



Parliamentary Joint Committee on Corporations and Financial Services

Report on the 2012 – 13 annual reports of
bodies established under the ASIC Act

March 2014



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Duties of the Committee

Section 243 of the *Australian Securities and Investments Commission Act 2001* sets out the Parliamentary Committee's duties as follows:

- (a) to inquire into, and report to both Houses on:
 - (i) activities of ASIC or the Panel, or matters connected with such activities, to which, in the Parliamentary Committee's opinion, the Parliament's attention should be directed; or
 - (ii) the operation of the corporations legislation (other than the excluded provisions); or
 - (iii) the operation of any other law of the Commonwealth, or any law of a State or Territory, that appears to the Parliamentary Committee to affect significantly the operation of the corporations legislation (other than the excluded provisions); or
 - (iv) the operation of any foreign business law, or of any other law of a foreign country, that appears to the Parliamentary Committee to affect significantly the operation of the corporations legislation (other than the excluded provisions); and
- (b) to examine each annual report that is prepared by a body established by this Act and of which a copy has been laid before a House, and to report to both Houses on matters that appear in, or arise out of, that annual report and to which, in the Parliamentary Committee's opinion, the Parliament's attention should be directed; and
- (c) to inquire into any question in connection with its duties that is referred to it by a House, and to report to that House on that question.

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Abbreviations

AAT	Administrative Appeals Tribunal
AASB	Australian Accounting Standards Board
ANAO	Australian National Audit Office
APRA	Australian Prudential Regulation Authority
ASIC	Australian Securities and Investments Commission
ASIC Act	<i>Australian Securities and Investments Commission Act 2001</i>
ASX	Australian Securities Exchange
AUASB	Auditing and Assurance Standards Board
CALDB	Companies Auditors and Liquidators Disciplinary Board
CAMAC	Corporations and Markets Advisory Committee
FRC	Financial Reporting Council
IAASB	International Auditing and Assurance Standards Board
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
IPSASB	International Public Sector Accounting Standards Board
LTCs	Licensed Trustee Companies
SWOT	Strengths, Weaknesses, Opportunities and Threats
The Panel	Takeovers Panel

Chapter 1

Scrutiny of annual reports

1.1 The Parliamentary Joint Committee on Corporations and Financial Services (the committee) is established by Part 14 of the *Australian Securities and Investments Commission Act 2001* (the ASIC Act). Section 243 specifies the committee's duties, which include:

(b) to examine each annual report that is prepared by a body established by this Act and of which a copy has been laid before a House, and to report to both Houses on matters that appear in, or arise out of, that annual report and to which, in the Parliamentary Committee's opinion, the Parliament's attention should be directed...¹

1.2 This report is prepared in fulfilment of the committee's duties under subsection 243(b).

1.3 The ASIC Act establishes nine bodies which are listed below:

- Auditing and Assurance Standards Board (AUASB);
- Australian Accounting Standards Board (AASB);
- Australian Securities and Investments Commission (ASIC);
- Companies Auditors and Liquidators Disciplinary Board (CALDB);
- Corporations and Markets Advisory Committee (CAMAC);
- Financial Reporting Council (FRC);
- Office of the Australian Accounting Standards Board (Office of the AASB);
- Office of the Auditing and Assurance Standards Board (Office of the AUASB); and
- The Takeovers Panel.²

1.4 Collectively, these bodies form the 'administrative organs' of the national financial services regulatory scheme established by the ASIC Act and the *Corporations Act 2001* (Corporations Act).³

1 *ASIC Act 2001*, s. 243 (b).

2 The Financial Reporting Panel was previously established under the ASIC Act, however it ceased operation on 1 October 2012 following amendments to the Corporations Act and ASIC Act.

1.5 While nine bodies are established under the ASIC Act, only seven annual reports are prepared. The ASIC Act directs that one annual report will cover both the AASB and the Office of the AASB.⁴ Similarly, the AUASB is required to prepare an annual report that addresses its activities and the activities of the Office of the AUASB.⁵

1.6 The annual report of ASIC is not considered in this report. The committee routinely examines the annual reports prepared by ASIC as part of the committee's ongoing oversight of ASIC. Accordingly, this report examines the 2012–13 annual reports of the AASB, the AUASB, CALDB, CAMAC, the FRC and the Takeovers Panel.

1.7 From 1 October 2012, provisions in the ASIC Act and the Corporations Act that established the Financial Reporting Panel (FRP) were repealed. As the FRP had neither funding nor activity to report for 2012–13, all operations were covered in its final 2011–12 report.⁶ A footnote on page 134 of the Treasury 2012–13 annual report notes the wind up of the Panel. The committee considered the final annual report for the FRP in its previous report on annual reports.⁷

1.8 The committee notes that the annual reports of bodies established under the ASIC Act are also the subject of scrutiny by the Senate Economics Legislation Committee. Senate Standing Order 25(20) requires the Economics Committee to:

- (a) Examine each annual report referred to it and report to the Senate whether the report is apparently satisfactory.
- (b) Consider in more detail, and report to the Senate on, each annual report which is not apparently satisfactory, and on the other annual reports which it selects for more detailed consideration.
- (c) Investigate and report to the Senate on any lateness in the presentation of annual reports.
- (d) In considering an annual report, take into account any relevant remarks about the report made in debate in the Senate.

3 The Hon Lionel Bowen MP, Attorney-General, *House of Representatives Hansard*, Second Reading Speech, Australian Securities Commission Bill 1988, 25 May 1988, p. 2991. The ASIC Act predominantly replicates the administrative structure established in the *Australian Securities and Investments Commission Act 1989*. Section 261 of the *ASIC Act 2001* directs that bodies established under the Australian Securities Commission Act continue in existence as if they had been established under the *ASIC Act 2001*.

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

5 *ASIC Act 2001*, s. 236DG.

6 The 2011–12 annual report forecasted staffing levels as zero for the 2012–13 year.

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

-
- (e) If the committee so determines, consider annual reports of departments and budget-related agencies in conjunction with examination of estimates.
 - (f) Report on annual reports tabled by 31 October each year by the tenth sitting day of the following year, and on annual reports tabled by 30 April each year by the tenth sitting day after 30 June of that year.
 - (g) Draw to the attention of the Senate any significant matters relating to the operations and performance of the bodies furnishing the annual reports.
 - (h) Report to the Senate each year whether there are any bodies which do not present annual reports to the Senate and which should present such reports.⁸

1.9 Therefore, in conducting its review of the annual reports of bodies established under the ASIC Act, the committee will focus on operational matters of key interest and raise other matters that in the committee's opinion Parliament should consider. Chapter two examines the annual reports of the bodies established under Parts 9–11 of the ASIC Act; CALDB, CAMAC and the Takeovers Panel. Chapter three examines the annual reports of the three agencies established by Part 12 of the ASIC Act to oversee the financial reporting framework: the AASB, the AUASB and the FRC.

1.10 In reviewing the annual reports, the committee also considers whether there are opportunities to strengthen the operation of the corporations legislation, however the committee is not proposing any changes at this time. The committee did not hold any public hearings or seek written submissions during the preparation of this report.

8 The Senate, *Standing Orders and other orders of the Senate*, June 2009, p. 28.

Chapter 2

Bodies established under Parts 9–11 the ASIC Act

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

- Companies Auditors and Liquidators Disciplinary Board (CALDB);
- Corporations and Markets Advisory Committee (CAMAC); and
- The Takeovers Panel (the Panel).

Companies Auditors and Liquidators Disciplinary Board

2.2 CALDB was first established as an independent statutory body in 1989 and is currently established by Part 11 of the *Australian Securities and Investments Commission Act 2001*. Its primary purpose, in the administration of Australia's financial services system, is to hear applications and consider cancellation or suspension of a liquidator's or auditor's registration. The Board's casework is not self-generated as it holds no powers to instigate applications. Rather, applications are brought by either ASIC or the Australian Prudential Regulation Authority (APRA) for the Board's adjudication.¹ Accordingly, the Board operates as an expert disciplinary body for auditors and liquidators in Australia.

2.3 CALDB's annual report stated:

The responsibilities conferred on CALDB by the Corporations Act are intended to provide an incentive to registered auditors and liquidators to maintain high professional standards. CALDB's jurisdiction to cancel or suspend an auditor's or liquidator's registration also has a public protective and educative role.²

Annual report of CALDB

2.4 The ASIC Act directs that the annual report is to 'describe the operations' of CALDB for the relevant financial year.³ New applications received by CALDB are categorised as either 'administrative' or 'conduct'.

2.5 There were six new applications brought before CALDB between 1 July 2012 and 30 June 2013. Four of these applications were conduct matters which, as CALDB notes, will carry over to 2013–14 due to their late referral.⁴ Orders were issued for one administrative matter and another administrative matter was withdrawn.⁵ As raised

1 *Corporations Act 2001*, Part 9.2, Division 3.

2 CALDB, *Annual report: 2012–13*, p. 2.

3 *ASIC Act 2001*, s. 214.

4 CALDB, *Annual report: 2012–13*, p. 7.

5 CALDB, *Annual report: 2012–13*, pp 7–8.

previously,⁶ on the information provided, it is unclear whether matters were referred by ASIC or APRA. The committee recommends CALDB include this distinction in subsequent reports.

2.6 A decision of CALDB may be appealed to the Administrative Appeals Tribunal (AAT) or to the Federal Court of Australia.⁷ The annual report does not indicate if any decisions were the subject of judicial or AAT review during the 2012–13 financial year.

2.7 The report provides the following statistics regarding the number of matters before the Board.

Figure 2.1: Results by nature of sanction of cases before CALDB

Results of application	08/09	09/10	10/11	11/12	12/13
Registration cancelled	6	1	-	1	1
Registration suspended	2	2	-	-	
Admonition	-	-	-	-	-
Reprimand	-	-	-	-	-
Undertakings required to be given	2	2	-	-	-
Dismissed	1	-	-	-	-
Withdrawn by ASIC	8	-	-	-	-

Source: CALDB, *Annual report: 2012–13*, Table: 'Results by nature of sanction', p. 8.

2.8 In its report, CALDB stated that it was informed by ASIC that a review would be undertaken by ASIC in relation to the cost of providing support to CALDB. No outcome has yet been provided from this review.

2.9 An analysis of data provided in previous annual reports indicates that the Board's caseload has significantly declined since 2003–04 (see Figure 2.2). Matters relating to auditors comprise the majority of the Board's caseload over the past decade.

6 Parliamentary Joint Committee on Corporations and Financial Services, *Report on the 2011–12 annual reports of bodies established under the ASIC Act*, February 2013, p. 6.

7 *Corporations Act 2001*, s. 1317B; *Administrative Decisions (Judicial Review) Act 1977*, s. 5.

Figure 2.2: Number of cases referred: 2003–04 to 2012–13

Financial year	Auditors	Liquidators
2012–13	1	4
2011–12	5	2
2010–11	2	1
2009–10	0	0
2008–09	11	1
2007–08	5	0
2006–07	7	0
2005–06	9	3
2004–05	23	12
2003–04	32	1

Source: CALDB, *Annual report: 2012–13*, pp 7–8; CALDB, *Annual report: 2011–12*, p.13; CALDB, *Annual report: 2010–11*, p.13; CALDB, *Annual report: 2009–10*, pp 14–15; CALDB, *Annual report: 2008–09*, pp 13–14; CALDB, *Annual report: 2007–08*, pp 13–14; CALDB, *Annual report: 2006–07*, pp 13–14; CALDB, *Annual report: 2005–06*, p. 11; CALDB, *Annual report: 2004–05*, p. 11; CALDB, *Annual report: 2003–04*, p. 10.

Committee view

2.10 The committee will continue to monitor the low number of referrals to CALDB. The decline in CALDB's activity is particularly evident when viewed against its caseload in previous years.

2.11 The committee notes that in December 2012, improvements to the regulatory framework applying to the corporate insolvency industry were proposed by an exposure draft of the *Insolvency Law Reform Bill 2013*. The committee will continue to monitor the progress of this draft for any developments.

2.12 The committee is not satisfied the Board has given due attention to the report prepared by the Senate Economics Legislation Committee tabled 14 March 2013. The recommendations have not been implemented in the current annual report, as that committee suggested:

The committee considers that CALDB has met its reporting requirements under the ASIC Act, but suggests that more content be added to future annual reports. The report does not have a table of contents. It contains no reference to work health and safety, or environmental matters. In addition, under the Freedom of Information section of the report, it should indicate where FOI requests can be submitted. Although the report states that 'Members of the Board are remunerated in accordance with rates determined by the Commonwealth Remuneration Tribunal', the information

on salary ranges and benefits should be included in the report for the purpose of transparency and accountability.⁸

Recommendation 1

2.13 The committee recommends CALDB distinguish in subsequent annual reports whether matters were referred by ASIC or APRA.

Recommendation 2

2.14 The committee recommends CALDB explicitly indicate in subsequent annual reports whether any decisions were the subject of either judicial or AAT review during the year.

Recommendation 3

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

Corporations and Markets Advisory Committee

2.16 The Corporations and Markets Advisory Committee (CAMAC) was first established in 1989 and is currently established by Part 9 of the *Australian Securities and Investments Commission Act 2001*.⁹ CAMAC's role in the administration of Australia's financial services system is to provide informed and expert advice to the Minister about the content, operation and administration of the corporations legislation, corporations, financial products and markets.¹⁰ On its own initiative or at the Minister's request, CAMAC may provide advice or recommendations about any matter connected with:

- a proposal to make corporations legislation, or to make amendments of the corporations legislation;
- the operation or administration of the corporations legislation;
- law reform in relation to the corporations legislation;
- companies or a segment of the financial products and financial services industry; or
- a proposal to improve the efficiency of the financial markets.¹¹

8 Economics Legislation Committee, *Annual Reports (No. 1 of 2013)*, March 2013, p. 28.

9 Prior to 2001, CAMAC existed as the Companies and Securities Advisory Committee. Section 261 of the ASIC Act directs that bodies established under the *Australian Securities Commission Act 1989* continue in existence as if they had been established under the ASIC Act.

10 *ASIC Act 2001*, s. 1(1)(c).

11 *ASIC Act 2001*, s. 148.

2.17 As detailed in the annual report, CAMAC states that its role is '...to promote a sound and effective regulatory framework for corporate activity and financial services and efficient financial markets'.¹²

2.18 CAMAC is divided into two committees; namely, an Audit Committee and a Legal Committee.¹³ However, in its annual report, CAMAC notes it has advised the government that since the introduction of a sub-committee system it is unnecessary to continue with the Legal Committee as a separate entity.¹⁴ During the 2012–13 financial year there were sub-committees for managed investments, annual general meetings, charitable trusts and crowd sourced equity funding.¹⁵

2.19 CAMAC is supported by a full time executive, which for the 2012–13 financial year consisted of an SES officer, an Executive Level 2 officer and an APS Level 6 officer.¹⁶

2.20 There is a high degree of interaction between ASIC and CAMAC, with CAMAC receiving administrative assistance from ASIC's finance section, information technology officers, payroll section and library.¹⁷

Annual report of CAMAC

2.21 The annual report details CAMAC's activities during 2012–13. Following the first stage of its inquiry into the regulation of managed investment schemes, CAMAC published its report in August 2012.

2.22 In September 2012, CAMAC published a discussion paper concerning the future of the annual general meeting and shareholder engagement in Australia. CAMAC conducted three roundtables and received 36 submissions from interested parties. It is currently considering the matters raised and intends to submit its report to government in 2013–14.¹⁸

2.23 CAMAC was also requested to consider various matters concerning the administration of charitable trusts. Interested parties were invited to make submissions and a roundtable was conducted in April 2013 with stakeholders in Melbourne. The committee's report was submitted to government in May 2013 and includes Stage 1 recommendations for early implementation.¹⁹ The first recommendation addresses information gathering:

12 CAMAC, *Annual report: 2012–13*, p. 16.

13 CAMAC, *Annual report: 2012–13*, p. 23.

14 CAMAC, *Annual report: 2012–13*, p. 2.

15 CAMAC, *Annual report: 2012–13*, p. 16.

16 CAMAC, *Annual report: 2012–13*, p. 26.

17 CAMAC, *Annual report: 2012–13*, p. 2.

18 CAMAC, *Annual report: 2012–13*, pp 7–8.

19 CAMAC, *Administration of Charitable Trusts Report*, May 2013, p. 12.

CAMAC is of the view that a productive way to gain a better understanding of what is occurring in practice with the administration of charitable trusts operated by licensed trustee companies (LTCs) is through a structured review in the form of Stewardship audits. The purpose of these audits would be to focus on how each trustee has exercised its powers and assumed its responsibilities for the purpose of fulfilling the primary intent of the donor.²⁰

2.24 The second recommendation proposes amendments be made to Chapter 5D of the Corporations Act regarding the adoption of a 'fair and reasonable' requirement for fees charged against a client charitable trust. Each LTC 'would be required to provide an annual statement to the designated regulator that the fees and costs charged against the trust are fair and reasonable'.²¹ It proposes the expansion of the jurisdiction the court possesses in dealing with disputes alleging the charging of excessive fees. A standardised approach to the disclosure of fees was also recommended.²²

2.25 Thirdly, the report recommends a judicial process to resolve disputes concerning charitable trusts administered by LTCs. This aims to improve access to the court and grant it greater power to determine fee disputes and tenures of trustees.²³

2.26 CAMAC is conducting a review of the regulation of crowd sourced equity funding. A discussion paper published in September 2013 took into account the current position in Australia as well as developments in the United States, Canada, Europe and New Zealand. CAMAC anticipates finalising its report in April 2014.²⁴

2.27 The annual report notes that CAMAC's expenditure for the 2012–13 financial year included a payment of \$70 000 to ASIC. The report clarifies that this payment to ASIC was 'for administrative support, including financial management, payroll, library services and information technology'.²⁵

Committee view

2.28 The committee commends CAMAC on implementing the recommendations suggested by the Senate Economics Legislation Committee tabled 14 March 2013.²⁶

2.29 The committee considers that CAMAC has fulfilled its regulatory and reporting responsibilities during the 2012–13 financial year and the committee is satisfied with the annual report.

20 CAMAC, *Administration of Charitable Trusts Report*, May 2013, p. 18.

21 CAMAC, *Administration of Charitable Trusts Report*, May 2013, p. 13.

22 CAMAC, *Administration of Charitable Trusts Report*, May 2013, p. 13.

23 CAMAC, *Administration of Charitable Trusts Report*, May 2013, p. 13.

24 CAMAC, *Annual report: 2012–13*, p. 9.

25 CAMAC, *Annual report: 2012–13*, p. 59.

26 Senate Economics Legislation Committee, *Annual Reports (No. 1 of 2013)*, March 2013, p. 29.

The Takeovers Panel

2.30 The Takeovers Panel was established by Part 10 of the *Australian Securities and Investments Commission Act 2001* as a peer review body largely comprised of takeover experts, whose main purpose is the resolution of takeover disputes. During a takeover bid, the Panel is able to declare unacceptable circumstances with respect to the public interest in relation to the affairs of a company, in addition to establishing orders to remedy those circumstances.²⁷

2.31 The Panel is also able to review decisions made by ASIC²⁸ and maintains its operations with a rule making power.²⁹ The Panel's annual report states 'the Panel improves the certainty, efficiency and fairness of Australia's takeovers market.'³⁰

2.32 As at 30 June 2013, the Panel had 48 members. Members are nominated by the Minister and appointed by the Governor-General. Members are chosen so that there is a mix of expertise, geographical representation and gender.³¹

Annual Report of the Takeovers Panel

2.33 During the 2012–13 financial year the Takeovers Panel received 20 applications,³² below the yearly average of 30 applications, though still greater than the 16 applications received in the previous year.³³

2.34 As shown in Figure 2.3, the Takeovers Panel declined to conduct proceedings for 50 per cent of the applications it received. Over the previous decade the proportion of applications for which the Takeovers Panel declined to conduct proceedings has grown steadily from 6% in 2001 to 50% in 2013–14. In 2010 it was suggested that the trend:

...may indicate that in the early years of the 'new' Panel it was reluctant to dismiss an application without commencing proceedings. With experience, the Panel is now more willing to dismiss applications it considers lack merit.³⁴

2.35 The committee will continue to monitor the trend in the proportion of application dismissed by the Takeover Panel.

2.36 Five declarations and orders were issued and undertakings were accepted for two matters. The Takeovers Panel conducted proceedings for three matters, however

27 *Corporations Act 2001*, s. 657A.

28 *Corporations Act 2001*, Part 6.10, Division 2.

29 *Corporations Act 2001*, s. 658C.

30 Takeovers Panel, *Annual Report 2012–13*, p. 7.

31 *Australian Securities and Investments Commission Act 2001*, s. 172.

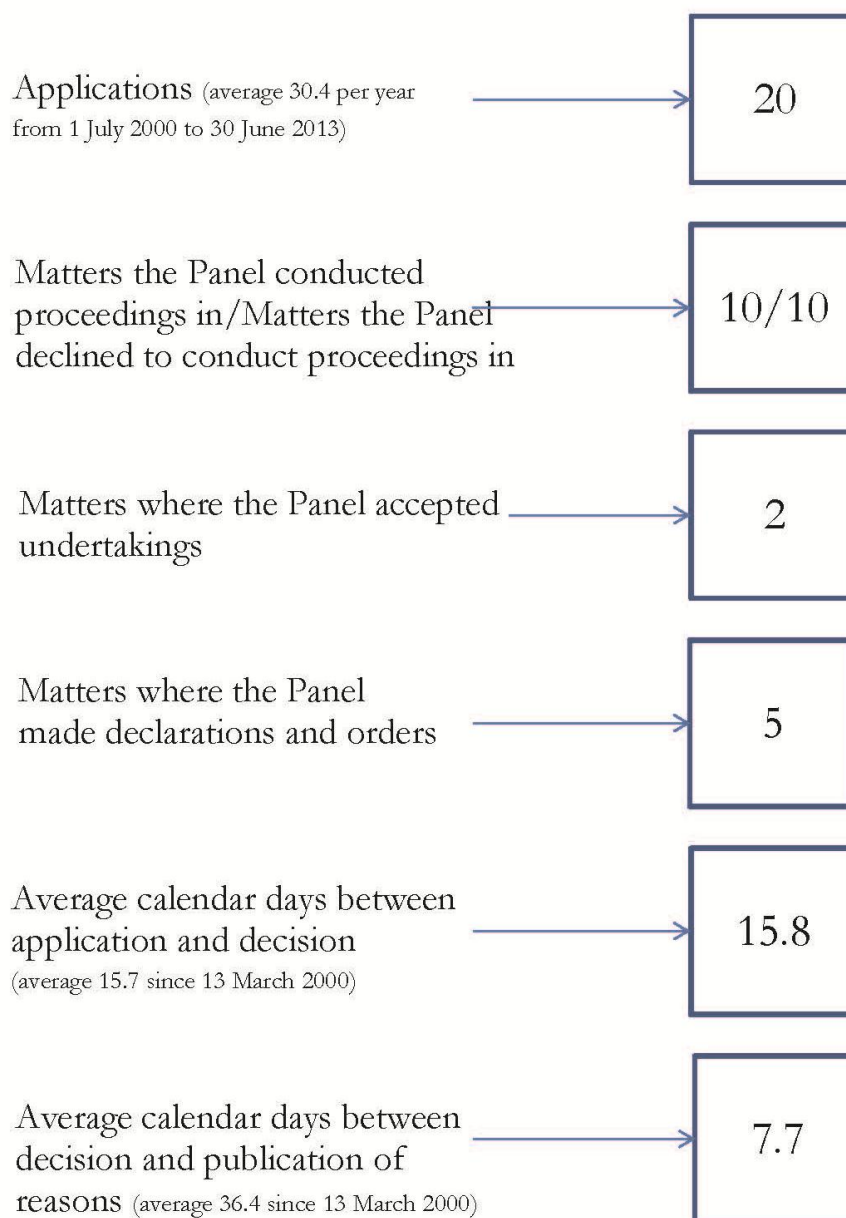
32 Takeovers Panel, *Annual Report 2012–13*, p. 17.

33 Takeovers Panel, *Annual Report 2012–13*, p. 3.

34 Ian Ramsay, *The Takeovers Panel and Takeovers Regulation in Australia*, Melbourne University Publishing Ltd, December 2010, p. 25.

no unacceptable circumstances were found. There were no proceedings withdrawn in the 2012–13 year.³⁵

Figure 2.3 The takeovers panel at a glance



Source: Takeovers Panel, *Annual Report 2012–13*, p. 5.

35 Takeovers Panel, *Annual Report 2012–13*, Table: 'Types of Applications Received by the Panel in 2012–13', p. 20.

Figure 2.4 Issues dealt with by the Takeovers Panel in 2012–13

Issue	2012–13
Disclosure	6
Association	3
Lock-up devices ³⁶	3.5
Rights issues	2
Interpretation of contract in the context of a bid	2
Section 606 breach ³⁷	1.5
Other	2
Total	20

Source: Takeovers Panel, *Annual Report 2012–13*, Table: 'Issues in 2012–13', p. 21; Takeovers Panel, *Annual Report 2012–13*, p. 22.

Interaction with other bodies

2.37 The Panel was subject to one judicial review regarding The President's Club Limited. Proceedings were issued in September 2012 and heard by the Federal Court of Australia in July 2013. The decision has been reserved.³⁸ The Takeovers Panel did not use its rule making power,³⁹ nor were any matters referred from the court during the financial year.⁴⁰

2.38 The Takeovers Panel maintains contact with the Australian Securities Exchange, the Australian Competition and Consumer Commission and with ASIC, with which the Panel has a Memorandum of Understanding.⁴¹ The annual report notes the Panel may refer matters to ASIC that it considers ASIC should inquire into, as aspects of the application may present concerns under the Corporations Act. The Panel recommended two matters to ASIC in the 2012–13 period.⁴² The report also states that the Panel was not the focus of any reports by the Australian National Audit Office (ANAO) in 2012–13.⁴³

2.39 In November 2012, ASIC released a consultation paper proposing to update and consolidate its takeover regulatory guidance. The paper received seven submissions and in June 2013, ASIC made significant changes to regulatory

36 One application dealt with two issues, lock-up devices and a section 606 breach. The annual report counted 0.5 for each type of issue.

37 One application dealt with two issues, lock-up devices and a section 606 breach. The annual report counted 0.5 for each type of issue.

38 Takeovers Panel, *Annual Report 2012–13*, p. 22.

39 Takeovers Panel, *Annual Report 2012–13*, p. 8.

40 Takeovers Panel, *Annual Report 2012–13*, p. 8.

41 Takeovers Panel, *Annual Report 2012–13*, p. 23.

42 Takeovers Panel, *Annual Report 2012–13*, p. 23.

43 Takeovers Panel, *Annual Report 2012–13*, p. 29.

guidelines to improve the existing body of takeovers policy.⁴⁴ The changes have allowed prompter correspondence to parties by removing the requirement of the Panel to provide reasons at the time of notification 'to not conduct proceedings'.⁴⁵ An amendment to the guidelines has also created greater efficiency by removing the requirement to create and retain transcripts of conferences thus enabling the use of electronic conferences.⁴⁶

2.40 The annual report indicates a substantial reduction of time between a Panel decision and its publication of reasons. The average number of calendar days between a decision and the publication of reasons was 7.7 days for 2012–13, down from the average of 36.4 calendar days for over a decade.⁴⁷ The Panel has also maintained a consistent time frame of approximately 15 calendar days between receipt of application to decision since March 2000.⁴⁸

2.41 The committee notes that during the year the Panel generated an index of past decisions for future guidance.⁴⁹ The annual report notes that:

The creation of the index reflects that, with more than 400 applications, the Panel has its own specialised quasi-jurisprudence, and the index will assist practitioners in understanding how the Panel applies legislation and policy to the facts of each case.⁵⁰

Committee view

2.42 The committee considers that the Panel fulfilled its regulatory responsibilities during the 2012–13 financial year. However, the committee is not satisfied that the recommendation made by the Senate Economics Legislation Committee in its report tabled 14 March 2013 has been applied to this year's annual report:

...the Panel 'has adopted Treasury's policies and procedures in relation to the Commonwealth disability strategies' however, it would be useful to include a statement in the Panel's report as to what those policies entail.⁵¹

Recommendation 4

2.43 The committee recommends that the Takeovers Panel examine relevant Parliamentary committee reports and include appropriate discussion about the content of committee reports in the Panel's future annual reports.

44 Australian Securities and Investments Commission, *Media Release 13–148MR*, 21 June 2013.

45 Takeovers Panel, *Annual Report 2012–13*, p. 4.

46 Takeovers Panel, *Annual Report 2012–13*, p. 4.

47 Takeovers Panel, *Annual Report 2012–13*, p. 5.

48 Takeovers Panel, *Annual Report 2012–13*, p. 5.

49 Takeovers Panel, *Annual Report 2012–13*, p. 3.

50 Takeovers Panel, *Annual Report 2012–13*, p. 3.

51 Economics Legislation Committee, *Annual Reports (No. 1 of 2013)*, March 2013, p. 36.

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.

Appendix 1

Additional Information received by the Committee

- 1 Australian Accounting Standards Board, *Reasons for additional projects in the 2012–13 work program*, received 19 December 2013.
- 2 Financial Reporting Council, *Strengths, weaknesses, opportunities, and threats analysis*, received 20 December 2013.
- 3 Auditing and Assurance Standards Board, *Clarity Standards in the 2012–13 AUASB Annual Report*, received 31 January 2014.

