



Board Meeting Summary Paper

Subject: AGS 1040 *Franchising Code of Conduct – Auditor's Reports* – Revise and Reissue
Date: 6 July 2009

AUASB AGENDA ITEM NO. 16(c)
Meeting Date: 20-21 July 2009

Action Required

For Information Purposes Only

Agenda Item Objectives

To update the AUASB on the current position of AGS 1040 and present a first draft of a revised GS XXX *Franchising Code of Conduct – Auditor's Reports* for comment.

Background

AGS 1040 *Franchising Code of Conduct – Auditor's Reports* was last updated in July 2002. The *Franchising Code of Conduct* (the code) in which the guidance is based was initially introduced as a code that regulates the conduct of franchising participants in 1998 and since then has been amended three times 1999, 2001 and most recently in March 2008.

The purpose of the Guidance Statement is to assist the auditor engaged to report under Item 20.3 of the code.

Matters to Consider

The amendments made to the *Franchising Code of Conduct* have been reviewed and incorporated where appropriate in the revised and reissued guidance as attached. The main change was in relation to the foreign equivalent for a foreign franchisor, clauses 20.2 (a) – (d). Other changes made include: Appendix 2 example of a modified Auditor's Report and reference to ASA 315 *Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement* when planning and conducting the audit of a franchisee entity.

To be noted

At the time of this reissuance of GS XXX a Parliamentary Joint Committee on Corporations and Financial Services (Joint Committee) had been appointed on 25 June 2008 to resolve to inquire into the *Franchising Code of Conduct* and related matters. Under its terms of reference the Committee was required to inquire and report to the operation of the *Franchising Code of Conduct*, and identify, where justified, improvements to the Code, with particular reference to:

This document contains preliminary views and/or staff recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

- (a) the nature of the franchising industry, including the rights of both franchisors and franchisees;
- (b) whether an obligation for franchisors, franchisees and prospective franchisees to act in good faith should be explicitly incorporated into the Code (having regard to its presence as an element in paragraph 51AC(4)(k) of the Trade Practices Act 1974);
- (c) interaction between the Code and Part IVA and Part V Division 1 of the Trade Practices Act 1974, particularly with regard to the obligations in section 51AC of the Act;
- (d) the operation of the dispute resolution provisions under Part 4 of the Code; and
- (e) any other related matters.

In its next step the Joint Parliamentary Committee has released an options paper inviting final comment from relevant parties and the broader community by close of business 10 July 2009. This paper addresses a number of recommendations in the areas noted above and requests comment against a series of very specific questions which clarify and fine tune the feedback to date.

At this time it is still unclear if any of the recommendations will impact the auditor's report requirements and as such this GS XXX will need to be revisited at such time as the *Franchising Code of Conduct* is amended in the future.

Staff Recommendations

The AUASB Technical group recommend that GS XXX be updated and reissued based on the changes outlined in the matters to consider.

Material Presented

- Agenda Item 16(c) Board Meeting Summary Paper
- Agenda Item 16(c).1 Revised GS XXX *Franchising Code of Conduct – Auditor's Reports*
- Agenda Item 16(c).2 AGS 1040 *Franchising Code of Conduct – Auditor's Reports* [Electronic Version only]

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1.	Read and comment on the reissued draft of GS XXX <i>Franchising Code of Conduct – Auditor's Reports</i> .	Comments from AUASB	AUASB	20-21 July	

This document contains preliminary views and/or staff recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.