



Australian Government

Financial Reporting Council

FINANCIAL REPORTING COUNCIL ANNUAL REPORT 2015-16

**FINANCIAL
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ANNUAL
REPORT
2015-16**

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29 September 2016

The Hon Scott Morrison
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

I have pleasure in presenting the annual report of the Financial Reporting Council (FRC) for the year ended 30 June 2016.

The report has been prepared in accordance with sections 235B of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) for presentation in the Parliament. Subsection 235B(1) of the ASIC Act requires the FRC to prepare a report on its operations during the year, and on the achievement of the objects of Part 12 of the ASIC Act relating to accounting and auditing standards. Section 225(2B) of the ASIC Act further requires the FRC to provide strategic policy advice and report on the quality of audits conducted by Australian auditors.

Subsection 235B(4) of the ASIC Act requires the report to be tabled in each House of the Parliament as soon as practicable.

Yours sincerely

A handwritten signature in black ink, appearing to read 'B. L. Edge'.

Bill Edge
Chair



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CHAIR'S REPORT

In 2015–2016 the Financial Reporting Council (FRC) continued to oversee the effectiveness of the Australian financial reporting framework and the processes for setting accounting and auditing standards, including providing strategic advice in relation to the quality of audits conducted by Australian auditors.

Based on the activities outlined in this annual report, the FRC believes no specific action needs to be taken by the Minister at this time.

Changes to the FRC membership

On 29 April 2016, I was appointed Chair and consider it an honour to be asked to perform this role. I thank Michael Coleman for his role as Acting Chair for much of the year, as well as his role as member, before his term ended during the year.

I also acknowledge the contributions of the other FRC members Ian Laughlin, Ross Barker, Roger Burrows and Mark Coughlin, whose terms also ended during the year. All members discharged their duties in a highly professional manner.

I congratulate new members Judith Downes and Jackie Callaway on their appointment and also Stein Helgeby and Noelle Kelleher on their reappointments.

These changes have resulted in a total FRC membership of ten, compared with a membership which had previously been much higher, and will enable the FRC to act with greater agility and efficiency.

Benchmarking process

The FRC undertook a benchmarking process during the year to seek high level information about the arrangements employed by oversight bodies,

in overseeing national standard setters, in a range of jurisdictions that Australia generally sees as within its peer group in terms of standard setting.

Most of the oversight bodies (in common with the FRC):

- are comprised of members drawn from key stakeholder groups and have a role in setting strategic direction for standard setting;
- have no role in the technical deliberations of the boards they oversee.

Although the FRC's role as an advisor to the Minister on the areas it oversees is not formally a role that appears to be provided by many other oversight bodies, there are indications that this role is in fact fulfilled by a number of oversight bodies, at least from time to time.

The administrative arrangements for most standard-setting structures are addressed through the oversight body, which is different from the Australian arrangements.

Managing complexity

The FRC is aware of the constantly changing regulatory environment for Australian businesses and the complexity of the financial reporting framework.

Several reports have been prepared by, or presented to, the FRC, in particular:

- FRC Managing Complexity Task Force Report (October, 2012)
- FRC Financial Reporting Task Force Report (November, 2014).

It is important that actions recommended by these reports be progressed in a coordinated manner and that there be effective communication between relevant stakeholders.

The FRC will continue to monitor the progress of actions in the area.

One further key project being undertaken is the Australian Accounting Standards Board (AASB) Project “Australian Financial Reporting Framework”.

With this project, the AASB is building on its empirical research regarding use of special and general purpose reports in the corporate sector and the FRC’s work mentioned above on the complexity of determining what reporting requirements apply to different types of entities. This project has the potential to help regulators introduce reforms that simplify reporting requirements and produce more meaningful and useful reporting, as well as reduce costs overall.

The Auditing and Assurance Standards Board (AUASB) will also be involved in this project.

Standards oversight

One of the FRC’s key functions is to oversee the process for setting accounting and auditing standards in Australia. The FRC acknowledges the considerable work undertaken by the AASB and the AUASB during 2015–2016. Their specific achievements and ongoing work are reported separately in their respective annual reports, which I encourage stakeholders to read.

Stakeholder engagement

The FRC considers it essential that regular contact be made with all stakeholders in the capital markets and we continue to maintain and strengthen our communication with them.

The FRC is very grateful to the wide range of stakeholders who regularly provided reports to our meetings, assisting us to understand relevant developments in Australia, and overseas.

In particular we thank:

- Association of Superannuation Funds of Australia (ASFA)
- Australian Institute of Company Directors (AICD)
- Australian Prudential Regulation Authority (APRA)
- Australian Securities and Investments Commission (ASIC)
- Australian Securities Exchange (ASX)
- Business Council of Australia (BCA)
- Chartered Accountants Australia and New Zealand (CA ANZ)
- CPA Australia
- Department of Finance
- External Reporting Board of New Zealand (XRB)
- Group of 100 (G100)
- Institute of Public Accountants (IPA)
- Heads of Treasuries Accounting and Reporting Advisory Committee; and
- The Treasury.

International developments

The FRC monitors international developments to ensure the Australian financial reporting framework represents world’s best practice.

We monitor key regulatory actions, initiatives and draft legislation affecting audit, capital markets and corporate governance.

It is also essential that Australia be influential with all international boards and committees that produce international accounting and auditing standards, and those that produce other international regulation or guidance, preferably with direct representation. This ensures Australian interests are appropriately considered in setting such standards.

During 2015–2016 the FRC undertook a review of Australian members of such international boards and committees to ensure Australia continues to be influential, with appropriate representation, and that Australia is well prepared for future appointments.

International Financial Reporting Standards (IFRS) Foundation Review

During the year, the IFRS Foundation requested submissions on ‘Trustees’ Review of Structure and Effectiveness’.

The FRC made a submission which included the following viewpoints:

- Strong support for the work of the IFRS Foundation and the International Accounting Standards Board (IASB)
- Supporting the extension of the International Accounting Standards Board’s (IASB) remit to the development of standards for the private not-for-profit sector in the longer term; and
- Supporting the active involvement of the IASB in wider corporate reporting.

Statutory obligations

As would be expected, the FRC annually conducts a review of its performance against the obligations required of it by the Australian Securities and Investments Commission Act 2001 (ASIC Act).

Our review this year confirmed that the FRC continues to satisfy all of its statutory obligations.



Mr Bill Edge
Chair
Financial Reporting Council

29 September 2016

ROLE AND COMPOSITION OF THE FRC

FRC's role

The FRC is the peak body responsible for overseeing the effectiveness of the financial reporting framework in Australia.

Its key functions include: the oversight of the accounting and auditing standard setting processes for the public and private sectors; providing strategic advice in relation to the quality of audits conducted by Australian auditors; and advising the Minister on these and related matters to the extent that they affect the financial reporting framework in Australia.

The FRC monitors the development of international accounting and auditing standards, works to promote the development of a single set of accounting and auditing standards for worldwide use and promotes their adoption.

The FRC operates within a framework set out in Part 12 of the ASIC Act.

The ASIC Act sets out core objectives for accounting and auditing standard setting in Australia:

- accounting standards should support the Australian economy by reducing the cost of capital and enabling Australian entities to compete effectively overseas, and should maintain investor confidence in the Australian economy, including its capital markets
- accounting and auditing standards should support the Australian economy by being clearly stated and easy to understand.

The ASIC Act expressly limits 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 power to direct the Boards in relation to the development, or making, of a particular standard, or to veto a standard formulated or recommended by the AASB or AUASB. This provision is designed to ensure the independence of the standard setting boards.

FRC members

Members of the FRC are appointed on a part-time basis by the Minister, typically for a term of three years.

During 2015–16 six FRC members' terms expired, two members were reappointed and two new members joined the FRC.

The current membership of the FRC is as follows:

Mr Bill Edge Chair Financial Reporting Council



Bill is a retired partner of PwC, having been a partner for 18 years. For his last eight years he led the PwC Australia Risk and Quality Group, which was responsible for risk management and quality control, including methodologies and technologies, across all of the firm's business units. He served on

PwC's Global and Asian Risk and Quality Leadership Teams. He also spent six years leading the PwC Australian Professional Standards Group responsible for the firm's financial reporting and auditing policies and advice. He was also previously Chair of the Australian Auditing and Assurance Standards Board.

Bill was appointed Chair on 29 April 2016 and has been a member of the FRC since July 2014. His term expires on 28 July 2019.

Ms Jackie Callaway Group Financial Controller Brambles Limited



Jackie joined Brambles as Group Financial Controller in April 2014. Prior to this she was the Chief Financial Officer of privately-owned mining company Consolidated Minerals and, before that, worked for UK-listed Nikanor Plc. Jackie was also the Deputy Group Controller at leading New Zealand-based dairy producer, Fonterra, and started her career at two of the big four accounting firms, KPMG and Ernst & Young.

Jackie was appointed to the FRC on 29 April 2016 and her term expires on 28 April 2019.

Ms Judith Downes

Chair
Bank Australia



Judith is Chair of Bank Australia, the first customer owned bank in Australia. She has previously been a member of the Standards Advisory Council of the IASB and of the Australian Accounting Standards Board. She is an Honorary Fellow at the University of Melbourne. Judith's past experience includes Chief Financial Officer of a listed mining company, non-executive director of a listed property company, and Chief Financial Officer and Chief Operating Officer of the Institutional Division of one of Australia's largest banks.

Judith was appointed to the FRC on 29 April 2016 and her term expires on 28 April 2019.

Dr Stein Helgeby

Deputy Secretary
Department of Finance



Stein joined the Department of Finance in February 2010 as the Deputy Secretary of the former Financial Management Group. In October 2015 Stein was appointed Deputy Secretary of Governance and APS Transformation. Prior to this, Stein enjoyed a lengthy period in the Victorian Department of Treasury and Finance.

Stein was appointed to the FRC from 24 February 2010 to 23 February 2013; reappointed from 24 February 2013 to 23 February 2016; with an extension from 29 April 2016 to 28 April 2019.

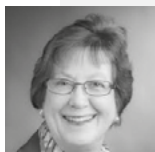
Ms Noelle Kelleher
Chief Financial Officer
Vision Super



Noelle has nearly 30 years' experience in the financial services industry, with a particular focus on superannuation. Prior to joining Vision Super, Noelle was a partner at two of the 'Big Four' professional services firms. Noelle is also company secretary for the Vision Super companies.

Noelle was appointed to the FRC on 3 June 2009 to 2 June 2012; reappointed from 31 August 2012 to 30 August 2015; with an extension from 29 April 2016 to 28 April 2019.

Ms Merran Kelsall
AUASB Chairman



Merran originally qualified as a chartered accountant and practised in the profession for 20 years, including 10 years as a partner at BDO and now has a portfolio of independent directorships. Merran has considerable directorship and corporate governance experience, including working in audit, risk and compliance committees. Her industry experience encompasses health, education, insurance and financial and professional services, including contract management and government utilities.

Merran was appointed to the FRC on 29 July 2008 to 9 August 2010; reappointed from 7 January 2011 to 6 April 2011, with an extension to 9 August 2013; and from 10 August 2013 to 9 August 2016 with a further extension to 31 December 2016.

Mr Kevin Lewis
Chief Compliance Officer
Australian Securities Exchange



Kevin is the Chief Compliance Officer of the ASX and a member of the ASX Corporate Governance Council. He was the principal author of the 3rd edition of the Corporate Governance Principles and Recommendations and also of Guidance Note 8 on continuous disclosure.

Prior to joining ASX, Kevin was a lawyer for 30 years, specialising in financial services, mergers and acquisitions and corporate matters. He held a number of senior positions with law firms and as in-house counsel.

Kevin is also an Adjunct Professor with Sydney University Law School.

Kevin was appointed to the FRC on 14 March 2011 to 13 March 2014 and reappointed to 3 April 2017.

Mr Graeme Mitchell
Chair
New Zealand External Reporting Board



Graeme is a chartered accountant and professional director, being Deputy Chair of National Provident Fund Board of Trustees and a Director of Barnardos New Zealand and Retirement Income Group Limited. He also chairs the Audit Committees of the Ministry of Justice, the Ministry of Social Development, and the Human Rights Commission, and is an independent member of the audit committee of Porirua City Council. He is also the Honorary Consul General for Norway and was made an Officer of the Royal Norwegian Order of Merit in 2009 for services to Norway overseas.

Graeme is a retired Deloitte Audit and Assurance Partner.

Graeme was appointed to the FRC on 3 July 2014 and his term expires on 28 February 2019.

Mr David Nicol

Under Treasurer, Treasury and Economic Development
Directorate of the ACT Government



David, as Under Treasurer, advises the ACT Treasurer on the management of the Territory's budget, covering strategic issues of financial management, economic policy, revenue and tax policy and federal financial relations. David's responsibilities also cover matters of workers compensation, compulsory third party insurance and other insurances, and the shared corporate services provider for the ACT Public Service.

David is also Chair of the Heads of Treasuries Accounting and Reporting Advisory Committee and he has extensive experience in public budgeting and financial reporting and in public policy areas of social welfare and income support, government service delivery, industry, labour market and education.

David was appointed to the FRC on 3 July 2014 and his term expires on 7 March 2017.

Ms Kris Peach

AASB Chair



Kris has extensive experience in accounting standard setting having previously served on the Australian Accounting Standards Board (AASB) as both a member and as the Deputy Chair and as a member of the Australian Urgent Issues Group.

Kris was previously a partner in KPMG's International Standards Group and Australia's Department of Professional Practice, interpreting complex technical accounting issues for a wide range of public and private entities. She also had a number of international financial reporting leadership roles within the firm.

Kris was appointed to the FRC on 3 November 2014 and her term expires on 2 November 2019.

OVERSIGHT OF AUSTRALIAN STANDARD SETTING

FRC Functions

Under Part 12 of the ASIC Act the FRC's key functions include:

- determining the broad strategic direction of the AASB and AUASB
- appointing members of the AASB and AUASB (other than the Chairs)
- monitoring the development of international standards
- giving advice or feedback to the Boards and their offices on priorities, business plans and procedures, and on budgets and staffing arrangements.

Determining strategic direction

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 IASB (Direction approved 5 September 2002)
- to require the AASB to pursue the harmonisation of Government Financial Statistics (GFS) and Generally Accepted Accounting Principles (GAAP) reporting (Direction approved 12 December 2002)

- 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. (Direction approved 4 April 2005).

Each of these directions is still current and the FRC is satisfied that the Boards have implemented these directions to the extent possible.

Appointment of members to the Boards

The FRC has approved a reduction in the size of the AASB to 11-12 members, to take effect in 2016–17, and the reduction in the size of the AUASB with effect last year.

During 2015–16 the FRC approved the following appointments and re-appointments to the Boards for the terms commencing 1 January 2016:

AASB – re-appointment of Mr Peter Carlson and Mr Peter Gibson.

AUASB – appointment of Ms Carolyn Ralph, Mr Ashley Wood and Mr Robert Buchanan, and re-appointment of Ms Jo Cain, Mr Chris George and Ms Jane Meade.

The FRC was supported by the FRC Nominations Committee in this process.

The FRC acknowledges the contributions of retiring AUASB members Ms Valerie Clifford, Mr John Gavens, Mr Bernie Szentirmay and Mr Neil Cherry.

As at 30 June 2016, the AASB has 14 members and the AUASB has 11 members. The FRC has approved a reduction in the size of the AASB to 11-12 members, to take effect in 2016–17, and the reduction in the size of the AUASB with effect last year.

The ASIC Act provides that the members of the Boards (other than the Chairs) hold office on the terms and conditions determined by the FRC.

Monitoring and influencing Australian standards

The AASB are commencing a review of the implementation of IFRS in Australia

Australian accounting standards

Key achievements of the AASB during the year included:

- implementing significant change to broaden the AASB's focus and profile, improve international influence and stakeholder engagement and refocus operations to better meet the needs of the Australian community
- issuing the new Leases standard, AASB 16, providing much needed transparency for lessee lease obligations, bringing all leases onto the balance sheet
- influencing international views through reappointment to the IASB's premier advisory body, the Accounting Standards Advisory Forum (ASAF), in conjunction with the New Zealand Accounting Standards Board (NZASB) for a period of three years. The AASB has also had significant influence regarding the key topics of insurance, leases and the conceptual framework
- conducting research on the Australian Financial Reporting Framework to inform policy makers of cost beneficial reforms, including reviewing criteria and thresholds

for preparing and lodging financial reports

- progressing domestic projects on Income of Not-for-profit Entities and Grantor Accounting for Service Concession Arrangements. Rede-liberations on Service Performance Reporting have been deferred pending further Australian feedback and the results of the NZASB consultation on a similar exposure draft
- increasing engagement with stakeholders to improve the amount and quality of feedback provided to the AASB to maintain and improve its ability to influence the IASB and other key international standard setting bodies
- issuing the AASB's first domestic agenda Invitation To Comment to obtain specific advice on the work plan for the next three years.
- issuing the auditor reporting suite of standards that enhance the relevance and usefulness of auditors' reports and auditor reporting more broadly
- influencing international views through a detailed submission to the IAASB's Invitation To Comment 'Enhancing Audit Quality in the Public Interest: A Focus on Professional Scepticism, Quality Control and Group Audits'. The AUASB's submission was informed by extensive consultation with Australian constituents
- maintaining influence internationally through the Chair's membership of the IAASB and participation on its Steering Committee, chairing the Integrated Reporting Working Group and membership of the Innovation Working Group
- continuing evaluation of the implementation of the current suite of Australian Auditing Standards in Australia by continued extensive stakeholder outreach including round table meetings and project advisory groups
- progressing the key domestic projects of revising standards on compliance and performance engagements.

Australian auditing standards

Key achievements of the AUASB during the year included:

Post implementation reviews

Australian accounting standards

The AASB are commencing a review of the implementation of IFRS in Australia, considering how transaction neutrality has been applied across the three sectors (for profit, not-for-profit private and not-for-profit public sectors) and whether a third tier of general purpose reporting might be required. This project will inform the AASB's future directions.

Australian auditing standards

The current suite of Australian Standards on Auditing (ASAs) became operative for financial reporting periods that commenced on or after 1 January 2010. These auditing standards conform with the International Standards on Auditing (ISAs), issued by the IAASB.

In 2015, the AUASB adopted a number of methods that provided a broad review of the results of implementing the current suite of ASAs.

Based on its assessments, the AUASB continued to conclude that the AUASB's suite of ASAs:

- had been properly incorporated into legislation;
- conform to the ISAs
- are used by auditors and other assurance practitioners, where required;
- contribute positively to promoting relevant and reliable auditor reporting, as well as to the quality of audit generally.

Monitoring and influencing international standards

The FRC continues to monitor and influence the appointments of Australian representatives to key international bodies.

International accounting standards

In accordance with its governing legislation, the FRC seeks to support adoption of

a single set of global financial reporting standards. The international accounting standards with the most widespread acceptance are the International Financial Reporting Standards (IFRS) issued by the IASB.

In addition, the FRC has been highly cognisant of the call by the Group of Twenty (G20), from the Action Plan of 2008 (and subsequent years) that '[the] key global accounting standards bodies should work intensively toward the objective of creating a single high-quality global standard'.

In a key change during 2014–15, the IASB and US Financial Accounting Standards Board ceased formally working together on convergence as it became clear the US would not be mandatorily or voluntarily permitting the use of IFRS for US domestic entities.

The US decision does not detract from Australia's decision to adopt IFRS, as over 100 countries, including China, European Union, India, Korea and New Zealand, use IFRS.

International appointments

The FRC continues to monitor and influence the appointments of Australian representatives to key international bodies, in particular,

Ms Lynn Wood was re-appointed as an IFRS Foundation Trustee for a second term.

Ms Kris Peach, working with the NZASB representative, Ms Kimberley Crook, was appointed to the IASB Accounting Standards Advisory Forum (ASAF).

Ms Merran Kelsall, Chair AUASB is also a member of the IAASB.

Mr Ian McPhee was appointed to the International Ethics Standards Board for Accountants (IESBA).

Mr Mike Blake was appointed to the International Public Sector Accounting Standards Board (IPSASB).

The FRC acknowledges the contribution of Mr Ian Mackintosh, Vice Chairman of the IASB, whose term ended on 30 June 2016.

Regional relationships

The Australian and New Zealand Boards work closely together to facilitate harmonisation of Trans-Tasman standard setting.

In New Zealand the External Reporting Board's (XRB) structure contains three entities, the Board of the XRB and two standard setting boards – the New Zealand Accounting Standards Board (NZASB) and the New Zealand Auditing and Assurance Standards Board (NZAuASB). The FRC Chair is a member of the XRB as part of the arrangement for cross-appointments between Australia and New Zealand. Mr Graeme Mitchell, Chair of the XRB, was appointed as a member of the FRC in 2014.

The Australian and New Zealand Boards work closely together to facilitate harmonisation of Trans-Tasman standard setting. The Chair of the AASB and the NZASB are also each a member of their counterpart board. The Chair of the AUASB is a member of the NZAuASB

and vice versa. The AASB and NZASB also work closely on the IASB's ASAF.

Regionally, the AASB also continues to closely work with the Asian Oceania Standard Setters Group (AOSSG).

Giving advice or feedback to the Boards and their offices

The AASB and AUASB are moving to a shared support model where both Boards are supported by a single National Director and combined administrative staff.

In 2015–16 the Chairs of the Boards provided regular written and oral reports on their activities to the FRC, in particular the Boards' respective corporate and strategic planning documents and reported progress against their respective plans. The FRC notes that the Chairs of the Boards have undertaken a major restructure in order

to focus more effectively and efficiently on their core standard setting activities.

The Chairs of the Boards conducted a benchmarking and consultation exercise with stakeholders, and then decided that further opportunities existed to improve the efficiency and effectiveness of setting standards, and enable a move closer to the National Commission of Audit (2014) recommendation for combining the back offices.

The AASB and AUASB are moving to a shared support model where both Boards are supported by a single National Director and combined administrative staff. The Boards are also adopting a more flexible, 'program management' approach to standard setting, and will bring in critical

resources on a project basis, as needed, to enable the Boards to collaborate and influence more effectively, and more cost-effectively set standards.

Further details are provided in the AASB and AUASB annual reports.

AUDIT QUALITY

Background

During 2015–16, the FRC considered that the current Australian audit quality framework continued to be robust and that it was not necessary to propose changes to the Minister at this time.

Australia has comprehensive legislative and professional requirements concerning audit with the main legislative requirements set out in the Corporations Act 2001 (Corporations Act). ASIC is the key regulator under the Corporations Act and has responsibility for the surveillance, investigation and enforcement of the financial reporting requirements of the Corporations Act, including the regulation of audit requirements.

The Corporations Act also gives legal effect to the auditing standards developed by the AUASB.

The auditing standards require that auditors adhere to the relevant ethical standards as issued by the Accounting Professional and Ethical Standards Board (APESB). The professional accounting bodies enforce professional standards and comprise: Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ); CPA Australia; and the Institute of Public Accountants (IPA).

Under the ASIC Act, the FRC is to provide strategic policy advice and reports to the Minister and professional accounting bodies in relation to the quality of audits conducted by Australian auditors. This advice may include: matters relating

to the effectiveness of Corporations Act provisions relevant to audit; the review processes undertaken by the professional bodies to ensure that auditor skills and processes remain at a high level; and disciplinary processes.

The FRC continued to actively monitor international developments in audit quality processes and assessed their potential impact on, and usefulness for, Australian practitioners and the financial reporting industry.

The FRC was supported by the FRC Audit Quality Committee in this process.

Stakeholder initiatives

Stakeholders, particularly ASIC and the professional accounting bodies, undertake a range of activities throughout the year with the objective of contributing to audit quality improvement.

Some notable initiatives during 2015–16:

- ASIC released a revised Regulatory Guide 180 ‘Auditor Registration’ which simplifies and improves the regulation process for prospective auditors, including approval of a new competency standard or satisfying practical expertise requirements.

- ASIC issued Information Sheet 196 ‘Audit quality: The role of directors and audit committees’ to assist directors and audit committees in their role in supporting the quality of the external audit.
- Chartered Accountants ANZ issued updated guidance on ‘Audit and Review Requirements for Australian Entities’.
- Chartered Accountants ANZ and CPA Australia both issued updated guidance on auditing small entities, and auditing Self Managed Superannuation Funds (SMSFs).
- CPA Australia issued a revised guide for Companies Limited by Guarantee and Incorporated Associations reporting and audit/review obligations.

Review processes

Australia’s auditor regulatory regime involves cooperation between ASIC and the professional accounting bodies. Each organisation runs an inspection or review program which

encompasses audit engagements. Each of the programs are different and complementary to manage different risks, participants and types of engagement and to maintain a focus on audit quality. Accordingly, statistics gathered by each organisation may not be comparable.

ASIC Audit Inspection Program

In December 2015 ASIC issued Report 461 ‘Audit Inspection Program Report for 2014–15’ outlining the findings from its inspections of 21 Australian audit firms undertaken in the 18 months to 30 June 2015, covering financial reports for the years ended 30 June 2013 to 31 December 2014. ASIC’s inspections focus on audits of financial reports of public interest entities under the Corporations Act.

In ASIC’s view, in 19 per cent of the total 463 key audit areas that ASIC reviewed across 111 audit files at firms of different sizes, auditors did not obtain reasonable assurance that the financial report as a whole was free of material misstatement.

This compares to 20 per cent of 454 key audit areas in the previous 18-month period ended 31 December 2013.

The level and nature of ASIC's findings are consistent with those of audit regulators in other jurisdictions, as reflected in the inspection findings survey results published by the International Forum of Independent Audit Regulators (IFIAR) on 3 March 2016.

ASIC Report 461 stated that some, mostly smaller, audit firms inspected by ASIC need to further improve their quality control systems. For larger firms, ASIC's findings generally related to adherence to existing quality control processes.

ASIC's audit inspection work complements its separate risk-based surveillance of the financial reports of public interest entities. This financial reporting surveillance has led to material changes to four per cent of the financial reports of public interest entities reviewed by ASIC.

ASIC's inspections suggest that the following three broad areas continue to require improvement by audit firms:

- the sufficiency and appropriateness of audit evidence obtained by the auditor
- the level of professional scepticism exercised by auditors
- appropriate use of the work of experts and other auditors.

Many of ASIC's findings related to accounting estimates (including impairment of assets) and accounting policy choices.

Chartered Accountants ANZ Quality Review Program

The Chartered Accountants ANZ Quality Review Program is designed to assess whether Australian members who hold a Certificate of Public Practice have implemented appropriate quality control policies and procedures in their practices.

The overall results from the Chartered Accountants ANZ Quality Review Program for the reviewed practices are summarised in the table below:

	2014/15	2015/16
No departures from professional standards	3%	3%
Departures from professional standards, not classified as significant — issues to be addressed	80%	78%
Significant departures from professional standards — re-review required in 12 months	17%	19%

During the year, Chartered Accountants ANZ reviewed 1,233 engagement files across all practice areas (2014/2015: 1,414).

The 2016 reviews revealed that the majority of reviewed practices had adequate quality controls in place. The majority of re-reviews were a result of inadequate quality control or insufficient documentation of audit evidence, or a combination of both.

CPA Australia Quality Review Program

CPA Australia members who hold a Public Practice Certificate are subject to the CPA Australia Quality Review Program.

CPA Australia expected, in the 2016 calendar year, to review over 1125 members in the Quality Review Program and a further 78 ‘Follow-up’ reviews.

The results from CPA Australia Quality Review Program for the past four years are summarised in the table on page 21.

These statistics are showing a positive trend over the past few years, with the percentage of ‘Follow-up’ reviews required, due to multiple departures or breaches of standards, falling over 8 per cent in 4 years.

The improvement was matched primarily by increases in ‘Accept’ reports, where no departures were identified.

The overall results from CPA Australia Quality Review Program are summarised in the table below:

	2013	2014	2015	2016
'Accept' reports — no departures identified	18.92%	26.6%	27.1%	30.3%
'Minor departure' reports — no serious departures identified	65.44%	56.8%	62.4%	62.3%
'Follow-up' reviews — multiple departures	15.64%	16.6%	10.5%	7.4%

Whilst CPA Australia welcomes improvements in audit quality, it will be necessary to observe the trend over a longer period before drawing any conclusions as there have been some procedural changes which may have impacted the statistics reported.

The majority of all auditing breaches identified by the CPA Australia Quality Review Program relate to audits of SMSFs. Further education has been provided to members about the importance of perceived and actual independence, particularly with compilation and audit engagements, for SMSFs.

IPA Quality Review Program

The IPA requires all members who are issued with a Certificate of Public Practice to undertake a Public Practice Quality Assurance review every three to five years. In the last financial year, the IPA undertook a review of over 600 members in public practice.

Results were:

- 94 per cent of members reviewed met all professional standards and requirements and may have had minor non-compliance issues however they were resolved before the review was finalised. This is an improvement on last year's results.
- 6 per cent of members reviewed showed a level of non-compliance where follow up action was required.

FRC overall view

During 2015–16, the FRC considered that the current Australian audit quality framework continued to be robust and that it was not necessary to propose changes to the Minister at this time.

GOVERNANCE AND ADMINISTRATION

Attendance at meetings

FRC

The FRC held four meetings in 2015–16 in September, November, March and June. Members' attendance is shown in the table below:

Member	No. meetings attended/No. eligible to attend
B Edge (Chairman)	4 of 4
R Barker	1 of 1
R Burrows	0 of 1
J Callaway	1 of 1
M Coleman	2 of 2
M Coughlin	1 of 1
J Downes	1 of 1
S Helgeby	3 of 3
N Kelleher	1 of 1
M Kelsall	4 of 4
K Lewis	3 of 4
D Nicol	2 of 4
K Peach	4 of 4
G Mitchell	3 of 4

FRC Nominations Committee

The FRC Nominations Committee held 4 meetings in 2015–16. Members of the FRC Nominations Committee as at 30 June 2016 are: Stein Helgeby (Chair), Bill Edge, Jackie Callaway, Judith Downes, Merran Kelsall and Kris Peach.

Members' attendance is shown in the table below:

Member	No. meetings attended / No. eligible to attend
B Edge*	3 of 4
M Coleman	1 of 3
M Coughlin*	3 of 3
S Helgeby*	2 of 4
M Kelsall*	4 of 4
K Peach*	3 of 4

* Also conducted interviews during October for the Boards.

FRC Audit Quality Committee

The FRC Audit Quality Committee held two meetings in 2015–16. The membership of the FRC Audit Quality Committee is currently being considered.

Members' attendance is shown in the table below:

Member	No. meetings attended/No. eligible to attend
B Edge	2/2
R Burrows	1/1
M Coleman	2/2
M Kelsall	2/2

Communication and consultation

The FRC uses its internet website (www.frc.gov.au) and meetings with stakeholders and other interest groups as its primary means of communication and consultation. Reports of each FRC meeting are published on the website. The website also includes information about FRC members, minutes of past meetings, published reports and procedural rules.

Finances

In 2015–16, the Australian Government provided funding through the Treasury to support the FRC. The FRC's Secretariat is provided by staff of the Treasury's Markets Group. Expenditures and performance of its functions are included in the Treasury's annual financial statements.

Funding of the AASB and AUASB (including the sources of that funding) is included in the annual reports of the AASB and AUASB.

Freedom of information

Since 1 May 2011, agencies subject to the Freedom of Information Act 1982 (FOI Act) have been required to publish information to the public as part of the Information Publication Scheme. This requirement is in Part II of the FOI Act and has replaced the former requirement to publish a section 8 statement in an annual report. All information published by the FRC can be accessed from links on the home page of the FRC's website (www.frc.gov.au).

The FRC did not receive any applications for access to documents under the FOI Act during 2015–16.

Regulatory Impact Statements

The FRC did not submit any Regulatory Impact Statements in 2015–16.



www.frc.gov.au