

Chapter 3

Bodies established under Part 12 of the ASIC Act

3.1 This chapter considers the 2016–17 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:

- developing accounting standards that require the provision of information that is relevant, reliable, easy to understand, allows users to make and evaluate financial decisions, and assists directors to fulfil their statutory financial reporting obligations;
- developing 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; and
- maintaining investor confidence in the Australian economy.¹

3.3 The FRC annual report notes that, under Part 12 of the ASIC Act, the core objectives for accounting and auditing standard setting in Australia are to support the Australian economy by:

- reducing the cost of capital and enabling Australian entities to compete effectively overseas;
- maintaining investor confidence in the Australian economy, including its capital markets; and
- being clearly stated and easy to understand.²

3.4 Three agencies are established under Part 12 of the ASIC Act as the administrative arms of the financial reporting system: the FRC, the AASB and the

1 *Australian Securities and Investments Commission Act 2001*, s. 224.

2 Financial Reporting Council, *Annual Report 2016–17*, p. 5.

AUASB. All three bodies are required to advance and promote the object of Part 12 of the ASIC Act.³

3.5 ASIC is also involved in the administration of the financial reporting system. ASIC's role in identifying and addressing audit deficiency is set out under division 5A of the ASIC Act—audit deficiency notifications and reports.⁴

Coordination between the FRC, the AASB and the AUASB

3.6 The ASIC Act sets out the relationship between the FRC, the AASB and the AUASB. The FRC has specific functions relating to accounting standards and auditing standards with respect to certain activities of the AASB and the AUASB, including:

- appointing members of the AASB and the AUASB, other than the Chair;
- advising the AASB and the AUASB on priorities, business plans and procedures;
- advising the Office of the AASB and the Office of the AUASB on budgets and staffing arrangements;
- determining the broad strategic direction of the AASB and AUASB;
- monitoring the development of international accounting and auditing standards; and
- monitoring the effectiveness of the AASB and AUASB's consultative arrangements.⁵

3.7 The ASIC Act sets out express restrictions on the FRC's ability to become involved in the technical deliberations of the AASB and AUASB. In particular, it provides that the FRC does not have the power to:

- direct the AASB or AUASB in relation to the development, or making, of a particular standard; or
- veto a standard made, formulated or recommended by the AASB or the AUASB.⁶

3.8 These restrictions are designed to ensure the independence of the standard setting boards.⁷

3 *Australian Securities and Investments Commission Act 2001*, s. 225, 227, 227B.

4 *Australian Securities and Investments Commission Act 2001*, s. 50A.

5 *Australian Securities and Investments Commission Act 2001*, ss. 225(2), 225(2A).

6 *Australian Securities and Investments Commission Act 2001*, ss. 225(5)–(8).

7 Financial Reporting Council, *Annual Report 2016–17*, p. 5.

The Financial Reporting Council

3.9 The FRC was established in 1989 and operates pursuant to Part 12 of the ASIC Act 2001.⁸ As the peak body responsible for overseeing the effectiveness of the financial reporting framework in Australia,⁹ the FRC's role in the operation of Australia's corporations law includes:

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

3.10 The FRC's specific auditor quality functions direct it to give the Minister and professional accounting bodies strategic policy advice and report on the quality of audits conducted by Australian auditors, including:

- the systems and processes used by auditors to comply with legislative provisions dealing with the conduct of audits, auditing standards, and codes of conduct;
- the systems and processes used by professional accounting bodies for quality assurance reviews of audit work;
- the action that auditors who have been subject to review have taken in response;
- the action taken by professional accounting bodies to ensure that auditors who have been subject to review respond appropriately;
- the investigation and disciplinary procedures of professional accounting bodies applied to auditors;
- the adequacy of relevant legislative provisions;
- standards, and codes of conduct; and
- the teaching of professional and business ethics by professional accounting bodies related to audit quality.¹¹

3.11 The FRC's functions also reflect the objective of section 224 of the ASIC Act which is to 'facilitate the Australian economy by enabling Australian entities to compete effectively overseas'.¹² Accordingly, the FRC is required to:

- monitor developments in international accounting standards and auditing standards;

8 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 *Australian Securities and Investments Commission Act 2001*.

9 Financial Reporting Council, *Annual Report 2016–17*, p. 5.

10 *Australian Securities and Investments Commission Act 2001*, ss. 225(1).

11 *Australian Securities and Investments Commission Act 2001*, ss. 225 (2B)–(2C).

12 *Australian Securities and Investments Commission Act 2001*, ss. 224(b)(ii).

- 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.¹³

FRC annual report

3.12 The FRC annual report is required to include an analysis of its achievements against the objects of the financial reporting system.¹⁴ The committee examines whether the FRC's achievements are satisfactory in its ASIC Oversight report.

3.13 The FRC engaged in a number of activities during 2016–17, including:

- approving its Strategic Plan for the 2017 financial year; and
- making a submission to the Public Interest Oversight Board (PIOB) on the PIOB's 2017–19 Strategy.¹⁵

3.14 The FRC's Strategic Plan for 2017 outlines six Strategic Priorities:

- (a) to promote initiatives to improve the financial reporting system for both the public and private sectors (including the not-for-profit sector as well as the for-profit sector) and to make financial reports more useful, simple and relevant;
- (b) to continue to monitor the quality of audits carried out by Australian auditors;
- (c) to continue to influence international accounting and auditing developments, particularly by promoting suitably qualified Australians and New Zealanders for appointment to relevant international boards;
- (d) to consider external reporting initiatives including their alignment with, and impact on, financial reporting requirements;
- (e) to continue and enhance interaction with stakeholders, including users, preparers and auditors of financial reports; and
- (f) to encourage appropriate use of technology in the preparation and auditing of financial reports.¹⁶

3.15 The FRC recommended the Minister support, and encourage others to support, initiatives to improve the financial reporting system according to the first Strategic Priority of the FRC¹⁷ (above).

13 *Australian Securities and Investments Commission Act 2001*, ss 225(2), 225 (2A).

14 *Australian Securities and Investments Commission Act 2001*, s. 235B.

15 Financial Reporting Council, *Annual Report 2016–17*, pp. 1, 3.

16 Financial Reporting Council, *Annual Report 2016–17*, p. 4.

17 Financial Reporting Council, *Annual Report 2016–17*, p. 1.

3.16 In its submission to the PIOB's 2017–19 Strategy, the FRC 'rejected implications that technical members (or those affiliated with the accounting profession) cannot be assumed to be setting standards in the public interest'. The FRC voiced support for the current standing setting model and did not support a change that would lead to the issue of public interest overriding the need to have sufficient technically competent members.¹⁸

Oversight of Australian standard setting

3.17 As noted earlier, a key role of the FRC is to determine the strategic direction of the standard setting boards. The FRC annual report notes that since its establishment, the FRC has made three 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 International Accounting Standards Board (IASB);
- to require the AASB to pursue the harmonisation of Government Financial Statistics and Generally Accepted Accounting Principles reporting; and
- to require the AUASB to use auditing standards issued by the International Auditing and Assurance Standards Board (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.¹⁹

3.18 The FRC notes that 'each of these directions is still current and the FRC continually monitors their appropriateness and is satisfied that the Boards have implemented these directions to the extent possible'.²⁰

3.19 The FRC's reporting on audit quality will be covered in chapter 4 of this report.

Committee view

3.20 The committee considers that the FRC has fulfilled its annual reporting responsibilities during the 2016–17 financial year. The committee is reserving its judgement about whether the FRC has fulfilled its regulatory functions due to the committee's concerns about audit quality that are discussed in chapter 4.

The Standards Boards

3.21 Following a major restructure in 2016, the AASB and AUASB implemented a new joint operating model. The governance structures of the two Boards were further aligned and updated and included a new combined AASB/AUASB Board Charter.

18 Financial Reporting Council, *Annual Report 2016–17*, p. 3.

19 Financial Reporting Council, *Annual Report 2016–17*, p. 11.

20 Financial Reporting Council, *Annual Report 2016–17*, p. 11.

During 2016–17, the AASB and AUASB held a joint Board and Staff Strategy Day and collaborated to align strategies, visions and missions.²¹

3.22 As part of the restructure, the AASB and AUASB combined administrative staff to support both Boards. The annual report sets out the lines of authority and administrative arrangements:

In 2016 the AASB and AUASB implemented a shared support model, effectively operating, to the extent permitted by legislation, as a single Office supporting both Boards. The Chairs remain Chief Executive Officers and the Accountable Authority under the PGPA and are responsible for the preparation of the financial reports for each entity, however have delegated to the maximum extent possible the CEO responsibilities to the National Director. The National Director supports the Chairs of the respective Boards, and manages the technical staff of both Boards and the professional staff. The AASB provides all administrative services for the AUASB and charges the AUASB a management fee based on recharge of direct costs without mark-up and an appropriate recoupment of common expenses.²²

3.23 The Chairs of the 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 on the operations of the AASB, AUASB and their respective offices.²³

3.24 The AASB and the AUASB presented their financial reports jointly with a column for each entity. This was supplemented with a detailed segment note outlining the appropriations received, the direct costs incurred by each agency, as well as common expenses.²⁴ Nevertheless, this report examines the AASB and AUASB as individual entities.

The Australian Accounting Standards Board

3.25 The AASB is currently established by Subdivision B, Division 1, Part 12 of the ASIC Act.²⁵ The AASB's role is to develop a conceptual framework by which to evaluate proposed accounting standards and international accounting standards as well as to develop accounting standards. Additionally, the AASB contributes to the development of 'a single set of accounting standards for world-wide use'.²⁶ The ASIC

21 AASB and AUASB, *Annual Report 2016–17*, pp. 8–9.

22 AASB and AUASB, *Annual Report 2016–17*, p. 66.

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

24 AASB and AUASB, *Annual Report 2016–17*, p. 66.

25 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*.

26 *Australian Securities and Investments Commission Act 2001*, s. 227.

Act also establishes the Office of the AASB, to provide the AASB with administrative and technical support.²⁷

Annual report of the AASB

3.26 The AASB's role in Australia's financial reporting framework is defined in its mission statement:

Develop, issue and maintain principles-based Australian accounting and external reporting standards that meet user needs and enhance external reporting consistency and quality.

Contribute to the development of a single set of accounting and external reporting standards for world-wide use.²⁸

3.27 The annual report notes that key achievements of the AASB during the 2016–17 financial year include the issue of three new standards:

- AASB 1058 *Income of Not-for-Profit Entities* issued December 2016.
- AASB 1059 *Service Concession Arrangements: Grantors* issued July 2017.
- AASB 17 *Insurance Contracts* issued July 2017 (within two months of the issuance of the International Financial Reporting Standard (IFRS) 17 *Insurance Contracts*).²⁹

3.28 The AASB contributed to international views by actively participating at the Accounting Standards Advisory Forum (ASAF), International Forum of Accounting Standard Setters (IFASS) and Asia Oceanic Standard Setters Group (AOSSG). The AASB contributed on a number of key topics including:

- discussions organised between IASB Board members and staff and AASB Insurance Project Advisory Panel members as part of IASB's insurance project;
- publication and presentation of a position paper on digital currency at the ASAF December 2016 and IFASS March 2017 meetings;
- presentation of a paper at the ASAF meeting on country-by-country reporting by promoting improving tax disclosures for users of financial statements;
- presentation on Financial Instruments with Characteristics of Equity (FICE) at the AOSSG annual meeting November 2016; and
- roundtable events in collaboration with IASB staff to gather feedback from Australian constituents on Principles of Disclosure.³⁰

27 *Australian Securities and Investments Commission Act 2001*, s. 226A.

28 AASB and AUASB, *Annual Report 2016–17*, p. 10.

29 AASB and AUASB, *Annual Report 2016–17*, p. 16.

30 AASB and AUASB, *Annual Report 2016–17*, p. 17.

Committee view

3.29 The committee considers that the AASB has fulfilled its annual reporting responsibilities during the 2016–17 financial year. The committee is reserving its judgement about whether the AASB has fulfilled its regulatory functions due to concerns about audit quality discussed in chapter 4.

The Auditing and Assurance Standards Board

3.30 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.³¹ The AUASB formulates auditing standards, in the form of legislative instruments, which operate under the *Corporations Act 2001*.³²

3.31 Consistent with the objective of section 224 of the ASIC Act 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.'³³ The ASIC Act also establishes the Office of the AUASB, which provides technical services and administrative support to the AUASB.³⁴

AUASB annual report

3.32 The AUASB's statutory responsibilities are reflected in its mission statement as contained in the 2016–17 annual report:

Develop, issue and maintain in the public interest, best practice Australian auditing and assurance standards and guidance that meet user needs and enhance audit and assurance consistency and quality.

Contribute to the development of a single set of auditing and assurance standards for world-wide use.³⁵

3.33 The annual report indicates that key activities of the AUASB during 2016–17 included:

- issuing five new standards;
- publishing the Guidance Statement GS 001 *Concise Financial Reports Under the Corporations Act 2001*;
- publishing FAQs: Enhanced Auditor Reporting;
- making four IAASB (International Auditing and Assurance Standards Board) Discussion Paper submissions; and

31 *Australian Securities and Investments Commission Act 2001*, s. 224, 227A, 227B.

32 *Australian Securities and Investments Commission Act 2001*, s. 227B; *Corporations Act 2001*, s. 336.

33 *Australian Securities and Investments Commission Act 2001*, s. 227B.

34 *Australian Securities and Investments Commission Act 2001*, s. 227AB.

35 AASB and AUASB, *Annual Report 2016–17*, p. 9.

- publication of *Audit Committees: A Guide to Good Practice – 3rd edition*.³⁶

3.34 The AUASB hosted a number of auditor reporting panel events during 2016–17 that included audit firms, preparers, audit committee members and relevant professional bodies.³⁷

3.35 The AUASB continued to work closely with the New Zealand Auditing and Assurance Standards Board (NZAuASB) on a number of developments, such as the New Zealand auditing standards on service reporting information.³⁸

3.36 During 2016–17, the AUASB achieved seven key performance indicators. The committee notes AUASB was unable to formally issue Auditing Standard (ASA) 250 until after the reporting period as a result of issues associated with processing conforming amendments to other ASAs. The committee also notes that the formal stakeholder satisfaction survey process was delayed until 2017–18. The survey will be performed in conjunction with the AASB.³⁹

Committee view

3.37 The committee considers that the AUASB has fulfilled its annual reporting responsibilities during the 2016–17 financial year. The committee is reserving its judgement about whether the FRC has fulfilled its regulatory functions due to concerns about audit quality discussed in chapter 4.

36 AASB and AUASB, *Annual Report 2016–17*, p. 10.

37 AASB and AUASB, *Annual Report 2016–17*, p. 37.

38 AASB and AUASB, *Annual Report 2016–17*, p. 38.

39 AASB and AUASB, *Annual Report 2016–17*, pp. 40, 44.

