The AUASB continued to monitor and facilitate the implementation of the Clarity Auditing Standards (referred to in the current annual report as the Auditing Standards) as one of its ongoing activities. The committee previously requested that an assessment of the impact of the standards be included in AUASB annual reports.³² In addition to noting the AUASB's efforts to provide guidance and information on the implementation and use of the Clarity Auditing Standards the committee welcomes the following AUASB assessment in the 2014–15 annual report that the Auditing Standards:

- have been properly incorporated into legislation;
- conform to the International Standards on Auditing;
- are used by auditors and other assurance practitioners, where required; and
- contribute positively to promoting relevant and reliable auditor reports as well as to the quality of audit generally.

Committee view

3.31 The committee considers that the AUASB has fulfilled its regulatory and reporting responsibilities during the 2014–15 financial year.

28 AUASB, *Annual Report: 2014–15*, p. 12.

29 AUASB, *Annual Report: 2014–15*, p. 13.

30 AUASB, *Annual Report: 2014–15*, p. 14.

31 AUASB, *Annual Report: 2014–15*, p. 15.

32 Parliamentary Joint Committee on Corporations and Financial Service, *Report on the 2010–11 annual reports of bodies established under the ASIC Act*, March 2012, p. 48.

The Australian Accounting Standards Board

3.32 The AASB was first established in 1989 and is currently established by Subdivision B, Division 1, Part 12 of the ASIC Act 2001.³³ The AASB's role is to develop a conceptual framework by which to evaluate proposed accounting standards and international standards as well as formulating and making accounting standards. The AASB also contributes to the development of 'a single set of accounting standards for world-wide use'.³⁴ The ASIC Act also establishes the Office of the AASB, to provide the AASB with administrative and technical support.³⁵

Annual report of the AASB

3.33 As detailed in the 2014–15 annual report, the AASB's mission statement has been revised following the development of the AASB Strategy 2015-2019.

The mission of the AASB is to:

- create principle-based external reporting standards for Australia that meet user needs; and
- contribute to the development of international external reporting standards.³⁶

3.34 The annual report indicates that the AASB completed a review of its five-year strategic plan with the development of the AASB Strategy 2015–2019.³⁷ This review confirmed five key strategic directions for the AASB:

- Use IFRS and transaction-neutrality as a starting point, taking into account cost/benefit considerations and user needs;
- Take leadership role in shaping the Australian Financial Reporting Framework;
- Enhance international influence with respect to International Accounting Standards Board (IASB) and International Public Sector Accounting Standards Board (IPSASB) outcomes;
- Facilitate and encourage active stakeholder participation in developing standards; and
- To maintain relevance, investigate expanding the scope of activities to cover external reporting rather than just financial reporting.³⁸

33 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*

34 *ASIC Act 2001*, s. 227

35 *ASIC Act 2001*, s. 226A

36 AASB, *Annual Report: 2014–15*, p. 11.

37 AASB, *Annual Report: 2014–15*, pp 7, 11.

38 AASB, *Annual Report: 2014–15*, pp 7, 11–17.

3.35 The committee will continue to monitor the implementation of AASB's new strategic plan.

3.36 During 2014–15, the AASB issued Australian versions of two key international standards, on Financial Instruments and Revenue from Contracts with Customers, largely completing the IASB's work program from the Global Financial Crisis.³⁹

3.37 The AASB indicated in its annual report that the implementation process of IFRS in Australia, which began in 2005, will be reviewed by the AASB during 2015–16. This review will include the 'implications for future directions regarding transaction neutrality.'⁴⁰

3.38 During 2014–15, the AASB continued to have influence internationally making thirteen submissions to the IASB, two submissions to the IPSASB and one submission to the International Value Standards Council (IVSC). The AASB also assisted the IASB with its disclosure initiative project.⁴¹

3.39 During 2014–15, the AASB commenced work on projects in relation to the:

- Australian Financial Reporting Framework – the project aims to clarify and simplify the Australian Financial Reporting Framework, so that objective criteria determine which entities would be required to prepare General Purpose Financial Statements (GPFS) and the level of the reporting requirements; and
- Reduced Disclosure Requirements Framework – the project aims to determine if the principles for determining reduced disclosure requirements should be changed and, if so, what those principles should be.⁴²

3.40 Another key focus for the AASB during 2014–15 was the not-for-profit (NFP) sector with twenty-three of the forty-two standards and two of the fourteen issued by the AASB having specific NFP or public sector specific requirements/modifications. Additionally a number of proposals and exposure drafts on several projects of high priority to NFP entities were released including those relating to fair value disclosures, service concession arrangements, residual values for infrastructure assets and service performance reporting (SPR).⁴³

Committee view

3.41 The committee considers that the AASB has fulfilled its regulatory and reporting responsibilities during the 2014–15 financial year.

39 AASB, *Annual Report: 2014–15*, pp 7, 12.

40 AASB, *Annual Report: 2014–15*, pp 7.

41 AASB, *Annual Report: 2014–15*, pp 7, 11–17.

42 AASB, *Annual Report: 2014–15*, p. 13–14.

43 AASB, *Annual Report: 2014–15*, pp 7, 11–17.