

Chapter 3

Bodies established under Part 12 of the ASIC Act

3.1 This chapter considers the 2015–16 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 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 overseeing auditor independence is set out under division 5A of the ASIC Act, which covers 'Audit deficiency notifications and reports'. During the 2015–16 financial year ASIC did not conduct any joint inspections.³

3.5 The FRC annual report is required to include an analysis of its achievements against the objects of the financial reporting system.⁴ The Chairs of AASB and

1 *ASIC Act 2001*, s. 224.

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

3 *ASIC Annual Report 2015–16*, p. 188.

4 *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.⁵

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.⁶

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;
- veto a standard made, formulated or recommended by the AASB;
- direct the AUASB in relation to the development, or making, of a particular auditing standard; and
- veto a standard made, formulated or recommended by the AUASB.⁷

3.8 The committee notes that the Boards of the AASB and the AUASB have implemented a 'shared support model' with a single National Director and combined administrative staff supporting both Boards.⁸

The Financial Reporting Council

3.9 The FRC was established in 1989 and operates pursuant to Part 12 of the ASIC Act 2001.⁹ The FRC's role in the operation of Australia's corporations law includes:

5 *Public Governance, Performance and Accountability Act 2013*, s. 39, s. 46.

6 *ASIC Act 2001*, s. 225(2)–(2D).

7 *ASIC Act 2001*, s. 225(5)–(8).

8 AUASB, *Annual Report 2015–16*, p. 18; AASB, *Annual Report 2015–16*, p. 15.

9 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*.

- providing broad oversight of the processes for setting accounting standards and auditing standards in Australia; and
- advising the Minister on these matters.¹⁰

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.¹¹

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.¹²

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.¹³ 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'.¹⁴ 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.¹⁵

10 ASIC Act 2001, ss. 225(1).

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

12 ASIC Act 2001, ss 225 (2B)–(2C).

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

14 ASIC Act 2001, ss. 224(b)(ii).

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

Annual report of the FRC

3.13 During 2015–16, the FRC continued to actively monitor ongoing international developments in relation to financial reporting and auditing, as well as the effectiveness of the Australian financial reporting framework, including the relevance and appropriateness of current processes for setting accounting and audit standards. The FRC noted that based on its observations during the reporting period, the Australian financial reporting framework continued to be robust and that it was not necessary to propose changes to the Minister at this time.¹⁶

3.14 The FRC highlighted a number of activities undertaken during 2015–16, including:

- conducting a benchmarking process that looked at arrangements employed by other oversight bodies that oversee national standards setters in comparable jurisdictions to Australia;
- undertaking a review of Australian members of international boards and committees that produce accounting and auditing standards; and
- making a submission to the International Financial Reporting Standards (IFRS) *Trustees' Review of Structure and Effectiveness*.¹⁷

3.15 The FRC also approved the reduction in the size of the AASB from 14 members as at 30 June 2016 to 11–12 members with effect from 2016–17.¹⁸ This follows the reduction in the size of the board of the AUASB that came into effect last year. The report also noted the AASB and AUASB's move to a shared support model with both Boards supported by a single National Director and combined administrative staff.¹⁹

Committee view

3.16 The committee considers that the FRC has fulfilled its regulatory and reporting responsibilities during the 2015–16 financial year.

The Auditing and Assurance Standards Board

3.17 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.²⁰ The AUASB formulates auditing standards, in the form of legislative instruments, which operate under the Corporations Act.²¹

16 FRC, *Annual Report 2015–16*, pp. 1, 17.

17 FRC, *Annual Report 2015–16*, pp. 1, 3.

18 FRC, *Annual Report 2015–16*, p. 12.

19 FRC, *Annual Report 2015–16*, p. 16.

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

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

3.18 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.'²² The ASIC Act also establishes the Office of the AUASB, which provides technical services and administrative support to the AUASB.²³

Annual report of the AUASB

3.19 The AUASB's statutory responsibilities are reflected in the Board's mission statement as contained in the 2015–16 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.

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 NSS [national standard setters] and participating in standard setting initiatives of the IAASB [International Auditing and Insurance Standards Board] to develop a single set of auditing standards for worldwide use. Such involvement seeks to contribute ultimately to the quality of AUASB pronouncements.²⁴

3.20 The annual report indicates that key activities of the AUASB during 2015–16 occurred as the auditing profession prepares to implement changes in reporting to users of financial reports. The report notes that these changes are the culmination of extensive work begun in 2006 by the IAASB and the promulgation of new standards to be applicable on or after 15 December 2016.²⁵

3.21 The AUASB reports that it undertook three separate consultations that successfully influenced the refinement and adoption of the resultant standards. The annual report indicates that in December 2015, the AUASB approved and adopted one new standard, six revised standards and eighteen compiled standards.²⁶

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

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

24 AUASB, *Annual Report 2015–16*, p. 14.

25 AUASB, *Annual Report: 2015–16*, p. 9.

26 AUASB, *Annual Report: 2015–16*, pp. 9–10.

Global developments

3.22 As detailed in the 2015–16 annual report, the AUASB continued its membership and participation in IAASB meetings and working groups and made submissions on all IAASB exposure drafts and discussion papers. This participation included:

- consultation with Australian stakeholders on the IAASB proposals concerning enhanced audit quality, participation in IAASB debate, and feedback to the IAASB on the topic in a submission in May 2016; and
- work on the IAASB Integrated Reporting Working Group, chaired by the AUASB Chairman, and regular meetings with the International Reporting Council.²⁷

Local developments

3.23 The annual report noted continued engagement with Australian stakeholders in order to promote world best practice standards and to obtain feedback on necessary amended standards and guidance.²⁸ This included:

- working closely with the New Zealand Auditing and Assurance Standards Board to promote and facilitate harmonised Australian and New Zealand standards; and
- continued revision of standards and guidance for significant national requirements not otherwise addressed in IAASB standards and practice notes.²⁹

Committee view

3.24 The committee considers that the AUASB has fulfilled its regulatory and reporting responsibilities during the 2015–16 financial year.

The Australian Accounting Standards Board

3.25 The AASB was first established in 1989 and is currently established by Subdivision B, Division 1, Part 12 of the ASIC Act 2001.³⁰ 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

27 AUASB, *Annual Report: 2015–16*, pp. 10, 17.

28 AUASB, *Annual Report: 2015–16*, p. 10.

29 AUASB, *Annual Report: 2015–16*, p. 11.

30 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*.

for world-wide use'.³¹ The ASIC Act also establishes the Office of the AASB, to provide the AASB with administrative and technical support.³²

Annual report of the AASB

3.26 As detailed in the 2015–16 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) create principle-based external reporting standards for Australia that meet user needs; and
- (b) contribute to the development of international external reporting standards.³³

3.27 The annual report indicates that the AASB has made progress in implementing the five key strategic directions set out in its AASB Strategy 2015–19.³⁴

3.28 During 2015–16, the AASB commenced an outreach campaign that identified important issues and concluded that:

- its reporting framework is regarded as too complicated and subjective, requiring the AASB to undertake more work in this area as a key focus for 2016–17;
- IFRS is not a perfect solution for all constituents, requiring the AASB to issue more sector-specific guidance that will include releasing a new standard for the not-for-profit sector;
- general purpose financial reports are regarded by constituents as too complicated and detailed, indicating a need for revised disclosure requirements; and
- accounting standards are regarded as hard to interpret and apply, and need improved consistency and clarity.³⁵

3.29 The AASB identified continuing outreach with stakeholders and regulators as critical to addressing these issues. The AASB reported that it has broadened its forums for engagement that deliver feedback. For the AASB the increased stakeholder engagement is to the benefit of the work that the AASB undertakes on both the domestic and international fronts, particularly when implementing new international reporting standards in Australia and influencing the International Accounting Standards Board (IASB).³⁶

31 *ASIC Act 2001*, s. 227.

32 *ASIC Act 2001*, s. 226A.

33 AASB, *Annual Report 2015–16*, p. 11.

34 AASB, *Annual Report: 2015–16*, pp. 13–15.

35 AASB, *Annual Report: 2015–16*, pp. 7–8.

36 AASB, *Annual Report: 2015–16*, p. 8.

3.30 The AASB has commenced a review of the implementation of IFRS in Australia, focusing on how transaction neutrality has been applied across the for profit sector and the not-for-profit public and private sectors, and whether a third tier of general purpose financial reporting is required.³⁷

3.31 The AASB reported that it undertook a major restructure in cooperation with the AUASB in order to serve the broader objective of ensuring that Australian accounting and auditing practice remains at the forefront of international practices, while remaining fit for purpose in Australia. Accordingly, the annual report indicates that both the AASB and AUASB have adopted a shared support model involving a single National Director and combined administrative staff.³⁸

Committee view

3.32 The committee considers that the AASB has fulfilled its regulatory and reporting responsibilities during the 2015–16 financial year.

37 AASB, *Annual Report: 2015–16*, p. 14.

38 AASB, *Annual Report: 2015–16*, p. 9.