

## Financial Reporting Council (FRC) Strategic Plan 2013-2016

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### 1. FRC's objectives

The FRC is the key external advisor to the Australian Government on the financial reporting system.

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.

The FRC is a statutory body under Part 12 of the *Australian Securities and Investments Commission Act 2001* (the Act), which specifies the FRC's functions and powers. [\(link to legislation section of website\)](#) The FRC's functions are reflected in Division 1 Subdivision A of Part 12 of the Act.

The FRC's objectives are to support the Act's objects outlined in Part 12 of the Act, to fulfill its functions effectively and efficiently and to provide timely and relevant advice to the Minister.

The objects of Part 12 of the Act are broadly to facilitate the development of high quality accounting standards that require the provision of financial information and the development of auditing and assurance standards and related guidance materials in order to facilitate the Australian economy and to maintain investor confidence in the Australian economy, including its capital markets.

### 2. FRC's strategy

To meet its objectives the FRC seeks views from a broad range of stakeholders, including users, preparers and auditors of financial reports. Among the stakeholders are the Commonwealth, State and Territory governments, standard setters and industry regulators, as well as professional accounting, business and investor bodies. Key stakeholder bodies are represented on the FRC as Members. [\(link to list of members\)](#)

In addition, the Australian and New Zealand governments have established cross-appointment arrangements to promote closer economic relationships between the two countries. The FRC accordingly has a New Zealand representative as one of its Members. The FRC welcomes input from stakeholders, including on emerging issues, to assist it in carrying out its functions.

The FRC's Members are expected to make a significant, multi-faceted contribution to the FRC, and not to just represent the views of a particular stakeholder.

The FRC systematically addresses its statutory obligations and reports on its performance annually. In doing so, it monitors and promotes the Australian Accounting Standards Board (AASB) [\(link to AASB website\)](#) and Australian Auditing and Assurance Standards Board (AUASB), [\(link to AUASB website\)](#) and it carefully monitors local and international developments and assesses their importance and relevance to Australia. It seeks to influence international accounting and auditing developments by promoting

suitably qualified Australians to be appointed to relevant international boards as well as providing submissions to relevant international invitations to comment. [\(link to submissions part of website\)](#)

The FRC establishes Task Forces and standing Committees to advise it on specific areas of interest, and these may include non-FRC members with relevant expertise. [\(link to Committees and Task Forces part of website\)](#)

### **3. Environmental scan**

General economic conditions and trends, as well as developments related to financial reporting and auditing, in Australia and overseas contribute to the environment in which the FRC undertakes its role.

Key environmental factors include:

#### *General*

Global economic growth and financial market conditions - compared to pre-GFC conditions, economic growth is lower, financial markets are much more cognisant of risk, and in many jurisdictions public sector debt is higher.

The increasing interconnectedness of the global economy, including financial markets.

The explosion of information available via the internet, and the ease with which stakeholders' views can be disseminated and contested often within a very short period.

The continuing shift in economic power from western economies to major developing countries (for example, China and India), some of which may not have as developed a framework for financial reporting.

The expected increase in the stock of financial assets in Australia through superannuation savings, placing greater focus on the corporate governance and reporting standards applicable to superannuation funds.

The constrained resources available to business and government (including the FRC).

#### *The Financial Reporting System*

The GFC has underlined for governments and international bodies such as the G20 and the Financial Stability Board the importance of financial reporting and auditing standards, audit quality, and related matters. Sovereign debt induced crises have demonstrated that such importance cannot be confined to the private sector.

Australia adopted International Financial Reporting Standards (IFRS) in 2005 and has since been actively promoting IFRS as the preferred global reporting standard as issued by the International Accounting Standards Board. It has also played a leading role in promoting public sector and not-for-profit reporting based on IFRS. Australia's auditing standards are based on the international standards issued by the International Auditing and Assurance Standards Board.

The financial reporting environment in Australia and elsewhere has become more complex, including as a result of legislative initiatives flowing from concerns about business failures during the GFC and sovereign debt problems.

#### **4. SWOT Analysis – financial reporting system**

The strengths and weaknesses of, and opportunities and threats facing, the financial reporting system in Australia, also contribute to the environment in which the FRC undertakes its role.

##### *Strengths*

Forms part of a system of globalised standards, reflecting international best practice.

Held up well during the GFC.

Has assisted Australian corporations in accessing global financial markets.

Australia and New Zealand play a leading role in the development of public sector financial reporting.

##### *Weaknesses*

Complexity and length of financial reports, due to a variety of reasons including extensive disclosure requirements.

The level of financial literacy among many company directors and investors may not be sufficient to understand the complexity of current financial reports.

The outcome of the financial reporting system may not be appropriately serving the diverse needs of investors and other stakeholders.

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 when compared to the resources applied to private sector reporting.

##### *Opportunities*

Increasing acceptance of global standards for financial reporting with more countries close to adopting IFRS.

Opportunity to build influence in Asia.

Initiatives supporting integrated reporting intended to provide more forward looking information to stakeholders.

Potential to influence public sector and private sector not-for-profit financial reporting internationally.

## *Threats*

The momentum made towards having a single set of international standards may be reduced if the US decides not to join the international movement in adopting IFRS.

Concerns arising from perceived audit failures during the GFC (especially in the European Union) and the trend towards uniform regulation internationally could lead to inappropriate regulation of the audit profession globally.

As financial reporting develops further around the world, Australia's influence could be diluted.

Additional reporting requirements being advocated (e.g. on CSR and ESG matters) that could increase the complexity of financial reports and decrease their perceived usability by stakeholders generally.

## **5. Actions**

The FRC's work is consistent with its responsibilities under the Act.

The key elements of the FRC's work include:

- Appointing members (other than the Chairman) of the AASB and AUASB, and undertaking an annual peer review of these Boards and the FRC itself;
- Providing broad oversight of the processes for setting accounting and auditing standards, including consideration of the Boards' broad strategic directions and their operations;
- Monitoring and furthering the development of international accounting and auditing standards, and promoting their use in Australia;
- Monitoring and assessing the relevance and effectiveness of accounting and auditing standards in both the private and public sectors in Australia;
- Giving strategic policy advice and reports to the Minister and professional accounting bodies regarding the quality of audits taking into account, but not limited to, any of the following:
  - The systems and processes to comply with the relevant provisions of the Act, auditing standards, and applicable codes of professional conduct;
  - The systems and processes used by professional accounting bodies for audit quality assurance reviews;
  - The response by auditors, and by professional accounting bodies, to assurance reviews;
  - The investigation and disciplinary procedures of professional accounting bodies;

- The adequacy of the relevant provisions of the Act, auditing standards, and applicable codes of professional conduct in light of international developments in relation to audit quality;
- The teaching of ethics related to audit quality;
- Establishing appropriate consultative mechanisms, and monitoring the effectiveness of the consultative arrangements used by the AASB and AUASB;
- Advancing and promoting the main objects of Part 12 of the Act. The objects include matters related to:
  - accounting and auditing standards, where the FRC has a governance role with the Boards being independent with respect to setting standards while being cognisant of related strategic matters;
  - audit quality, which is one of the areas where the FRC is tasked with providing advice and reports;
  - facilitating the Australian economy. The specific functions of the FRC (covered above) indicate that the FRC’s focus in this area should concentrate on matters related to the operation and outcomes of the financial reporting system (for example, legislative complexity, directors’ financial literacy, usefulness to investors);
- Identifying issues through the SWOT analysis and continuous environmental scanning that warrant consideration. Selected issues may be addressed by setting up Task Forces whose chairmen report at FRC meetings. Reports on selected issues with recommendations are agreed by the FRC and publically released when appropriate (link to Managing Complexity and Financial Literacy reports and relevant follow up reports); and
- Any other matters conferred by the Minister.

This plan will be reviewed regularly.

Approved by the FRC 13 June 2013