

# **Financial Reporting Council**

## **Australian Accounting Standards Board**

Annual Reports

2003-04

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# Financial Reporting Council

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20 September 2004

The Hon Peter Costello MP

Treasurer

Parliament House

CANBERRA ACT 2600

Dear Treasurer

I have pleasure in presenting the annual reports of the Financial Reporting Council (FRC) and Australian Accounting Standards Board (AASB) for the year ended 30 June 2004. The reports have been prepared in accordance with section 235B of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) and section 9 of the *Commonwealth Authorities and Companies Act 1997* (CAC Act).

Subsection 235B(1) of the ASIC Act requires the FRC, by 31 October each year, to prepare a report on its operations and those of the AASB and the Auditing and Assurance Standards Board (AUASB) during the year and on the achievement of the objects of Part 12 of the ASIC Act relating to accounting and auditing standards. Under subsection 235B(4) of the ASIC Act, the report must be tabled in each House of the Parliament as soon as practicable.

As the AUASB came into being as a statutory body on 1 July 2004, there is no annual report covering its activities in 2003-04. Similarly, the FRC's responsibilities in relation to auditing standards and auditor independence commenced on 1 July 2004 and are not considered in this annual report.

Subsection 9(1) of the CAC Act requires the directors of the AASB to prepare, by no later than 15 October, an annual report for the past financial year which includes a report of operations, financial statements and the Auditor-General's report on those financial statements. Under subsection 9(3) of the CAC Act, the report must be tabled in each House of the Parliament as soon as practicable.

Yours sincerely

A handwritten signature in black ink, appearing to read 'C. Macek', written in a cursive style.

Charles Macek  
Chairman

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# ABBREVIATIONS

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The following abbreviations are used throughout this report:

AASB	Australian Accounting Standards Board
APRA	Australian Prudential Regulatory Authority
ASIC	Australian Securities and Investments Commission
ASIC Act	<i>Australian Securities and Investments Commission Act 2001</i>
ASX	Australian Stock Exchange
AuASB	Auditing and Assurance Standards Board (up to 30 June 2004)
AUASB	Auditing and Assurance Standards Board (as reconstituted on 1 July 2004).
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CDS	Commonwealth Disability Strategy
CLERP	Corporate Law Economic Reform Program
CPAA	CPA Australia
ED	Exposure Draft
EU	European Union
FRC	Financial Reporting Council
FRSB	Financial Reporting Standards Board — New Zealand
GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics
GST	Goods and Services Tax
HOTARAC	Heads of Treasuries Accounting and Reporting Advisory Committee
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IASCF	International Accounting Standards Committee Foundation
ICAA	The Institute of Chartered Accountants in Australia
IFAC PSC	International Federation of Accountants Public Sector Committee
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
MOU	Memorandum of Understanding
NIA	National Institute of Accountants
NSS	National Standard Setters
SAC	Standards Advisory Council (of the IASB)
UIG	Urgent Issues Group

## CONTACT OFFICER

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# OVERVIEW

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## OVERSIGHT BY THE FINANCIAL REPORTING COUNCIL

The key functions of the Financial Reporting Council (FRC) are to determine the broad strategic direction of the Australian Accounting Standards Board (AASB) and to provide broad oversight of the processes for setting accounting standards in Australia. As a result of the passage of the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* in June 2004, the FRC's functions have been expanded to include determining the broad strategic direction of the Auditing and Assurance Standards Board (AUASB) and to provide broad oversight of the processes for setting auditing standards in Australia. The Act also gave the FRC responsibility for monitoring the effectiveness of auditor independence requirements in Australia.

In performing its functions the FRC takes into account the objectives of standard setting specified in the ASIC Act – to facilitate the Australian economy by reducing the cost of capital, enabling Australian entities to compete effectively overseas, having accounting and auditing standards that are clearly stated and easy to understand, and maintaining investor confidence.

## DIRECTION-SETTING ACTIVITIES OF THE FRC

During 2003-04 the FRC:

- re-affirmed the timetable for adopting accounting standards issued by the International Accounting Standards Board (IASB) as Australian accounting standards by 1 January 2005;
- provided a submission on the draft CLERP 9 Bill in relation to the role and functions of the Council;
- prepared for the enhanced role that the FRC will undertake from 2004-05 as a result of the CLERP 9 reforms, in terms of monitoring the effectiveness of auditor independence and providing the broad strategic direction for the setting of auditing and assurance standards, including oversight of the AUASB;
- worked to secure funding for international and Australian accounting standard setting, as well as funding for auditing standard setting for 2004-05, from the business sector, the professional accounting bodies, the Commonwealth and the States and Territories;

## Overview

- reviewed and reaffirmed the AASB's broad strategic direction, and approved the AASB's proposed budget and business plan for both 2003-04 and 2004-05; and
- enhanced the transparency of the Council's processes by providing regular bulletins on the FRC website summarising the main decisions made.

## OTHER ACTIVITIES OF THE FRC

The FRC made 2 appointments to the AASB, including the reappointment of a retiring member.

The FRC's work on international accounting standards is outlined separately below.

## STANDARD SETTING

The AASB held 13 meetings in 2003-04 for a total of 23 meeting days, at which it addressed significant standard setting and administrative issues.

The AASB implemented the FRC's strategic directive regarding the adoption of IASB Standards in 2005 with the issue of 40 new and revised accounting standards (comprising 35 AASB equivalents to IASB Standards, four revised Australian Standards, one new Australian standard), and 14 Urgent Issues Group (UIG) Interpretations, including 12 UIG equivalents to IASB Interpretations published as Pending Standards and UIG Interpretations. The AASB also issued two new accounting standards during the year.

The UIG met eight times in 2003-04 and completed two new Abstracts, one revised Abstract, and 14 UIG Interpretations for application in 2005.

The AASB's liaison relationship with the IASB was enhanced with the AASB leading three joint research projects on accounting for intangible assets, joint ventures and the extractive industries.

Significant progress was made in respect of meeting the FRC's broad strategic direction regarding convergence of requirements of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS).

## CONSULTATION

The FRC and AASB jointly and individually seek to ensure maximum consultation with, and input from, stakeholders on particular standards and the standard setting process.

In 2003-04, the FRC:

- continued consultation with key private sector representatives as well as with government agencies;
- liaised closely with international standard setting stakeholders;
- issued nine bulletins about decisions taken at its meetings and other important developments in the accounting standard setting process;
- maintained a close liaison with Australians who are members of relevant international bodies, including: the IASB (Mr Warren McGregor), the IASB Standards Advisory Council (Mr Peter Day), the IASB International Financial Reporting Interpretations Committee (Mr Wayne Lonergan), and the International Federation of Accountants Public Sector Committee (Mr Wayne Cameron);
- participated in the establishment of the Trans-Tasman Accounting Standards Advisory Group which seeks to minimise differences in standards between Australia and New Zealand, and promote the influence of the two countries in international standard-setting fora; and
- used the <[www.frc.gov.au](http://www.frc.gov.au)> website to facilitate consultation.

In 2003-04, the AASB:

- used its website <[www.aasb.com.au](http://www.aasb.com.au)> to provide information about the Board, its meetings, activities and work programme and those of the UIG;
- issued media releases to announce when new or revised accounting standards had been made; and
- issued an *AASB Action Alert* after AASB meetings and an *UIG Action Alert* after UIG meetings to summarise the proceedings of the meetings.

## **INTERNATIONAL**

The FRC has a statutory obligation to:

- monitor the development of international accounting standards and accounting standards that apply in major international financial centres;
- further the development of a single set of accounting standards for world-wide use with appropriate regard to international developments; and
- promote the adoption of international best practice accounting standards in the Australian accounting standard setting process if doing so would be in the best interests of both the private and public sectors in the Australian economy.

In 2003-04, the FRC continued to monitor the adoption of international accounting standards both in Australia and overseas, following from the strategic direction in 2002 to the AASB to work toward the adoption of international accounting standards in Australia.

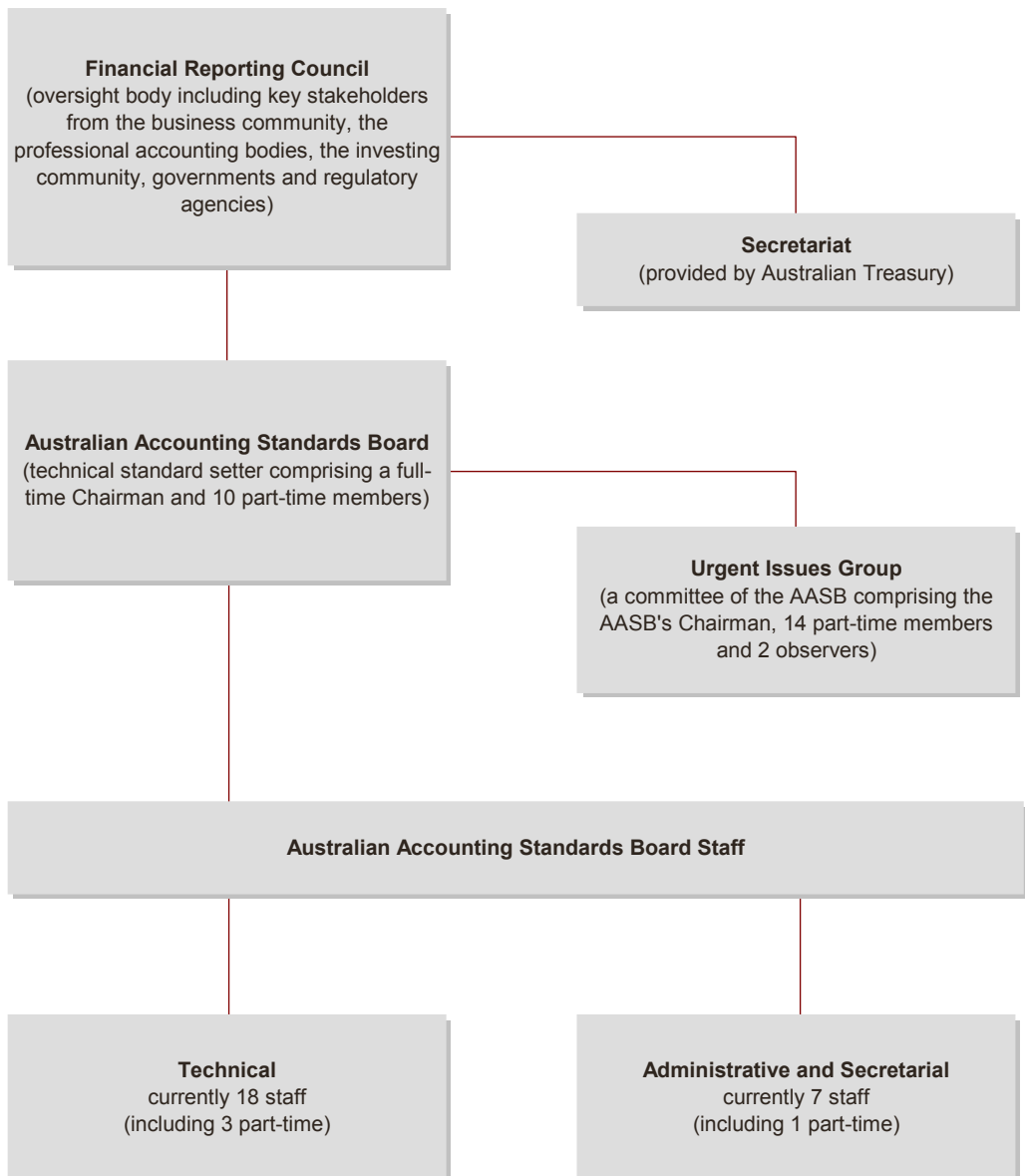
The FRC also continued to monitor the work of the European Commission, IFAC PSC and national accounting standard setting bodies in Canada, France, Germany, Japan, New Zealand, the United Kingdom and the United States.

## **ACCOUNTABILITY**

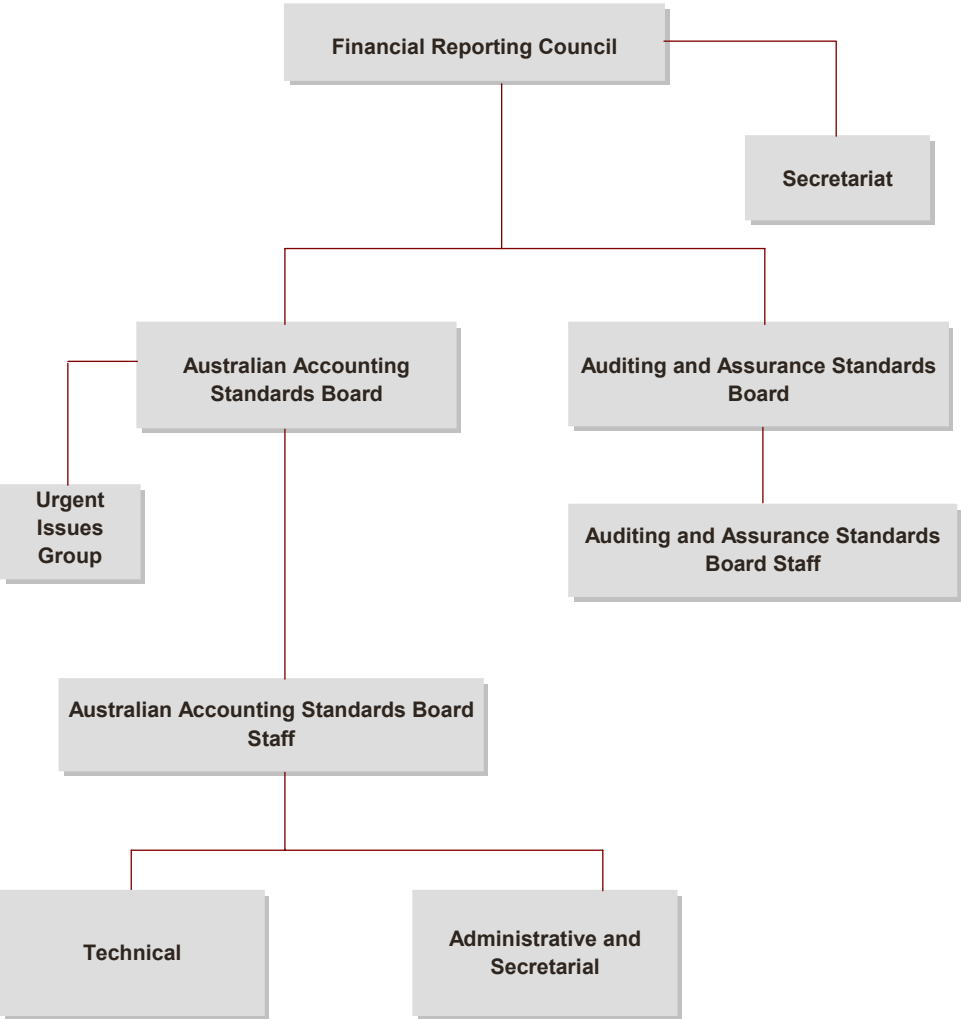
The FRC Chairman appeared before the Parliamentary Joint Committee on Corporations and Financial Services on 29 April 2004 in relation to their inquiry into the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Bill.

## AUSTRALIAN ACCOUNTING STANDARD SETTING IN 2003-04

Figure 1: Structure of institutional arrangements to 30 June 2004



**Figure 2: Structure of institutional arrangements from 1 July 2004**



The arrangements from 1 July 2004 follow the passage of the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004*.

In addition to the oversight of the two Boards, the FRC has direct responsibility for monitoring the effectiveness of auditor independence requirements in Australia.

# FINANCIAL REPORTING COUNCIL

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## CHAIRMAN'S REPORT



Anticipated changes to the FRC arising from the CLERP 9 legislation, and the move towards the adoption of international accounting standards dominated the Council's agenda during 2003-04. The passage of the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* on 25 June 2004 was the culmination of many years of discussion over a broad range of issues, including auditor independence and auditing standards, which lie at the heart of the FRC's new responsibilities. The Council, with the support of the Secretariat, contributed to the final shape of the legislation which enhances the FRC as a key player in the promotion of dynamic and well-informed capital markets in Australia.

The achievements of the FRC would not have been possible without the diligence of those who served on the Council, showing their commitment to resolving the myriad of issues that were faced by the Council in 2003-04. I want to particularly acknowledge the contribution of Mr Ken Spencer, a member of the Council until his passing in March 2004. Mr Spencer contributed much to the development of accounting standards as Chairman of the AASB from 1995 to 1999, and as a member of the International Accounting Standards Committee Foundation. Mr Spencer will be sorely missed by the FRC.

## Adoption of International Accounting Standards (IAS)

As the 2005 deadline approached, there was widespread interest in reviewing the rationale behind the FRC's original decision to support the adoption of IAS developed by the International Accounting Standards Board (IASB) and whether it remained valid. The decision was made by the FRC on 28 June 2002 against a backdrop of similar moves being made in countries around the world, most notably in Europe. The benefits to Australia of adopting common global accounting standards have been long recognised, given that we form only a small part of world capital markets. Having accounting standards that are the same as those used elsewhere removes an impediment to growth in cross-investment between Australia and the rest of the world.

The FRC monitored the development of IAS and of implementation plans among Australian businesses, with particular attention on the need to raise awareness of the new standards regime among directors. The FRC was pleased that the AASB, the professional accounting bodies and organisations such as the Australian Stock Exchange, the Group of 100 and the Australian Institute of Company Directors took responsibility to advertise the changes via their publications and training programmes.

The FRC continued to provide advice to the Government on the policy implications of adopting the IAS and the expected impact on Australian companies. At its meeting of 27 February 2004 the FRC agreed that the IAS be adopted in so far as they did not conflict with Australian law, and that such adoption was in the best interests of the Australian economy, while acknowledging that there might be adverse effects for some individual companies. The FRC considered that 'cherry picking' or partial adoption of the standards would substantially diminish the gains of IAS adoption, and therefore all standards should be adopted in their entirety.

The FRC also monitored the IASB's progress on its work programme with respect to the 2005 target and relevant developments in Europe regarding the adoption of IAS. On 31 March 2004, the Council had the opportunity to receive a direct update of developments in the IASB work programme from the Chairman of the IASB, Sir David Tweedie, and from the IASB liaison member to the AASB, Mr Warren McGregor, who attended that meeting. The FRC considered at length the time pressures involved in meeting the 1 January 2005 deadline. Following these discussions, the FRC agreed unanimously to proceed with the timetable for adoption of the IAS, subject to assurance from the AASB that the set of international accounting standards issued by the IASB was complete and met the requirements of the Australian market place. The decision was confirmed by the FRC on 23 April 2004, on the understanding that the AASB would provide an appropriate period between the completion of a new standard or amendment to an existing standard and its implementation date. During the course of deliberation, particular attention was given to IAS 39 *Financial Instruments: Recognition and Measurement*, which had caused considerable concern in Europe and raised doubts over whether it would be included in the process of adoption in that jurisdiction.

## **Changes to the FRC under CLERP 9**

The FRC prepared a submission on the Government's draft CLERP 9 Bill advocating that its role be expanded to include oversight of audit quality rather than being limited to auditor independence; that its role in relation to audit quality be performed in conjunction with, but still independent of, the professional accounting bodies; and that the roles and responsibilities of all regulatory and oversight bodies in the area of audit quality, should be made clear.

The FRC established a CLERP 9 taskforce to examine the implications for the FRC of the CLERP 9 legislation, and help the FRC formulate its views on the best approach for

implementing its increased responsibilities. The taskforce identified three key issues for consideration:

- making the CLERP 9 provisions operational;
- the force of law for auditing standards; and
- the structure of the FRC.

The Council hired a consultant, Mr Robert Lynn, to advise on the type of activities that would be required from the FRC to discharge its expanded functions under CLERP 9 (in particular with relation to auditor independence), the extent to which these activities could be undertaken by consultants and their likely cost. Subsequent discussions with the Australian Treasury, assisted by the FRC Secretariat, provided further guidance on the FRC's role with respect to auditor independence. In this respect, the Council agreed that the FRC would obtain high level information from parties with which it has entered into Memoranda of Understanding (MOUs) and would conduct tests through selective contacts with individual audit firms. MOUs governing the exchange of information and co-operation were established with the professional accounting bodies, the Australian Securities and Investments Commission (ASIC) and the Australian Stock Exchange. Substantial progress was made on an MOU with the Australian Prudential Regulatory Authority (APRA), and an exchange of letters was agreed with the Companies Auditors and Liquidators Disciplinary Board.

Also, on the recommendation of the taskforce, the FRC made an 'in-principle' decision to appoint the members of the former Auditing and Assurance Standards Board (AuASB) to the new Auditing and Assurance Standards Board (AUASB) which will operate under the FRC's guidance.

## **Funding for standards setting**

A key FRC task is to secure the funding needed to ensure an effective standard setting process operates in Australia, via the AASB, and also globally, by contributing to the IASB. Without this funding, it would be very difficult to maintain the momentum needed to achieve common global accounting standards in which Australia has had a significant input. The new arrangements under CLERP 9 also require funding to be procured to operate the AUASB and oversee auditing standard setting and auditor independence.

In September 2003 the Government announced that it would contribute an additional \$2 million to the FRC to ensure that there was adequate funding for the work required in the lead-up to the adoption of international accounting standards, and also to assist in the set-up costs of the reconstituted AUASB. The money was sourced from the Companies' Unclaimed Monies Account administered by ASIC. A further \$1 million was provided to the FRC from the Financial Institutions Development Account, and a

total of \$235,000 was received as voluntary contributions by business in 2003-04. A further \$25,000 was received as a voluntary contribution in respect of 2003-04 after 1 July 2004, and therefore is not included in the accounts for 2003-04.

In the 2004-05 Budget the Commonwealth provided an additional \$3.4 million to the FRC, plus a provision set aside in the contingency reserve for 2005-06 to 2007-08, with funding for this measure to be determined in the context of the 2005-06 Budget. In response to requests from the FRC, the three professional accounting bodies agreed first to renew their funding commitment in 2003-04 and more recently, to substantially increase their contributions to the FRC in 2004-05. The States and Territories have also reaffirmed their commitment to continue to provide funding up to 2005-06.

The FRC agreed to provide an additional contribution of \$300,000 in 2003-04 to the IASB in keeping with the funding commitment previously given, which demonstrates Australia's support for the development of global international accounting standards. The FRC affirmed at its September 2003 meeting that the key to Australia maintaining its influence on the development of global standards was through the high quality of its intellectual contribution. There was a need also for Australia to show its tangible support, by moving funding to the IASB to a firm footing rather than being a variable item in the budget.

## Transparency

The FRC is aware that at various times, including during debate on the CLERP 9 Bill, concerns were raised regarding the transparency of the FRC's decision-making process. In June 2003 the FRC considered whether its meetings should be open to the public, and decided that a fuller consideration of the issue would be warranted following implementation of the CLERP 9 reforms. In the meantime, the Council agreed to take additional steps to increase transparency. One way that this has been achieved is through better use of the bulletins on the FRC website. The bulletins have been expanded to include greater detail about the matters discussed and decisions taken at FRC meetings. Also, the bulletins have been released in a more timely manner, usually within a few days after the FRC meetings, making them more user-friendly for interested parties who did not want to wait until the formal meeting minutes are posted following their approval at the subsequent FRC meeting.

## Committees of the FRC

As in previous years, much of the leg-work of the FRC has been performed by committees which have facilitated the engagement by FRC members with relevant experts for a detailed consideration of issues. By making recommendations for ratification by the FRC as a whole, the committees have greatly expedited the FRC's workload. Committees which met during 2003-04 were:

- the Nominations Committee;
- the Audit Committee;
- the CLERP 9 Taskforce; and
- the AUASB Strategic Directions Taskforce.

The Nominations Committee, chaired by Mr Phillip Prior, considered matters relating to appointments to the AASB. Following the CLERP 9 reforms, it will have a similar role with respect to appointments to the AUASB.

The Audit Committee, chaired by Ms Elizabeth Alexander AM, provided advice on the funding and expenditures of the FRC and its constituent bodies, the AASB and – from 2004-05 – the AUASB.

Both the Nominations Committee and the Audit Committee reviewed their charters in view of the new CLERP 9 arrangements.

The CLERP 9 Taskforce examined the implications for the FRC arising from the CLERP 9 legislation. The taskforce ended with the commencement of the CLERP 9 Act from 1 July 2004. It has been superseded by a standing committee of the FRC, the Audit Independence Subcommittee, which will be chaired by Ms Elizabeth Alexander AM, who as consequence will stand down as Chairman of the Audit Committee, which in turn will be chaired by Mr Graeme McGregor AO.

The AUASB Strategic Directions Taskforce was established to consider the work of the AUASB ahead of the CLERP 9 Bill coming into force in 2004-05.

I thank members of these committees and taskforces for the endeavour that they have shown in ensuring that the FRC remains well-informed and able to carry out its tasks effectively.

## Support

The Council received valuable support during the course of the year. I would like to thank Ms Elizabeth Alexander AM, who became Deputy Chairman of the FRC and who has provided much useful advice to the Council and its committees.

The AASB has had a very busy year, during which Professor David Boymal commenced as Chairman. Professor Boymal brings a great wealth of experience to the job, having over 20 years experience in standard-setting, while being active in private sector accounting, academia and the professional accounting bodies. During 2003-04 he led the Board in its task of effectively introducing international accounting standards into Australian law for all companies and other entities for reporting periods commencing on or after 1 January 2005. I would also like to thank Ms Ruth Picker for her outstanding work as Acting Chairman before Professor Boymal's commencement.

The FRC Secretariat within the Australian Treasury has continued to support the intensive workload of the Council. Credit goes to Ms Karen Gilmour and Mr Jorge del Busto for their leadership of the Secretariat.

The passage of the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* and the impending adoption of international accounting standards have ushered in a new round of challenges for the FRC. I have no doubt that the coming year will also be both stimulating and rewarding.



Charles Macek  
Chairman of FRC  
20 September 2004

## FINANCIAL REPORTING COUNCIL GOVERNANCE

### Establishment, functions and powers

The Financial Reporting Council (FRC) is a statutory body under the *Australian Securities and Investments Commission Act 2001* (ASIC Act). The Government's *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* amended the ASIC Act and expanded the functions of the FRC, which is now responsible for providing broad oversight of the process for setting accounting and auditing standards as well as monitoring the effectiveness of auditor independence requirements in Australia and giving the Minister reports and advice on these matters.

Specific accounting and auditing standard setting functions for which the FRC is responsible (as from 1 July 2004) include:

- appointing the members of the AASB and AUASB (other than the Chairmen, who are appointed by the Treasurer);
- approving and monitoring the AASB's and AUASB's: priorities; business plans; budgets; and staffing arrangements (including level, structure and composition of staffing);
- determining the AASB's and AUASB's broad strategic directions;
- giving the AASB and AUASB directions, advice or feedback on matters of general policy and on the AASB's and AUASB's procedures;
- furthering the development of single sets of accounting and auditing standards for world wide use with appropriate regard to international developments;
- promoting the continued adoption of international best practice in the Australian accounting and auditing standard setting processes if doing so would be in the best interests of both the private and public sectors in the Australian economy;
- monitoring:
  - the development of international accounting and auditing standards and the accounting and auditing standards that apply in major international financial centres;
  - the operation of accounting and auditing standards to assess their continued relevance and their effectiveness in achieving their objectives in respect of both the private and public sectors of the Australian economy; and the effectiveness of the consultative arrangements used by the AASB and AUASB; and

- monitoring and periodically reviewing the level of funding, and the funding arrangements, for the AASB and AUASB and seeking contributions towards the costs of the Australian accounting and auditing standard setting processes.

Specific auditor independence functions for which the FRC is responsible include:

- monitoring and assessing the nature and overall adequacy of:
  - the systems and processes used by Australian auditors to ensure compliance with auditor independence requirements;
  - the systems and processes used by professional accounting bodies for planning and performing quality assurance reviews of audit work undertaken by Australian auditors to the extent to which those reviews relate to auditor independence requirements;
  - the action that Australian auditors who have been subject to such quality assurance reviews have taken in response to the reports prepared as a result of those reviews;
  - the action taken by professional accounting bodies to ensure that Australian auditors who have been subject to such quality assurance reviews respond appropriately to the reports prepared as a result of those reviews; and
  - the investigation and disciplinary procedures of professional accounting bodies as those procedures apply to Australian auditors.
- monitoring the overall compliance by companies, registered schemes and disclosing entities with the audit related disclosure requirements of the Corporations Act and the accounting and auditing standards;
- giving the Minister and the professional accounting bodies reports and advice on the above matters;
- monitoring international developments in auditor independence, assessing the adequacy of the Australian auditor independence requirements in the light of those developments and giving the Minister, and professional accounting bodies, reports and advice on any additional measures needed to enhance the independence of Australian auditors; and
- promoting, and monitoring the adequacy of, the teaching of professional and business ethics by, or on behalf of, professional accounting bodies to the extent to which the teaching of those subjects relates to auditor independence.

The FRC operates within a framework set out in the ASIC Act. The Act sets out core objectives for accounting and auditing standard setting in Australia:

- Accounting standards should facilitate 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 facilitate the Australian economy by having accounting and auditing standards that are 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. It provides that the FRC does not have power to direct the AASB or AUASB 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 setters.

## **Membership and meetings**

Under section 235A of the ASIC Act, the members of the FRC are appointed by the Treasurer and hold office on terms and conditions determined by the Treasurer. Most members of the FRC have been appointed on the basis of nominations put forward by key stakeholder groups.

A full list of members during 2003-04 and the stakeholders who nominated them is in Appendix A. In addition, a list of alternate members, appointed to be able to participate in FRC meetings when FRC members for whom they have been nominated as alternates are unable to attend, is also in Appendix A. As members are now able to appoint proxies on a meeting-by-meeting basis, it is not expected that further alternate members will be appointed in the future.

## **OPERATIONS AND ACTIVITIES**

### **Appointments to the AASB**

The FRC Nominations Committee is responsible for recommending appointments to the AASB. In 2003-04, the Chairman of the Nominations Committee was Mr Phillip Prior. The other members of the Nominations Committee were the FRC Chairman, Mr Charles Macek, Mr Don Challen and Mr Klaus Zimmerman.

The Nominations Committee met three times during 2003-04 and recommended to the FRC that Mr Bryce Denison be appointed to the AASB and Mr Wayne Cameron be reappointed to the AASB.

The appointment of Mr Garth Campbell-Cowan to the AASB was agreed by the FRC during 2002-03 but only took effect from 2 July 2003.

## Overseeing the AASB

The FRC's responsibilities include reviewing and approving the AASB's priorities, business plan, budget and staffing arrangements.

The FRC considered the AASB's broad strategic plan and its timetable for the adoption of international accounting standards. Progress made on the AASB's work programme in 2003-04 is outlined in Appendix E. The FRC also approved the AASB's work programme for 2004-05 and its priorities are set out in Appendix F.

The Audit Committee met four times in 2003-04. The Committee examined the AASB's business plan and budget for 2003-04 and 2004-05. The Committee also examined an indicative AUASB business plan and budget for 2004-05, as the FRC has responsibility for approving these following the passage of the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004*.

## Consultation

The FRC regularly issues bulletins that communicate decisions taken at its meetings and other important developments in accounting standard setting. These bulletins are distributed to the media and stakeholders. These bulletins are available, in chronological order, at the FRC website or by contacting the FRC Secretary (see 'Contacting the FRC').

During the year, FRC Chairman Mr Charles Macek and other members of the FRC consulted extensively with representatives of corporations, business organisations, other stakeholder bodies and accounting and auditing organisations. In 2003-04 the FRC Chairman travelled overseas and consulted widely with executives from corporate and accounting bodies on matters relating to international accounting standards, developments in respect of accounting and auditing standards, and matters regarding auditor independence.

## FRC Consultant

On 27 February 2004 the FRC decided to engage Mr Robert Lynn as a consultant to advise on what would be required from the FRC to discharge its expanded functions with respect to auditor independence.

On 5 March 2004 the FRC Chairman confirmed Mr Robert Lynn's appointment as a consultant to the FRC. Mr Robert Lynn was engaged to prepare a written report on

Auditor Independence Functions allocated to the FRC under the then Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Bill 2003. Where appropriate, Mr Robert Lynn was asked to formulate his recommendations in terms of specific drafting instructions to be included in the Memoranda of Understanding with various bodies. Mr Robert Lynn delivered his report to the FRC on 16 April 2004.

## Finances

The response from the top 100 Australian companies to contribute to FRC funding has continued to fall short of the expected funding under the tripartite model in 2003-04.

However, the Government has indicated that it will not allow a shortfall in business-sector contributions to undermine its objective of strengthening domestic accounting and auditing standards and their oversight arrangements. Nor will the shortfall undermine the FRC's role in overseeing the adoption of international accounting standards.

Of the top 100 Australian companies, 16 companies voluntarily contributed to the FRC tripartite funding model for 2003-04 – four less than for the previous year. Contributors were: Amcor, ANZ Banking Group, AXA, Centro Properties, Commonwealth Bank, Mayne Group, National Australia Bank, Newcrest Mining, PaperlinX, Qantas, Rio Tinto, Telecom New Zealand, Telstra, Wesfarmers, Westfield Holdings, and Westpac.

The States and Territories have confirmed the provision of \$500,000 for the financial year ended 30 June 2004 and have reiterated their commitment to continue their funding at \$500,000 per year for the three year period concluding on 30 June 2006, the only proviso being that the current tripartite funding model continues and the professional accounting bodies renew their funding commitments in a similar manner.

On 29 June 2004 the professional accounting bodies agreed to increase their annual funding contribution to the FRC from \$750,000 to \$1,750,000 in 2004-05. CPA Australia (CPAA), and The Institute of Chartered Accountants in Australia agreed to contribute \$750,000 each and the National Institute of Accountants agreed to contribute \$250,000.

In 2003-04 the FRC made a contribution of \$300,000 to the IASB in addition to the \$700,000 contributed to the IASB in 2002-03, and will be considering further contributions in the future.

As part of the 2003-04 Commonwealth Budget, the Government decided to provide \$4 million over four years to support the expanded role of the FRC. In 2003-04, a total of \$467,731 of FRC expenditure was paid by Treasury out of this appropriation. This consisted of:

- \$311,113 in staffing costs;
- \$36,376 on consultants;
- \$27,250 on the Chairman's salary (including superannuation);
- \$66,135 on travel; and
- \$26,857 on overheads.

## **FREEDOM OF INFORMATION**

The FRC Secretariat, on behalf of the FRC, maintains possession of the following documents:

- FRC meeting agenda papers;
- administrative and technical papers concerning the FRC's functions and its performance in regard to those functions;
- copies of minutes and bulletins issued by the FRC; and
- correspondence between the FRC, stakeholder groups and members of the public.

Requests under the *Freedom of Information Act 1982* for access to documents in the possession of the FRC can be directed to the FRC Secretariat at the contact details below:

## **CONTACTING THE FRC**

Post: The Secretary  
Financial Reporting Council  
c/- The Treasury  
Langton Crescent  
PARKES ACT 2600

Telephone: (02) 6263 3144

Facsimile: (02) 6263 2770

E-mail: <frcsecretary@treasury.gov.au>

# AUSTRALIAN ACCOUNTING STANDARDS BOARD

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## CHAIRMAN'S REPORT



The activities of the AASB in 2003-04 were dominated by the implementation of the FRC's directive that Australia should adopt International Accounting Standards and Interpretations for periods commencing on or after 1 January 2005. By 30 June 2004 all of the pending Australian versions of the International Accounting Standards had been placed on the AASB website, and the entire suite of some 40 new standards were formally made into Australian delegated legislation on 15 July 2004. At the same time the AASB approved 12 new

Interpretations of International Accounting Standards and a revised Conceptual Framework document. This represents by far the most significant change to financial reporting ever experienced in Australia, and could well be described as an historic achievement in Australian standard-setting and financial reporting.

Significant progress was also made in identifying the issues and the way forward in relation to the FRC's second policy directive, that of harmonisation of Generally Accepted Accounting Principles (GAAP) with Government Finance Statistics (GFS) in public sector financial reporting.

The completion of the Year 2005 project by the promised date turned out to be a Herculean effort on the part of the AASB, the UIG and the AASB staff, particularly in view of delays on the part of the IASB in issuing in final form all of the new and revised standards coming into effect in 2005. In addition, the responses from Australian constituents to the proposals presented a wide range of differing viewpoints. This meant that each issue needed to be debated at length by the Board and with the consequence that many decisions inevitably caused concern with some constituents.

With the completion of the 2005 project it is now appropriate for the AASB to review its future role and relationships as a standard setter and standards interpreter.

## The 2005 project

During the year, the AASB sought clarification from the FRC as to whether the original directive to adopt international standards in 2005 contemplated any exceptions or exemptions in the private sector and, in view of uncertainties surrounding the EU

adhering to its 2005 programme, whether a deferral in Australia was warranted. The FRC indicated that no exceptions or exemptions were contemplated, and that the Australian programme should not be deferred provided the IASB had completed its 'stable platform' of 2005 standards by 31 March 2004 and the AASB could complete its Australianisation of the standards by 30 June 2004.

Further to these FRC decisions, the AASB, as part of its obligations under the terms of Part 12 of the ASIC Act, was still required to assess whether those standards satisfy criteria for evaluation such as relevance, reliability, facilitating comparability, facilitating the Australian economy, maintaining investor confidence and being easily understood.

Using these criteria, the AASB at times found it necessary not to adopt some choices of alternative accounting treatments found in some international standards, and to provide additional application guidance. In addition, the AASB amended the original wording of the international standards in order to make them Australian legislative instruments and to make them sector neutral (that is, equally applicable to the private, public and not-for-profit sectors). Whenever such changes were made the AASB went to considerable effort to ensure that compliance with the Australian standard would still ensure compliance with the original international standard in respect of for-profit entities.

In the course of preparing Australian versions of the International Accounting Standards the AASB identified a number of problems and inconsistencies in the original International Accounting Standards. The IASB was progressively informed of these findings, many of which were rectified by IASB before its 'stable platform' of 2005 standards was finalised.

In addition because of the significant effect upon certain Australian companies of adopting the International Accounting Standard IAS 38 *Intangible Assets*, the AASB made special representations to the IASB on behalf of those companies. This included the AASB Chair appearing before the IASB (by video) at its December 2003 public meeting to explain the extent of the problem and to suggest ways of alleviating its effect.

The making of the international standards into Australian delegated legislation means that Australia now has a suite of largely principles-based accounting standards, covering areas not previously dealt with adequately in Australia, such as intangible assets, share-based payments, defined benefit superannuation obligations, asset impairment and recognition and measurement of financial instruments. These, together with the numerous more subtle changes in other standards, mean that the overall credibility of Australian financial reporting will be substantially improved, thus lowering the cost of capital in the long term. It is the view of the AASB that these overall benefits outweigh any difficulties that the new requirements might cause to some individual entities.

Australian entities and Australian accountants and auditors must now learn to work with principles-based financial reporting requirements. A principles-based approach does not give a specific solution to every problem or event, but rather indicates how a solution might appropriately be arrived at. Such requirements entail a higher degree of judgment than do the previous standards, with a greater potential for diversity of viewpoint. This change will present new challenges for directors, accountants, auditors and regulators, and in the transitional period will lead to more calls for guidance and interpretation of the requirements.

## Copyright

During the year the AASB negotiated a waiver agreement with the IASCF so that no royalty is payable upon our use of the International Accounting Standards. We can therefore make the new standards available on our website free of charge in accordance with government policy.

Unfortunately, the waiver does not automatically extend to the international Implementation Guidance and Bases for Conclusions of those standards. This additional information is therefore only available through a secure section of our website upon payment of an annual fee. The waiver does allow for a situation, where the AASB considers that text in the Implementation Guidance or Bases for Conclusions is an essential feature of a standard to which it relates, to also be subject to the waiver. The AASB has decided that some Guidance falls into this category.

We are in the process of establishing a complex series of links to the websites of the Australian Accounting Bodies and to the IASB, so that once a registered user has been granted access to copyright material, all of the original IASB material and the amended Australian versions of that material becomes available under the royalty arrangement.

## Urgent Issues Group

During the year the UIG produced two new Abstracts and issued one revised Abstract. Perhaps more importantly the UIG reviewed its previously issued Abstracts for their appropriateness under the AASB equivalents to International Accounting Standards, and worked to include 12 UIG equivalents to IASB Interpretations into the body of Australian literature to complement our new standards.

As International Interpretations are defined to be part of International Accounting Standards, the AASB took steps to raise the status of UIG Abstracts by incorporating them into an omnibus Accounting Standard AASB 1048 *Interpretation and Application of Standards*. This also caused the AASB to amend the UIG Charter so that the AASB's right to veto an UIG Abstract is replaced with a requirement for a positive AASB vote to approve the UIG Interpretations.

The UIG (other than the Chair) comprises part-time members who act on a voluntary basis. These people make a significant contribution to the standard-setting process.

As indicated earlier, the application of principles-based standards increases the potential for diversity of viewpoint. This in turn increases the need for authoritative interpretations so as to limit unacceptable diversity. The relative roles of the UIG and IFRIC (the interpretation arm of IASB) have yet to be determined, but I would anticipate that there will be an ongoing requirement for a standards interpretation facility in Australia. Whether the existing UIG structure is best to provide this service is a matter to be addressed in the forthcoming year.

## **The GAAP/GFS convergence project**

During 2003-04 the AASB continued to implement its strategy for achieving the FRC's GAAP/GFS harmonisation strategic directive.

This included certain AASB members and staff participating in the Heads of Treasuries Accounting and Reporting Advisory Committee (HOTARAC) GFS/GAAP Convergence Working Group. That Group prepared comprehensive papers that were ultimately endorsed by HOTARAC and the Heads of Treasuries and submitted to the AASB. The AASB used these papers as the basis for developing Consultation Papers that were sent to a Project Advisory Panel for comment. The Consultation Papers identify particular issues related to GAAP/GFS convergence and express an AASB preliminary view on each issue.

The AASB commenced its review of the comments received from Project Advisory Panel members and others, first addressing the more conceptual issues. In particular, the AASB addressed issues relating to the status of general government sector financial reporting.

Other conceptual issues soon to be addressed by the AASB include the format for financial performance reporting and the presentation and measurement of GFS analytical balances in public sector financial reports. The AASB will consider convergence issues in relation to the general government sector and subsequently whole of government, and will consider at a later date the extent to which conclusions drawn in that phase of the project should flow through to other public sector entities including government departments, government business enterprises, universities and local governments.

Before finalising its decisions for inclusion in an exposure draft for public comment, the AASB plans to meet with a range of interested parties. In July 2004 it met with Heads of Treasuries, and later in 2004 plans to meet with a broad range of interested constituents drawn from the Project Advisory Panel and the AASB's Consultative Group.

At an international level, during 2003-04 the AASB continued to monitor and contribute to the work initiated by the IFAC PSC and the International Monetary Fund and now being undertaken by two working groups of the Taskforce on the Harmonisation of Public Sector Accounting. An AASB member and a staff member are members of the Taskforce. The work of the Taskforce will provide a valuable resource to the AASB as it introduces an Australian convergence solution and monitors the implementation of that solution in the longer term.

## **IFAC Public Sector Committee**

The AASB is a strong supporter of the IFAC PSC and its standard setting activities for public sector entities. We respond to all IFAC PSC Exposure Drafts, and send a senior AASB technical manager to each IFAC PSC meeting to act as the technical advisor to the Australian representative who is currently an AASB member.

The AASB has taken steps to make the Australian versions of International Accounting Standards sector neutral by including the requirements of IFAC PSC into our standards where appropriate. However the IFAC PSC does not have the same level of resources as the IASB with the consequence that there are significant timing lags between when the IASB and the IFAC PSC deal with topics.

## **Work programme**

The status of the 2003-04 AASB work programme is reported in Appendix E. The AASB's standard setting priorities for the year ended 30 June 2005 have been approved by the FRC and are set out in Appendix F.

## **Board changes**

Mr Bryce Denison was appointed to the Board during the year, and I was appointed full-time Chairman in November 2003. Mr Wayne Cameron's term of appointment expired in June 2004 and he was re-appointed for a further one year. Mr Garth Campbell-Cowan's appointment to the Board was approved by the FRC in June 2003 and took effect from July 2003.

## **AASB in the future**

In the foreseeable future, there remains an important role for the AASB.

The AASB remains the Statutory Authority entrusted with the making of Accounting Standards under section 334 of the Corporations Act, which are in the form of delegated legislation. The AASB remains responsible for considering new and

amended International Standards under the terms of Part 12 of the ASIC Act as well as continuing to respond to domestic standard-setting needs.

In addition the AASB must continue to actively influence international outcomes by retaining a strong standard-setting ability, by attending IASB meetings and by providing suitably qualified Australians to participate in various international committees and forums. In order that the Australian influence remains strong the AASB must communicate with its constituents and provide a focus for Australian views on various contentious technical matters.

The IASB is relying on capable national standard setters like the AASB to undertake research projects on its behalf. At the present time the AASB is leading IASB research projects on Joint Ventures, Intangible Assets and Extractive Industry Accounting, all of which are key projects for Australian entities. This is a substantial vote of confidence in the ability of the AASB to provide technical and project-management leadership at the international level.

As indicated previously, the nature of the new International Standards will increase the need for authoritative interpretations.

As well as all of the above needs, the leading-edge role that the AASB has taken in public sector and not-for-profit financial reporting will continue to require considerable resources. Accordingly for the foreseeable future, the resource requirements of the AASB will need to remain at current levels in order to meet the ongoing demand.

## **Commonwealth Fraud Control Guidelines**

The AASB has in place a Fraud Control Plan and fraud control mechanisms which are appropriate to the needs of the AASB. The AASB complies with the requirements of the Commonwealth Fraud Control Guidelines for the year ended 30 June 2004.

## **Appreciation**

I would first like to acknowledge the outstanding contribution of Ms Ruth Picker, the Deputy Chair of AASB, who acted as Chair between the retirement of Mr Keith Alfredson in May 2003 and my appointment in November 2003. This was a critical time for the AASB and Ruth's considerable effort has been a key factor in the AASB achieving its Year 2005 objectives.

Secondly, during the past year members of the AASB and the UIG made considerable contributions to achieving the objective of having Australian versions of the International Accounting Standards and Interpretations in place by 30 June 2004. These members are all busy professionals who generously gave their time to this cause.

Thirdly, the AASB technical staff, headed by Angus Thomson, Technical Director, and the AASB administrative staff, headed by Leone Mansell, Administration Director, put in an incredible effort to achieve the 2005 objective by 30 June 2004. They should be especially proud of their achievement.

Finally, thanks go to the AASB constituents who responded to the huge volume of Exposure Drafts and Invitations to Comment and participated in various Advisory Panels and field tests that all formed part of such a dramatic change to our reporting standards. It is vital under the new international regime that Australian constituents continue to make their views known to the AASB on future topics.

A handwritten signature in black ink, appearing to read 'D. Boymal', followed by a large, stylized flourish or checkmark-like symbol.

David Boymal  
Chairman, AASB  
20 September 2004

## AASB DIRECTORS' REPORT OF OPERATIONS

### Technical activities of AASB during 2003-04

#### Membership and meetings of AASB

The Chairman and members of the AASB are appointed under section 236B of the ASIC Act. For the period covered by this report the responsible Minister was the Treasurer, the Hon Peter Costello MP. The Chairman is appointed by the Treasurer while other members are appointed by the FRC.

To be eligible for appointment, a person must have knowledge of, or experience in, business, accounting, law or government. The Chairman and members hold office on the terms and conditions that are determined by the Treasurer and FRC respectively. Appointments may be made for a period of up to five years and retiring members are eligible for reappointment.

The members of the AASB during 2003-04 are listed in Appendix B. The Board held 13 meetings for a total of 23 meeting days during the year, and attendance of members at these meetings is set out in Appendix D.

#### Standard setting

The AASB has responsibility for accounting standard setting. A full list of Accounting Standards, Accounting Interpretations, Statements of Accounting Concepts and Policy Statements and their issue dates is at Appendix G.

During the year, the Board issued or reissued the following standards and other documents:

#### New standards

AASB 1046	<i>Director and Executive Disclosures by Disclosing Entities</i> (January 2004).
AASB 1047	<i>Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards</i> (April 2004).

**Exposure drafts**

- ED 115 Request for Comment on IAS 19 *Employee Benefits* (June 2003).
- ED 116 Request for Comment on IAS 2 and IPSAS 12 *Inventories* (July 2003).
- ED 117 Request for Comment on IASB ED 4 *Disposal of Non-current Assets and Presentation of Discontinued Operations* (July 2003).
- ED 118 Request for Comment on IAS 11 *Construction Contracts* (July 2003).
- ED 119 Request for Comment on IAS 14 *Segment Reporting* (July 2003).
- ED 120 Request for Comment on IAS 16 and IPSAS 17 *Property, Plant and Equipment* (July 2003).
- ED 121 Request for Comment on IAS 31 *Financial Reporting of Interests in Joint Ventures* (August 2003).
- ED 122 Request for Comment on IASB ED 5 *Insurance Contracts* (August 2003).
- ED 122A Request for Comment on Amendments to AASB 1023 *General Insurance Contracts* (October 2003).
- ED 122B Request for Comment on Amendments to AASB 1038 *Life Insurance Contracts* (October 2003).
- ED 123 Request for Comment on IASB ED of Proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement — Fair Value Hedge Accounting for a Portfolio Hedge of Interest Rate Risk* (September 2003).
- ED 124 Request for Comment on: *The Definition of Reporting Entity*; IASB *Framework for the Preparation and Presentation of Financial Statements*; IAS 18 *Revenue*; and IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* (October 2003).
- ED 125 *Financial Reporting by Local Governments* (October 2003).
- ED 126 Request for Comment on IAS 34 *Interim Financial Reporting* (October 2003).
- ED 127 Request for Comment on IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* (October 2003).
- ED 128 Request for Comment on IAS 12 *Income Taxes* (October 2003).
- ED 129 *Disclosing the Impact of Adopting AASB Equivalents to IASB Standards* (December 2003).
- ED 130 Request for Comment on IASB ED 6 *Exploration for and Evaluation of Mineral Resources* (January 2004).
- ED 131 Request for Comment on IASB ED Proposed Amendments to IAS 19 *Employee Benefits: Actuarial Gains and Losses, Group Plans and Disclosures* (April 2004).
- ED 132 Request for Comment on IASB ED of Proposed Amendments to IAS 39 *Financial Instruments: Recognition and Measurement — The Fair Value Option* (May 2004).

ED 133 Request for Comment on IASB ED of Proposed Amendments to IFRS 3 *Business Combinations — Combinations by Contract Alone or Involving Mutual Entities* (June 2004).

During the year the AASB posted proposed Australian equivalents to IASB Standards and Interpretations on its website as Pending Standards and Pending Interpretations so as to inform constituents of the requirements which will apply from 2005 and to facilitate their preparations for implementing these Standards and Interpretations. The suite of Pending Standards was posted on the website by 30 June 2004.

On 15 July 2004 the AASB made 40 Australian standards for application from 1 January 2005, comprising 35 Australian equivalents to International Financial Reporting Standards, four amended Australian Standards and a new Australian Standard dealing with the application and interpretation of standards. In addition, the AASB approved 14 UIG Interpretations, including 12 UIG equivalents of international interpretations, as part implementing the FRC's Year 2005 directive.

### Urgent Issues Group

The UIG's purpose is to review on a timely basis, in the context of existing Accounting Standards and Statements of Accounting Concepts, accounting issues that are likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching a consensus as to the appropriate accounting treatment. The UIG comprises 15 members drawn from a wide range of constituent groups. A consensus of the UIG requires that 11 or more members vote in favour of, and no more than three members vote against, the proposed treatment for the issue in question. Previously the AASB had a reserve power of veto over UIG consensus views and a UIG consensus view was published in an Abstract. A full list of UIG Abstracts and their issue dates is at Appendix G. The UIG Charter was revised in June 2004 with the effect that UIG Abstracts applying for reporting periods beginning on or after 1 January 2005 will be required to be formally approved by the AASB and will now be called UIG Interpretations.

The following Abstracts were issued during the financial year:

#### New

Abstract 54 *Defined Benefit Superannuation Disclosures by Employers* (August 2003).

Abstract 55 *Accounting for Road Earthworks* (May 2004).

#### Revised

Abstract 52 *Income Tax Accounting under the Tax Consolidation System* (revised December 2003).

## Due process

The AASB adopts a comprehensive 'due process' (outlined in PS 1 *The Development of Statements of Accounting Concepts and Accounting Standards*) when developing its pronouncements, and encourages the preparers and users of financial reports to participate actively in the standard-setting process by:

- communicating its views and policies to a broad range of interested parties via invitations to comment and exposure drafts;
- meeting with representatives of interested parties and organisations;
- inviting public comment on its policies, procedures, priorities and standards under consideration;
- issuing media releases related to its activities; and
- maintaining a website <[www.aasb.com.au](http://www.aasb.com.au)>.

In addition, the AASB publishes minutes of its meetings and an *AASB Action Alert* to keep interested parties informed of the AASB's deliberations at each of its meetings.

The UIG adopts a more limited 'due process' under which minutes of its meetings, issue proposals, issue summaries and draft Abstracts are freely available on the website. The UIG publishes an *UIG Action Alert* after each of its meetings.

## Consultative group

The AASB Consultative Group brings together a wide cross-section of interest groups in the private, public and not-for-profit sectors. The purpose and operation of the Consultative Group is set out in Policy Statement PS 2 *The AASB Consultative Group* as revised and reissued in June 2001. The Consultative Group did not meet during the year. A meeting scheduled for June 2004 was deferred to October 2004 to allow the AASB more time to complete the Year 2005 Standards.

## Liaison with constituents

The AASB meets with a wide range of people to discuss matters of interest both generally and in relation to specific projects.

## Use of website

The AASB maintains a website <[www.aasb.com.au](http://www.aasb.com.au)>. The website is used to provide information about the AASB, its activities and work programme to its constituents and other interested parties and the UIG and its activities. Authoritative pronouncements are published on the website and may be downloaded free of charge. The AASB also

publishes meeting agendas and copies of key AASB Board papers on its website, prior to meetings. Minutes of meetings are also published on the website. The AASB publishes brief summaries of key projects on the Board's website outlining the background to each project and recent progress and Board decisions. The AASB also uses the website to seek comments on exposure drafts and invitations to comment in order to facilitate urgent action on projects. During the year, as part of the process of implementing the FRC's directive on adoption of IASB Standards and to keep its constituents informed, the AASB posted copies of Pending Australian equivalents to International Financial Reporting Standards and Interpretations on its website.

### **Seminars**

Members of the AASB and its staff are available to present papers on matters relating to the AASB's work programme at seminars, congresses and conferences held throughout Australia.

### **Accountability**

The AASB Chairman appeared before the Senate Estimates Committee on 18-19 February 2004 and 2 June 2004 and appeared before the Parliamentary Joint Committee on Corporations and Financial Services in relation to their inquiry into the CLERP 9 (Audit Reform and Corporate Disclosure) Bill on 29 April 2004.

### **Indemnities and insurance premiums for directors and officers**

No indemnities have been given or agreements made in respect of any current or former officer of the AASB, including FRC Directors. The AASB has arranged professional indemnity insurance with COMCOVER, to a value of \$100 million at a cost of \$26,680.

### **AASB PUBLICATIONS**

All authoritative pronouncements issued by the AASB and UIG, including statements of accounting concepts, policy statements, accounting standards (AASB and AAS series), accounting interpretations and UIG Abstracts, are available for purchase from the AASB and are published on its website. A full list of pronouncements currently on issue is at Appendix G.

The AASB also publishes a range of other documents, including:

- an *AASB Action Alert* to keep interested parties informed of the AASB's deliberations at each of its meetings;

- an *UIG Action Alert* to keep interested parties informed of the UIG's deliberations at each of its meetings;
- AASB and UIG media releases;
- exposure drafts of proposed new and revised accounting standards;
- invitations to comment (often concerning exposure drafts issued by the International Accounting Standards Board);
- consultative and discussion papers; and
- *Transparency*, a periodical newsletter on the activities of the AASB.

The AASB provides subscription services in respect of most of these documents. In addition, individual copies are available for sale. Further information can be obtained from the AASB using the contact details set out below. Accounting standards, UIG Abstracts, exposure drafts, invitations to comment and policy statements are freely available on the website.

## **FREEDOM OF INFORMATION**

The AASB maintains possession of the following documents:

- copies of accounting standards;
- copies of exposure drafts and invitations to comment;
- copies of media releases and action alerts;
- AASB and UIG meeting agenda papers;
- correspondence with constituents, including responses to exposure drafts and invitations to comment; and
- internal technical and administrative papers, including project proposals, key decisions questionnaires, issues papers, draft exposure drafts and draft Accounting standards.

Requests under the *Freedom of Information Act 1982* for access to other documents in the possession of the AASB can be directed to the AASB Secretary using the contact details set out on page 32.

## COMMONWEALTH DISABILITY STRATEGY

The AASB is committed to applying the Commonwealth Disability Strategy (CDS) and has instituted activities that contribute to meeting its requirements. The role of the AASB is specified elsewhere in this report. For the purposes of the Disability Strategy CDS, the AASB performs *Policy Adviser* and *Regulator* roles.

### Commonwealth Disability Strategy performance reporting

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Requirement for role	How met
Provision of accessible policy, programme and regulatory information	
Internet format	AASB: all news items, policy statements, accounting standards, exposure drafts and other formal accounting regulatory documents are available on a Government Standards compliant website.
Disk format	Contact details for the AASB are available on its website. Users can call or write to request material on disk.
Plain English communication	Where possible, general information is written in plain English. However, some financial reporting matters are highly complex and require the accuracy of technical language.
Consultation	The AASB consults widely in its own right, with users, preparers and others interested in financial reporting.  Because the nature of AASB activity is broad, and focuses on capital markets, specific consultation with people with disabilities is generally inappropriate.
Complaint or grievance mechanisms	Contact details for the AASB are available on its website. People can call or write to register any complaint.

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## CONTACTING THE AASB

The AASB can be contacted as follows:

Post: The Secretary  
Australian Accounting Standards Board  
PO Box 204  
Collins Street West  
MELBOURNE VIC 8007

Telephone: (03) 9617 7600

Facsimile: (03) 9617 7608

Document Exchange: DX 30897

E-mail: <standard@asb.com.au>

# AUSTRALIAN ACCOUNTING STANDARDS BOARD

## FINANCIAL REPORT

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## **INDEPENDENT AUDIT REPORT**

**To the Treasurer**

### **Matters relating to the Electronic Presentation of the Audited Financial Statements**

This audit report relates to the financial statements published in both the annual report and on the web site of the Australian Accounting Standards Board for the year ended 30 June 2004. The Australian Accounting Standards Board is responsible for the integrity of both the annual report and its web site.

The audit report refers only to the financial statements, schedules and notes named below. It does not provide an opinion on any other information, which may have been hyperlinked to/from, the audited financial statements.

If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial statements in the Australian Accounting Standards Board's annual report.

### **Scope**

The financial statements comprise:

- Statement by Directors and Chief Executive;
- Statements of Financial Performance, Financial Position and Cash Flows;
- Schedules of Commitments and Contingencies; and
- Notes to and forming part of the Financial Statements

for the Australian Accounting Standards Board for the year ended 30 June 2004.

The directors of the Australian Accounting Standards Board are responsible for the preparation and true and fair presentation of the financial statements in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

### **Audit Approach**

I have conducted an independent audit of the financial statements in order to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate Australian Auditing and Assurance Standards, in order to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of

internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

While the effectiveness of management's internal controls over financial reporting was considered when determining the nature and extent of our procedures, the audit was not designed to provide assurance on internal controls.

I have performed procedures to assess whether in all material respects the financial statements present fairly, in accordance with the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Australian Accounting Standards Board's financial position, and performance as represented by the statements of financial performance and cash flows.

The audit opinion is formed on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report; and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by management.

### **Independence**

In conducting the audit, I have followed the independence requirements of the ANAO, which incorporate Australian professional ethical pronouncements.

### **Audit Opinion**

In my opinion the financial statements:

- (i) have been prepared in accordance with Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997* and applicable Accounting Standards; and
- (ii) give a true and fair view, of the matters required by applicable Accounting Standards and other mandatory professional reporting requirements in Australia and the Finance Minister's Orders, of the financial position of the Australian Accounting Standards Board as at 30 June 2004, and its financial performance and cash flows for the year then ended.

Australian National Audit Office



P Hinchey  
Senior Director

Delegate of the Auditor-General  
Sydney  
20 September 2004

**AUSTRALIAN ACCOUNTING STANDARDS BOARD**  
**STATEMENT BY DIRECTORS AND CHIEF EXECUTIVE**

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In our opinion, the attached financial statements for the year ended 30 June 2004 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*.

In our opinion, at the date of this statement, there are reasonable grounds to believe that the Australian Accounting Standards Board will be able to pay its debts as and when they become due and payable.

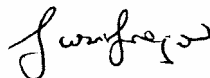
This Statement is made in accordance with a resolution of the directors.

Signed:




C. Macek  
Chairman  
20 September 2004

Signed:



Graeme McGregor  
Director  
20 September 2004

Signed:



David Boymal  
Chief Executive  
20 September 2004

## Australian Accounting Standards Board statement of financial performance for the year ended 30 June 2004

	Notes	2004 \$	2003 \$
<b>Revenues from ordinary activities</b>			
Revenues from government	5A	1,500,000	1,500,000
Sales of publications	5B	136,040	160,109
Interest	5C	99,051	50,910
Grants and contributions	5D	3,545,000	2,600,000
Other revenues		1,964	21,704
<b>Total revenues from ordinary activities</b>		<b>5,282,055</b>	<b>4,332,723</b>
<b>Expenses from ordinary activities</b>			
Employees	6A	2,141,986	2,322,072
Suppliers	6B	834,648	991,838
Depreciation and amortisation	6C	100,234	155,185
Other — contribution to IASCF	6D	300,000	700,000
<b>Total expenses from ordinary activities</b>		<b>3,376,868</b>	<b>4,169,095</b>
Net surplus		1,905,187	163,628
Total changes in equity other than those resulting from transactions with owners as owners		1,905,187	163,628

The above statement should be read in conjunction with the accompanying notes.

## Australian Accounting Standards Board statement of financial position as at 30 June 2004

	Notes	2004 \$	2003 \$
<b>ASSETS</b>			
<b>Financial assets</b>			
Cash	7A	3,068,761	1,904,727
Receivables	7B	63,265	25,297
<b>Total financial assets</b>		<b>3,132,026</b>	1,930,024
<b>Non-financial assets</b>			
Leasehold improvements	8A,C	16,223	64,891
Plant and equipment	8B,C	116,706	105,281
Inventory	8D	2,638	3,090
Prepaid expenses		20,689	14,081
<b>Total non-financial assets</b>		<b>156,256</b>	187,343
<b>Total assets</b>		<b>3,288,282</b>	2,117,367
<b>LIABILITIES</b>			
<b>Provisions</b>			
Employees	9A	638,664	647,935
<b>Total provisions</b>		<b>638,664</b>	647,935
<b>Payables</b>			
Suppliers	10	90,811	121,996
Subscriptions in advance		45,056	47,431
Other	10	44,983	736,424
<b>Total payables</b>		<b>180,850</b>	905,851
<b>Total liabilities</b>		<b>819,514</b>	1,553,786
<b>NET ASSETS</b>		<b>2,468,768</b>	563,581
<b>EQUITY</b>			
Accumulated surplus	11	2,468,768	563,581
<b>Total equity</b>		<b>2,468,768</b>	563,581
<b>Current liabilities</b>		<b>283,817</b>	1,008,148
<b>Non-current liabilities</b>		<b>535,697</b>	545,638
<b>Current assets</b>		<b>3,155,353</b>	1,947,195
<b>Non-current assets</b>		<b>132,929</b>	170,172

The above statement should be read in conjunction with the accompanying notes.

## Australian Accounting Standards Board statement of cash flows for the year ended 30 June 2004

	Notes	2004 \$	2003 \$
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Revenue from government		1,500,000	1,500,000
Goods and services		147,795	178,843
Interest		99,051	50,910
GST recovered from taxation authority		111,329	113,735
Grants and contributions		3,560,000	2,615,000
Other		44,542	21,703
<b>Total cash received</b>		<b>5,462,717</b>	4,480,191
<b>Cash used</b>			
Employees		2,250,069	2,234,864
Suppliers		1,889,555	1,059,841
GST paid to taxation authority		96,068	102,191
<b>Total cash used</b>		<b>4,235,692</b>	3,396,896
<b>Net cash from operating activities</b>	12	<b>1,227,025</b>	1,083,295
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
Proceeds from sale of plant and equipment		-	-
<b>Cash used</b>			
Purchase of property, plant and equipment		(62,991)	(43,371)
<b>Total cash used</b>		<b>(62,991)</b>	(43,371)
<b>Net cash used by investing activities</b>		<b>(62,991)</b>	(43,371)
<b>Net increase in cash held</b>		<b>1,164,034</b>	1,039,924
Cash at the beginning of the reporting period	7A	1,904,727	864,803
<b>Cash at the end of the reporting period</b>	7A	<b>3,068,761</b>	1,904,727

The above statement should be read in conjunction with the accompanying notes.

## Australian Accounting Standards Board schedule of commitments as at 30 June 2004

	Notes	2004 \$	2003 \$
<b>BY TYPE</b>			
<b>Other commitments</b>			
Operating leases		160,398	97,609
<b>Total other commitments</b>		<b>160,398</b>	<b>97,609</b>
<b>Commitments receivable*</b>		<b>(23,672)</b>	(44,000)
<b>Net commitments</b>		<b>136,726</b>	53,609
<b>BY MATURITY</b>			
<b>Operating lease commitments</b>			
One year or less		50,948	79,208
From one to five years		109,450	18,401
<b>Total operating lease commitments</b>		<b>160,398</b>	<b>97,609</b>
<b>Commitments receivable</b>		<b>(23,672)</b>	(44,000)
<b>Net commitments</b>		<b>136,726</b>	53,609

All commitments are GST inclusive where relevant.

\* Includes commitment of Australian Stock Exchange (the lessor of the AASB's premises) to make annual grants to the AASB to cover future premises lease rental commitments.

Operating leases are effectively non-cancellable and comprise:

Nature of lease	General description of leasing arrangement
Lease for office accommodation	Lease payments are subject to increase in accordance with upward movements in the Consumer Price Index. Note 4. refers to new accommodation lease from 1 September 2004.
Lease of photocopiers	The lessors provide photocopiers for 40 – 60 months at fixed instalment rates, plus copy charges at rates which may vary each year.

## Australian Accounting Standards Board schedule of contingencies as at 30 June 2004

At 30 June 2004 an amount of \$1 million, earmarked for payment as a contribution to the International Accounting Standards Committee Foundation (IASCF), is held by the AASB. Payment of this contribution is contingent upon a decision by the FRC. It is expected the contribution will be paid in the first half of 2004-05.

## AUSTRALIAN ACCOUNTING STANDARDS BOARD

### NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

#### Note 1: Summary of significant accounting policies

##### 1.1 Basis of accounting

The financial statements are required by clause 1(b) of Schedule 1 to the *Commonwealth Authorities and Companies Act 1997* and are a general purpose financial report.

The statements have been prepared in accordance with:

- Finance Minister's Orders (being the Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 30 June 2004));
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and
- Consensus Views of the Urgent Issues Group.

The Australian Accounting Standards Board (AASB) Statements of Financial Performance and Financial Position have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

Assets and liabilities are recognised in the AASB Statement of Financial Position when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. Assets and liabilities arising under agreements equally proportionately unperformed are however not recognised unless required by an accounting standard. Liabilities and assets which are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies.

Revenues and expenses are recognised in the AASB Statement of Financial Performance when and only when the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

##### 1.2 Changes in accounting policy

The accounting policies used in the preparation of these financial statements are consistent with those used in 2002-03 except where stated.

## 1.3 Revenue

The revenues described in this note are revenues relating to the core operating activities of the AASB.

The full amount of revenue from government for the year is recognised as revenue.

Certain of the grants and contributions revenue is earmarked as a contribution to the International Accounting Standards Committee Foundation (IASCF) and will be expended in 2004-05. Further funding was provided in 2003-04 to meet the 2004-05 operating costs of the AASB and to meet the costs of relocation of the AASB to co-locate with the newly established Auditing and Assurance Standards Board (AUASB).

Revenue from the sale of publications is recognised upon the delivery of publications to customers. Revenue from subscription services is recognised for the period of the subscription which falls within the financial year.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Services received free of charge are recognised when and only when a fair value can be reliably determined and the services would have been purchased if they had not been donated. Use of those resources is recognised as an expense.

Contributions of assets at no cost of acquisition or for nominal consideration are recognised at their fair value as revenue when the asset qualifies for recognition.

Revenue from disposal of non-current assets is recognised when control of the asset has passed to the buyer.

## 1.4 Employee benefits

### (a) Benefits

Liabilities for services rendered by employees are recognised at the reporting date to the extent that they have not been settled.

Liabilities for wages and salaries and annual leave are measured at their nominal amounts. Other employee benefits expected to be settled within 12 months of their reporting dates are also measured at their nominal amounts.

The nominal amount is calculated with regard to the rates expected to be paid on settlement of the liability.

All other employee benefit liabilities are measured as the present value of the estimated future cash outflows to be made in respect of services provided by employees up to the reporting date.

**(b) Leave**

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and the average sick leave taken in future years by employees of the AASB is estimated to be less than the annual entitlements for sick leave.

The leave liabilities are calculated on the basis of employees' remuneration including the AASB employer superannuation contribution rates to the extent that leave is likely to be taken during service rather than paid out on termination.

The non-current portion of the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at 30 June 2004. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

**(c) Superannuation**

The AASB sponsors the AASB Superannuation Plan, which provides accumulation benefits to members.

For certain employees, the AASB has guaranteed minimum accumulated balances equivalent to benefits under a defined benefit plan. Vested and accrued benefits of these members as at 30 June 2004 amounted to \$1,985,275 (2003: \$1,692,663) compared to the net market value of attributable assets of \$1,789,489 (2003: \$1,428,492), giving a deficiency of \$195,786 (2003: deficiency \$264,171). A provision for this guaranteed deficiency has been recognised at 30 June 2004 (refer Notes 6A and 9A).

Contributions during the year ended 30 June 2004 on behalf of employees with minimum guaranteed benefits amounted to \$58,159 (2003: \$294,412). Contribution expense represents the annual funding which is determined based on actuarial advice and the provision for the deficient asset position. The provision has been reduced by \$68,385 in 2004.

**1.5 Leases**

Operating lease payments are expensed on a basis which is representative of the pattern of benefits derived from the leased assets.

## 1.6 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount. Interest is credited to revenue as it accrues.

## 1.7 Financial instruments

Accounting policies for financial instruments are stated at Note 19.

## 1.8 Acquisition of assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition.

## 1.9 Leasehold improvements, plant and equipment

### Asset recognition threshold

Purchases of plant and equipment are recognised initially at cost in the Statement of Financial Position, except for purchases less than \$500, which are expensed in the year of acquisition (other than where they form part of a group of similar items which are significant in total).

### Revaluations

Leasehold improvements, plant and equipment are carried at valuation. Valuations at fair value, as at 30 June 2003, were Directors' valuations after a review of all leasehold improvements, plant and equipment assets, their useful lives, depreciation rates and methods applied. No revaluations have been made in the year ended 30 June 2004.

### Depreciation and amortisation

Depreciable plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the AASB using, in all cases, the straight line method of depreciation. Leasehold improvements are amortised on a straight-line basis over the lesser of the estimated useful life of the improvements or the unexpired period of the lease.

Depreciation rates (useful lives) and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate. Residual values are re-estimated for a change in prices only when assets are revalued.

Depreciation and amortisation rates applying to each class of depreciable asset are based on the following useful lives:

	2004	2003
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 10 years	3 to 10 years

### 1.10 Impairment of non-current assets

Non-current assets carried at cost or directors' valuation have been assessed as having no indications of impairment. Consequently there has been no change to the carrying amounts of non-current assets.

### 1.11 Inventories

Inventories held for resale are valued at the lower of cost and net realisable value.

### 1.12 Taxation

The AASB is exempt from all forms of taxation except fringe benefits tax and the goods and services tax (GST).

Revenues, expenses and assets are recognised net of GST:

- except where the amount of GST incurred is not recoverable from the Australian Taxation Office; and
- except for receivables and payables.

### 1.13 Insurance

The AASB has taken insurance cover considered appropriate through the Government's insurable risk managed fund, called 'Comcover'. Workers compensation is insured through Comcare Australia.

### 1.14 Foreign currency

Transactions denominated in a foreign currency are converted at the exchange rate at the date of the transaction. Foreign currency transactions relate primarily to currency obtained for overseas travel. The amounts and any associated gains or losses are not material.

## 1.15 Comparative figures

Comparative figures have been adjusted to conform to changes in presentation in these financial statements where required.

### Note 2: Adoption of Australian equivalents to International Financial Reporting Standards from 2005-2006

Accounting Standard AASB 1047 *Disclosing the Impact of Adopting Australian Equivalents to IFRSs* requires that the financial statements for 2003-04 disclose:

- An explanation of how the transition to the Australian equivalents is being managed; and
- A narrative explanation of the key differences in accounting policies arising from the transition.

The purpose of this note is to make these disclosures.

The Australian Accounting Standards Board has issued replacement Australian Accounting Standards to apply from 2005-06. The new standards are the Australian equivalents to International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board. The new standards cannot be adopted early. The standards being replaced are to be withdrawn with effect from 2005-06, but continue to apply in the meantime.

It is expected that the Finance Minister will continue to require compliance with the Accounting Standards issued by the AASB, including the Australian equivalents to IFRSs, in his Orders for the Preparation of Authorities' financial statements for 2005-06 and beyond.

The Australian equivalents to IFRSs contain certain additional provisions which will apply to not-for-profit entities, including the AASB. However, it is expected that the AASB will be able to assert compliance with the Australian equivalents to IFRSs.

Existing AASB standards that have no IFRS equivalent will continue to apply.

#### Management of the transition to Australian equivalents to IFRSs

The AASB has taken the following steps in preparation for the implementation of Australian equivalents to IFRSs:

- Identification of all major accounting policy differences between current AASB standards and Australian equivalents to IFRSs;

## Financial report

- Identification of system changes necessary to be able to report under Australian equivalents to IFRSs, including those necessary to enable capture of data under both sets of rules for 2004-05; and
- Preparation of a transitional balance sheet as at 1 July 2004, under Australian equivalents to IFRSs, within two months of 30 June 2004.

Changes to major accounting policies are as follows:

### *Property, plant and equipment:*

Prior to 2002-03 the AASB reported assets at cost. At 30 June 2003 these assets were reviewed and reported at fair value based on a Director's valuation. The AASB intends to continue to report property, plant and equipment at fair value and accordingly the application of Australian equivalents to IFRSs is expected to have no effect on the carrying value of these assets. In accordance with Australian equivalents of IFRSs, property, plant and equipment will be subject to impairment testing.

### *Financial instruments:*

Financial assets and liabilities will be accounted for at fair value. Fair values will be published prices where an active market exists or by appraisal.

Cash and receivables will continue to be measured at cost.

Financial assets, except those classified as 'held at fair value through profit and loss' will be subject to impairment testing.

This is not expected to have a material effect on any carrying values.

## **Note 3: Economic dependency**

The AASB is dependent on funding from the Parliament of the Commonwealth and on grants from the States and Territories and contributions from CPA Australia, The Institute of Chartered Accountants in Australia, the National Institute of Accountants and the Australian Stock Exchange, and donations from other entities to carry out its normal activities.

## **Note 4: Events occurring after reporting date**

On 20 July 2004, the AASB signed a letter of agreement to lease new premises for the relocation of the AASB and co-location with the newly established Auditing and Assurance Standards Board, from 1 August 2004 (later revised to 1 September 2004).

This decision will affect the financial situation of the AASB. There will be significantly increased tenancy costs and the Financial Reporting Council has approved the necessary funding to meet these costs.

## Note 5: Operating revenues

	2004	2003
	\$	\$
<b>5A. Revenues from government</b>		
ASIC funding	1,500,000	1,500,000
	<b>1,500,000</b>	1,500,000
<b>5B. Sales of publications</b>		
Publications	136,040	160,109
Sale of publications to:		
Related entities	3,803	3,342
External entities	132,237	156,767
<b>Total sales of publications</b>	<b>136,040</b>	160,109
Cost of sales of publications	39,022	74,658
<b>5C. Interest</b>		
Deposits	99,051	50,910
<b>5D. Grants and contributions</b>		
Grants from States and Territories	500,000	500,000
Other contributions:		
CPA Australia	325,000	325,000
The Institute of Chartered Accountants in Australia	325,000	325,000
National Institute of Accountants	100,000	100,000
Australian Stock Exchange	60,000	60,000
Voluntary Corporate Contributions	235,000	290,000
Financial Institutions Development Account (for contribution to IASCF)	1,000,000	1,000,000
Companies Unclaimed Monies Account (for 2003-04 and 2004-05 operating expenses, and 2004-05 relocation)	1,000,000	-
<b>Total grants and contributions revenue</b>	<b>3,545,000</b>	2,600,000

## Note 6: Operating expenses

	2004	2003
	\$	\$
<b>6A. Employee expenses</b>		
Wages and salaries	1,901,228	1,953,711
Superannuation*	164,227	380,181
Leave and other benefits	67,469	(18,360)
<b>Total employee benefits expenses</b>	<b>2,132,924</b>	2,315,532
Comcare premium	9,062	6,540
<b>Total employee expenses</b>	<b>2,141,986</b>	2,322,072
* Includes a decrease in the provision for superannuation of \$68,385 (increase of \$93,941 in 2003) [Note 1.4 (c)]		
<b>6B. Suppliers expenses</b>		
Goods from related entities	-	1,130
Goods from external entities	124,052	150,724
Services from related entities	169,443	97,992
Services from external entities	444,874	646,519
Operating lease rental	96,279	95,473
<b>Total suppliers expenses</b>	<b>834,648</b>	991,838
* 2003 includes \$128,889 attributable to the operations of the Financial Reporting Council. From 1 July 2003 FRC expenses have been met by the Department of Treasury.		
<b>6C. Depreciation and amortisation</b>		
Depreciation of property, plant and equipment	100,234	155,185
The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable asset are as follows:		
Leasehold improvements	48,668	96,076
Plant and equipment	51,566	59,109
<b>Total depreciation and amortisation</b>	<b>100,234</b>	155,185
<b>6D. Other</b>		
Contribution to the International Accounting Standards Committee Foundation towards the development of international accounting standards	300,000	700,000
<b>Total other</b>	<b>300,000</b>	700,000

## Note 7: Financial assets

	2004	2003
	\$	\$
<b>7A. Cash</b>		
Cash at bank and on hand	3,068,761	1,904,727
Balance of cash as at 30 June shown in the Statement of Cash Flows	3,068,761	1,904,727
<b>7B. Receivables</b>		
Goods and services	42,661	273
GST receivable	20,604	25,024
	<b>63,265</b>	25,297
Receivables (gross) are aged as follows:		
Not overdue	63,265	25,297

## Note 8: Non-financial assets

	2004	2003
	\$	\$
<b>8A. Leasehold improvements</b>		
Leasehold improvements at valuation — 30 June 2003	364,313	364,313
Accumulated amortisation	(348,090)	(299,422)
<b>Total leasehold improvements</b>	<b>16,223</b>	<b>64,891</b>
<b>8B. Plant and equipment</b>		
Plant and equipment at cost	62,991	-
Plant and equipment at valuation — 30 June 2003	187,134	239,222
Accumulated depreciation	(133,419)	(133,941)
<b>Total plant and equipment</b>	<b>116,706</b>	<b>105,281</b>

### 8C. Analysis of leasehold improvements, plant and equipment

**Table A1: Reconciliation of the opening and closing balances of leasehold improvements, plant and equipment**

	Leasehold improvements	Plant and equipment
	\$	\$
As at 1 July 2003		
Gross book value	364,313	239,222
Accumulated depreciation/amortisation	(299,422)	(133,941)
Net book value	64,891	105,281
Additions by purchase	-	62,991
Depreciation/amortisation expense	(48,668)	(51,566)
Other disposals	-	(52,088)
<b>As at 30 June 2004</b>		
Gross book value	364,313	250,125
Accumulated depreciation/amortisation	(348,090)	(133,419)
<b>Net book value</b>	<b>16,223</b>	<b>116,706</b>

**Table A2: Assets at valuation**

	Leasehold improvements	Plant and equipment	Total
	\$	\$	\$
<b>As at 30 June 2004</b>			
Gross book value	364,313	187,134	551,447
Accumulated depreciation/amortisation	(348,090)	(126,349)	(474,439)
<b>Net book value</b>	<b>16,223</b>	<b>60,785</b>	<b>77,008</b>
As at 1 July 2003			
Gross book value	364,313	239,222	603,535
Accumulated depreciation/amortisation	(299,422)	(133,941)	(433,363)
<b>Net book value</b>	<b>64,891</b>	<b>105,281</b>	<b>170,172</b>
		<b>2004</b>	2003
		\$	\$
<b>8D. Inventories</b>			
Inventories held for sale		<b>2,638</b>	3,090
<b>Total inventories</b>		<b>2,638</b>	3,090

All inventories are current assets.

## Note 9: Provisions

	2004	2003
	\$	\$
<b>9A. Employee provisions</b>		
Salaries and wages	2,145	10,500
Annual Leave	190,986	162,338
Long Service Leave	249,747	210,926
Superannuation [Note 1.4 (c)]	195,786	264,171
<b>Aggregate employee benefit liability</b>	<b>638,664</b>	<b>647,935</b>
Employee provisions are categorised as follows:		
Current	102,968	102,297
Non-current	535,696	545,638
<b>Total</b>	<b>638,664</b>	<b>647,935</b>

## Note 10: Payables

	2004	2003
	\$	\$
Trade creditors	90,811	121,996
Other payables *	44,982	736,424
<b>Total</b>	<b>135,793</b>	<b>858,420</b>

All supplier payables are current.

\* 2003 other payables was comprised of \$700,000 to be paid to the International Accounting Standards Committee Foundation as a contribution to the development of international accounting standards. The FRC decision to make this contribution was made on 27 June. The transfer of funds took place on 3 July 2003. The balance of Other payables at 30 June 2003 was PAYG tax for June, paid on 1 July 2003.

## Note 11: Equity

	Accumulated results	
	2004	2003
	\$	\$
Opening balance 1 July	563,581	399,953
Net surplus	1,905,187	163,628
<b>Closing balance as at 30 June</b>	<b>2,468,768</b>	<b>563,581</b>
<b>Total equity attributable to the Commonwealth</b>	<b>2,468,768</b>	<b>563,581</b>

## Note 12: Cash flow reconciliation

### Reconciliation of net surplus to net cash from operating activities

	2004	2003
	\$	\$
Net surplus	1,905,187	163,628
Depreciation and amortisation	100,234	155,185
Changes in assets and liabilities		
Decrease/(increase) in receivables	(37,968)	7,770
Decrease/(increase) in inventories	452	210
Decrease/(increase) in prepaid expenses	(6,608)	2,357
Increase/(decrease) in employee provisions	(9,271)	82,303
Increase/(decrease) in liability to suppliers	(31,185)	(48,375)
Decrease in subscriptions in advance	(2,375)	(16,207)
Increase/(decrease) in other payables	(691,441)	736,424
Net cash from operating activities	1,227,025	1,083,295

## Note 13: Directors' remuneration

	2004	2003
The number of directors of the AASB included in these figures are shown below in the relevant remuneration bands		
\$ Nil — \$9,999	-	1
\$80,000 — 89,999	-	1
<b>Total</b>	-	2
<b>Total remuneration received by directors of the AASB*</b>	-	\$94,674

\* Directors' remuneration relates to the FRC Chairman. From 1 July 2003 all FRC related expenses have been met by the Department of Treasury. This includes the Chairman's salary (including superannuation) of \$27,250.

## Note 14: Related party disclosures

The Directors and Alternate Directors of the AASB during the year were:

- Charles Macek – Chairman
- Elizabeth Alexander AM – Deputy Chairman
- Don Challen
- Karen Hamilton
- David Jackson
- John Langoulant
- Graeme McGregor AO
  - Greg Larsen (Alternate to Mr McGregor)
- Jim Murphy
  - Mike Rawstron (Alternate to Mr Murphy)
- Tom Pockett
- Gregory Pound
- Phillip Prior
  - Jim Kerwin (Alternate to Mr Prior)
- Brian Scullin
  - Jenifer Wells (Alternate to Mr Scullin – resigned October 2003)
- Ken Spencer
  - (Passed away March 2004)
- Lewis Ting
  - Stephen Harrison AO (Alternate to Mr Ting)
- Catherine Walter AM
- Klaus Zimmermann
  - Roger Cotton (Alternate to Mr Zimmermann)

## Note 15: Remuneration of officers

	2004	2003
The number of officers who received or were due to receive total remuneration of \$100,000 or more:		
\$110,001 - \$120,000	-	1
\$130,001 - \$140,000	1	-
\$170,001 - \$180,000	1	-
\$210,001 - \$220,000	-	2
\$260,001 - \$270,000	1	-
	3	3
The aggregate amount of total remuneration of officers shown above	<b>\$573,503</b>	<b>\$550,846</b>

The officer remuneration includes officers concerned with or taking part in the management of the AASB during 2003-04 except the FRC Chairman. Details in relation to the FRC Chairman have been incorporated into Note 13: Directors' remuneration.

## Note 16: Remuneration of part-time members of the AASB

	2004	2003
	\$	\$
Sitting fees	<b>94,612</b>	52,080

## Note 17: Remuneration of auditors

	2004	2003
	\$	\$
Remuneration to the Auditor-General for auditing the financial statements for the reporting period	<b>15,000</b>	14,000

No other services were provided by the Auditor-General during the reporting period.

## Note 18: Average staffing levels

	2004	2003
The average staffing levels for the AASB during the year were (equivalent full time staff)	<b>21</b>	21

## Note 19: Financial instruments

### (a) Terms, conditions and accounting policies

Financial instrument	Notes	Accounting policies and methods (including recognition criteria and measurement basis)	Nature of underlying instruments (including significant terms and conditions affecting the amount, timing and certainty of cash flows)
<b>Financial assets</b>		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash	7A	Deposits are recognised at their nominal amounts. Interest is credited to revenue as it accrues.	Temporarily surplus funds are placed on deposit at call with the AASB's bank in a Business Investment Account.
Receivables	7B	Receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts.	Credit terms are net 14 days (2003: 14 days)
<b>Financial liabilities</b>		Financial liabilities are recognised when a present obligation to another party is entered into and the amount of the liability can be reliably measured.	
Supplier payables	10	Creditors and accruals are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced).	Settlement is usually made net 30 days.
Other payables	10	Refer to Note 10.	Refer to Note 10.

**(b) Interest rate risk**

Financial assets (recognised)	Notes	Floating interest rate		Non-interest bearing		Total		Weighted average effective interest rate	
		03-04	02-03	03-04	02-03	03-04	02-03	03-04	02-03
		\$	\$	\$	\$	\$	\$	%	%
Cash on hand	7A	-	-	2,669	1,044	2,669	1,044	n/a	n/a
Cash at Bank-Cheque account	7A	38,901	201,042	-	-	38,901	201,042	3.52	3.48
Cash at Bank-AASB Bus Invest A/c	7A	425,638	406,985	-	-	425,638	406,985	4.73	4.53
Cash at Bank-FRC Bus Invest A/c	7A	2,601,553	1,295,656	-	-	2,601,553	1,295,656	4.46	4.33
Receivables	7B	-	-	63,265	25,297	63,265	25,297	n/a	n/a
<b>Total financial assets (recognised)</b>		<b>3,066,092</b>	<b>1,903,683</b>	<b>65,934</b>	<b>26,341</b>	<b>3,132,016</b>	<b>1,930,024</b>		
<b>Total assets</b>						<b>3,288,282</b>	<b>2,117,367</b>		
<b>Financial liabilities (recognised)</b>									
Supplier payables	10	-	-	90,811	121,996	90,811	121,996	n/a	n/a
Other payables	10	-	-	90,039	736,424	90,039	736,424	n/a	n/a
<b>Total financial liabilities (recognised)</b>		<b>-</b>	<b>-</b>	<b>180,850</b>	<b>858,420</b>	<b>180,850</b>	<b>858,420</b>		
<b>Total liabilities</b>						<b>819,514</b>	<b>1,553,786</b>		

**(c) The fair value of financial assets and liabilities approximate their carrying amounts.**

**(d) Credit risk exposures**

The economic entity's maximum exposure to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statement of financial position.

The economic entity has no significant exposures to any concentrations of credit risk.



# APPENDICES

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# APPENDIX A

## MEMBERS OF THE FRC 1 JULY 2003 TO 30 JUNE 2004

The Chairman, all members and alternates are non-executive directors of the FRC.

### Chairman

Charles Macek

Company Director, Melbourne.  
Nominated by the Securities Institute of Australia.  
Appointed Chairman on 11 June 2003 for 3 years.

### Deputy Chairman

Elizabeth Alexander AM

Company Director, Melbourne. Nominated by the Australian Institute of Company Directors.  
Reappointed on 7 March 2003 for 2 years.

### Members

Don Challen

Secretary, Tasmanian Department of Treasury and Finance, Hobart.  
Nominated by Heads of State and Territory Treasuries.  
Reappointed on 7 March 2003 for 2 years.

Karen Hamilton

Chief Integrity Officer, Australian Stock Exchange, Sydney.  
Nominated by the ASX.  
Appointed on 7 March 2003 for 3 years.

David Jackson

Director, Australian Shareholders' Association, Sydney.  
Nominated by the Australian Shareholders' Association.  
Reappointed on 7 March 2003 for 2 years.

John Langoulant

Under Treasurer, WA Department of Treasury and Finance, Perth.  
Appointed on 7 March 2003 for 3 years.

## Members of the FRC (continued)

Graeme McGregor AO	Company Director, Melbourne. Nominated by CPA Australia. Reappointed on 7 March 2003 for 2 years.
Tom Pockett	Chief Financial Officer, Woolworths Limited, Sydney Nominated by the Business Council of Australia. Appointed on 7 March 2003 for 3 years.
Phillip Prior	First Assistant Secretary, Property Group, Department of Finance and Administration. Nominated by the Australian Government. Appointed on 13 September 2001 for 3 years.
Gregory Pound	Chief Accountant, Australian Securities and Investments Commission, Melbourne. Nominated by ASIC. Appointed on 7 March 2003 for 3 years.
Jim Murphy	Executive Director, Markets Group, Department of the Treasury, Canberra. Nominated by the Australian Government. Appointed on 7 March 2003 for 3 years.
Brian Scullin	Company Director and Adviser to Head of Deutsche Asset Management, Asia Pacific, Sydney NSW. Nominated by the Investment and Financial Services Association. Appointed on 11 June 2003 for 3 years.
Ken Spencer	Company Director, Melbourne VIC, and Member, Board of Trustees, International Accounting Standards Committee Foundation. Appointed on 7 March 2003 for 3 years. Passed away March 2004.
Lewis Ting	Company Director, Sydney NSW. Nominated by The Institute of Chartered Accountants in Australia. Appointed on 7 March 2003 for 3 years.
Catherine Walter AM	Company Director and Solicitor, Melbourne, and Chair of the Business Regulation Advisory Group. Appointed on 7 March 2003 for 3 years.
Klaus Zimmermann	Chief Executive Officer, Eldercare Incorporated and National President, National Institute of Accountants, Adelaide Nominated by NIA. Appointed on 7 March 2003 for 3 years.

## MEMBERS OF THE FRC (CONTINUED)

### Alternate members

Roger Cotton	Chief Executive Officer, National Institute of Accountants, Melbourne VIC. Nominated by NIA. Alternate to Mr Zimmermann. Appointed on 7 March 2003 for 3 years.
Stephen Harrison AO	Chief Executive Officer, Institute of Chartered Accountants in Australia, Sydney. Nominated by the ICAA. Alternate to Mr Ting. Appointed on 7 March 2003 for 3 years.
James Kerwin	First Assistant Secretary, Agency Advice Unit, Department of Finance and Administration, Canberra ACT. Nominated by the Australian Government. Alternate to Mr Prior. Appointed on 13 September 2001 for 3 years.
Greg Larsen	Chief Executive Officer, CPA Australia, Melbourne. Nominated by CPA Australia. Alternate to Mr McGregor. Appointed on 7 March 2003 for 2 years.
Mike Rawstron	General Manager, Corporations and Financial Services Division, Department of the Treasury, Canberra. Nominated by the Australian Government. Alternate to Mr Murphy. Appointed on 7 March 2003 for 3 years.
Jenifer Wells	Senior Policy Manager, Investment and Financial Services Association, Sydney. Nominated by IFSA. Alternate to Mr Scullin. Appointed on 11 June 2003 for 3 years. Resigned October 2003.

## APPENDIX B

### MEMBERS OF THE AASB 1 JULY 2003 TO 30 JUNE 2004

The following were appointed to the AASB from the dates shown:

#### Chairman (full-time appointment by the Treasurer)

David Boymal	Chairman AASB. Appointed 5 November 2003 for 5 years.
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#### Members (part-time appointments by the FRC)

Glenn Appleyard	Economic Consultant, Hobart. Appointed 18 December 2002 for 3 years.
Wayne Cameron	Auditor-General of Victoria. Re-appointed 7 June 2004 for 1 year. Also Australian representative on the IFAC PSC from 12 November 2003.
Garth Campbell-Cowan	General Manager, Corporate Accounting, Telstra Corporation Limited, Melbourne. Appointed 2 July 2003 for 3 years.
Bryce Denison	Consultant, Perth. Appointed 10 November 2003 for 2 years.
Judith Downes	Group General Manager, Finance, ANZ Banking Group Limited, Melbourne. Appointed 1 March 2002 for 3 years.
Brett Kaufmann	Branch Manager, Accounting and Policy Branch, Department of Finance and Administration, Canberra. Appointed 15 February 2003 for 3 years.

## Members (part-time appointments by the FRC) (continued)

Ken Leo	Professor of Accounting, Curtin University of Technology, Perth. Appointed 15 February 2002 for 3 years.
Steve McClintock	Chief Financial Officer, Southcorp Limited, Sydney. Appointed 15 February 2003 for 3 years.
Ruth Picker (Deputy Chairman from 27/2/02, Acting Chairman 5/5/03 to 4/11/03)	Partner, Ernst & Young, Melbourne. Re-appointed 15 February 2002 for 3 years.
Alice Williams	Director, Strategic Analytics (Aust) Pty Ltd, Melbourne. Appointed 18 December 2002 for 3 years.

## Observers

Ian Mackintosh	Australian representative on the IFAC PSC until 12 November 2003.
Warren McGregor	IASB Liaison member.
Joanna Perry	Representative of New Zealand Financial Reporting Standards Board.

## APPENDIX C

### MEMBERS OF THE UIG 1 JULY 2003 TO 30 JUNE 2004

#### Chairman

David Boymal#	Chairman AASB	Appointed 5 November 2003
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#### Members

Fiona Balzer	Australian Shareholders' Association	Term ends 11 May 2006
James Beecher	Australian Institute of Company Directors	Term ends 30 June 2006*
Mike Blake	Australasian Council of Auditors-General	Term ends 28 February 2005
Paul Brunner	PricewaterhouseCoopers	Term ends 31 December 2005
Jim Dixon	CPA Australia	Resigned July 2003
Charles Feeney	Ernst & Young	Retired 30 June 2004
Chris Hall	KPMG	Retired 4 May 2004
Phil Hancock	Not-for-Profit Sector and AAANZ	Term ends 11 May 2006*
Julie Jagôt	Local Government Sector	Term ends 31 March 2005
Matthew Lunn	PricewaterhouseCoopers	Retired 31 December 2003

## MEMBERS OF THE UIG (CONTINUED)

Cath Mulcare	CPA Australia	Appointed December 2003 Retired June 2004
Trevor Parry	Medium and small accounting firms	Retired 30 June 2004
Kris Peach	KPMG	Term ends 11 May 2006
Christopher Pidcock	Securities Institute of Australia	Term ends 28 February 2005
Bruce Porter	Deloitte Touche Tohmatsu	Term ends 28 February 2005
Ted Rofe	Australian Shareholders' Association	Retired 4 May 2004
Geoff Steel	Group of 100	Term ends 11 May 2006*
Robert Williams	Heads of Treasuries Accounting and Reporting Advisory Committee	Terms ends 28 February 2005

## Observers

Wayne Lonergan	Australian member on the IASB's International Financial Reporting Interpretations Committee	From 12 February 2002 to 30 June 2004
Douglas Niven	Deputy Chief Accountant, ASIC	From October 2002

# Prior to his appointment as AASB Chairman, Mr David Boymal was a member of the UIG nominated by CPA Australia and The Institute of Chartered Accountants in Australia from 3 September to 4 November 2004. Ms Ruth Picker was UIG Chairman from 5 May 2003 until 4 November 2003 during her term as Acting Chairman, AASB.

\* Reappointed for further term during 2003-2004.

## APPENDIX D

### ATTENDANCE AT MEETINGS

#### Financial Reporting Council

The FRC met eight times during 2003-04. Members' attendance is shown in the table:

Members	Number of meetings			
	Eligible to attend	Attended	Represented by alternate	Apologies
C Macek	8	8		
E Alexander	8	8		
D Challen	8	7		1
K Hamilton	8	7		1
D Jackson	8	7		1
J Langoulant	8	5		3
G McGregor	8	5	3	
J Murphy	8	7	1	
T Pockett	8	5		3
G Pound	8	8		
P Prior	8	6	1	1
B Scullin	8	7		1
K Spencer	4	1		3
L Ting	8	3	2	3
C Walter	8	7		1
K Zimmerman	8	4	3	1
<b>Alternates:</b>				
R Cotton(a)		3		
S Harrison(b)		2		
J Kerwin(c)		1		
G Larsen(d)		3		
M Rawstron(e)		1		

Notes:

(a) Alternate for Mr Zimmerman.

(b) Alternate for Mr Ting.

(c) Alternate for Mr Prior.

(d) Alternate for Mr McGregor.

(e) Alternate for Mr Murphy.

## FRC Nominations Committee

The FRC Nominations Committee held three meetings in 2003-04. Members' attendance is shown in the table below:

Members	Number of meetings			
	Eligible to attend	Attended	Represented by alternate	Apologies
P Prior (Chairman)	3	3		
D Challen	3	2		1
K Zimmerman	3	1	1 (R Cotton)	1
C Macek	3	3		

## FRC/AASB Audit Committee

The FRC/AASB Audit Committee met four times during 2003-04. Members' attendance is shown in the table below:

Members	Number of meetings			Apologies
	Eligible to attend	Attended		
E Alexander AM (Chairman)	4	4		
G McGregor	4	4		
D Jackson	4	2		2
D Boymal (ex officio)	2	2		
R Picker (ex officio)	2	2		

## CLERP 9 Taskforce

The CLERP 9 taskforce was established in 2003-04 and met five times. Members' attendance is shown in the table below. The taskforce has now concluded its work.

Members	Number of meetings			
	Eligible to attend	Attended	Represented by alternate	Apologies
C. Macek (Chairman)	5	5		
E. Alexande, AM	5	5		
K. Hamilton	5	4		1
G. McGregor AO	5	3		2
G. Pound	5	5		
L. Ting	5	3	2 (Bill Palmer)*	
K. Spencer	3	1		2

\* Participated as a guest.

## AUASB Strategic Direction Taskforce

The AUASB Strategic Direction taskforce was established towards the end of 2003-04 and met once in that year. Members' attendance is shown in the table below.

Members	Number of meetings			
	Eligible to attend	Attended	Represented by alternate	Apologies
C. Macek (Chairman)	1	1		
E. Alexander AM	1	0		1
G. Pound	1	1		

## Australian Accounting Standards Board

The AASB met 13 times during the financial year for a total of 22 meeting days. Members' attendance is shown in the table below:

<b>Members</b>	<b>Number of days eligible to attend</b>	<b>Number of days attended</b>	<b>Apologies (days)</b>
D Boymal	16	16	0
G Appleyard	23	23	0
W Cameron	23	19	4
G Campbell-Cowan	23	21	2
B Denison	16	16	0
J Downes	23	20	3
B Kaufmann	23	19	4
K Leo	23	23	0
S McClintock	23	17	6
R Picker	23	21	2
A Williams	23	16	7

## Urgent Issues Group (UIG)

The UIG met eight times during the financial year. Members' attendance is shown in the table below:

<b>Members</b>	<b>Number of days eligible to attend</b>	<b>Number of days attended</b>	<b>Alternate attended</b>	<b>Apologies (days)</b>
D Boymal	7	7	0	0
F Balzer	1	1	0	0
J Beecher	8	8	0	0
M Blake	8	6	1	2
P Brunner	4	4	0	0
C Feeney	8	8	0	0
C Hall	7	3	4	4
P Hancock	8	8	0	0
J Jagôt	8	7	0	1
M Lunn	4	3	1	1
C Mulcare	5	3	1	2
K Peach	1	0	1	1
T Parry	8	6	2	2
R Picker	3	0	0	3
C Pidcock	8	5	0	3
B Porter	8	7	1	1
E Rofe	7	7	0	0
G Steel	8	5	2	3
R Williams	8	7	0	1

## APPENDIX E

### PROGRESS MADE ON 2003-04 WORK PROGRAMME

#### Highest priorities

<b>Adoption of IASB Standards and Framework</b>	<b>Output to 30 June 2004</b>
<b>Framework</b>	
Framework for Preparation and Presentation of Financial Statements	Pending Framework issued
<b>Standards</b>	
IAS 1 Presentation of Financial Statements	Pending AASB 101 issued
IAS 2 Inventories	Pending AASB 102 issued
IAS 7 Cash Flow Statements	Pending AASB 107 issued
IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors	Pending AASB 108 issued
IAS 10 Events After the Balance Sheet Date	Pending AASB 110 issued
IAS 11 Construction Contracts	Pending AASB 111 issued
IAS 12 Income Taxes	Pending AASB 112 issued
IAS 14 Segment Reporting	Pending AASB 114 issued
IAS 16 Property, Plant and Equipment	Pending AASB 116 issued
IAS 17 Leases	Pending AASB 117 issued
IAS 18 Revenue	Pending AASB 118 issued
IAS 19 Employee Benefits	Pending AASB 119 issued
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	Pending AASB 120 issued
IAS 21 The Effects of Changes Foreign Exchange Rates	Pending AASB 121 issued
IAS 23 Borrowing Costs	Pending AASB 123 issued
IAS 24 Related Party Disclosures	Pending AASB 124 issued
IAS 27 Consolidated and Separate Financial Statements	Pending AASB 127 issued
IAS 28 Investments in Associates	Pending AASB 128 issued
IAS 29 Financial Reporting in Hyperinflationary Economies	Pending AASB 129 issued
IAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions	Pending AASB 130 issued
IAS 31 Interests in Joint Ventures	Pending AASB 131 issued

## Highest priorities (continued)

Adoption of IASB Standards and Framework Standards	Output to 30 June 2004
IAS 32 Financial Instruments: Disclosure & Presentation	Pending AASB 132 issued
IAS 33 Earnings per Share	Pending AASB 133 issued
IAS 34 Interim Financial Reporting	Pending AASB 134 issued
IAS 36 Impairment of Assets	Pending AASB 136 issued
IAS 37 Provisions, Contingent Liabilities and Contingent Assets	Pending AASB 137 issued
IAS 38 Intangible Assets	Pending AASB 138 issued
IAS 39 Financial Instruments: Recognition & Measurement	Pending AASB 139 issued
IAS 40 Investment Property	Pending AASB 140 issued
IAS 41 Agriculture	Pending AASB 141 issued
IFRS 1 First-time Adoption of Australian Equivalents to International Financial reporting Standards	Pending AASB 1 issued
IFRS 2 Share-based Payment	Pending AASB 2 issued
IFRS 3 Business Combinations	Pending AASB 3 issued
IFRS 4 Insurance Contracts	Pending AASB 4 issued
IFRS 5 Non-Current Asset as Held for Sale and Discontinued Operations	Pending AASB 5 issued
ED 6 Exploration for and Evaluation of Mineral Resources	ED 130 issued in January 2004
<b>Domestic projects</b>	
Consequential amendments to remaining AASB Standards	<p>Pending AASB 1004 <i>Contributions</i> (r) issued</p> <p>Pending AASB 1031 <i>Materiality</i> (r) issued</p> <p>Pending AASB 1023 <i>General Insurance Contracts</i> (r) issued</p> <p>Pending AASB 1038 <i>Life Insurance Contracts</i> (r) issued</p>
Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards	AASB 1047 <i>Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards</i> issued in April 2004
Director, Executive and Related Party Disclosures (issue amended Standard)	AASB 1046 <i>Director, Executive and Related Party Disclosures by Disclosing Entities</i> issued in January 2004.
Public Infrastructure Disclosures	The AASB is monitoring international developments.
Reconciliation of government general purpose financial reporting with government finance statistics	Project is being advanced in association with a HOTARAC sub-committee. A Reference committee and a project advisory panel were formed. Consultative papers were issued and responses are being analysed.
Research report on Australian requirements relating to presentation of a full parent entity financial report with a group's consolidated report in the entity's annual financial report	Discussion Paper <i>Relevance of Parent Entity Financial Reports</i> published in December 2004.

## Highest priorities (continued)

Domestic projects	Output to 30 June 2004
Review and update Accounting Standards AAS 27 <i>Financial Reporting by Local Governments</i> , AAS 29 <i>Financial Reporting by Government Departments</i> and AAS 31 <i>Financial Reporting by Governments</i>	ED 125 <i>Financial Reporting by Local Governments</i> issued in October 2003. Submissions under review.  The AASB has made significant progress in developing proposed revisions to AAS 29 and AAS 31. The AASB issued Consultation Papers for comment on GAAP/GFS convergence issues. Work on this project has slowed because of the high priority given to the GAAP/GFS convergence project.
Superannuation plans (revision and updating of AAS 25 <i>Financial Reporting by Superannuation Plans</i> ) and managed investment schemes	No progress. Work on these projects has been deferred because of priorities given to adoption of IASB Standards and GAAP/GFS convergence.
Not-for-profit entities	The AASB continues to issue sector-neutral Standards to the extent feasible. The AASB amended the definition of not-for-profit entity, which is included in the '2005 set of Standards'. Formal work on this project has been deferred because of priorities given to adoption of IASB Standards and GAAP/GFS convergence.

\* Pending standards were made, and the pending framework approved, by the AASB at its meeting on 15 July 2004.

## UIG Interpretation Projects

During the year the UIG as part of the Year 2005 project approved 12 Pending Interpretations of IASB Standards and Interpretations, and reviewed existing UIG Abstracts for consistency with Australian equivalents to IASB Standards to identify changes in practice expected from 2005. Nine UIG Abstracts were withdrawn and further Abstracts will be withdrawn as the UIG completes its review. Pursuant to its Charter, the UIG continued to monitor the work programme of the IASB's IFRIC, making submissions on matters being considered by IFRIC, including exposure drafts, and reviewing IFRIC Interpretations.

### AASB WORK PROGRAMME 2004-05

The AASB work programme includes:

- participating in and monitoring the projects of both the IASB/IFRIC and the IFAC PSC;
- progressing the harmonisation of GAAP and GFS reporting and a number of other domestic projects;
- providing comments on the IASB/IFRIC and to the IFAC PSC on a wide range of their outputs. AASB staff will regularly provide comment on IASB/IFRIC and IFAC PSC meeting papers. When the Board designates a topic as one in which Australia has a particular interest, the Board will also be involved in commenting on IASB/IFRIC and IFAC PSC meeting papers. The Board will also be involved in commenting on Exposure Drafts and other consultative documents issued by the IASB/IFRIC and IFAC PSC; and
- providing staff briefings to Australians on the IFRIC, the IFAC PSC and on PSC Steering Committees on Non-exchange Revenues and Social Policy Obligations, just prior to meetings.

#### 1 IASB-related projects involving significant AASB input

Project	IASB Status	Proposed actions
Extractive Activities	IASB research project	AASB leading a team (Canada, Norway and South Africa) to develop draft recommendations for consideration by the IASB and National Standard setters (NSS)
Joint Ventures	IASB research project	AASB leading a team (Hong Kong, Malaysia & New Zealand) to develop draft recommendations for consideration by the IASB and NSS
Intangible Assets	IASB research project	AASB developing papers for consideration by the IASB and NSS Includes implementation review of IFRS 3/AASB 3
Insurance Contracts Phase 2	IASB active project	AASB to contribute through Advisory Group

## 2 IASB-related projects involving monitoring by the AASB

<b>Project</b>	<b>IASB Status</b>	<b>Proposed actions</b>
Business Combinations Phase 2	IASB active project	Designated as a project that the AASB should monitor closely
Reporting Comprehensive Income	IASB research project	Designated as a project that the AASB should monitor closely
Revenue and related Liabilities	IASB research project	Designated as a project that the AASB should monitor closely
Consolidation (including Special Purpose Entities)	IASB active project	Designated as a project that the AASB should monitor closely
Post-employment Benefits (convergence)	IASB active project	Monitor
Measurement	IASB research project	Monitor
Leases	IASB research project	Monitor
Financial Instruments	IASB research project	Monitor
Small and Medium-sized Entities	IASB research project	Monitor

Where the AASB has designated a project as one that it should monitor closely, to the extent possible, the Board intends to consider IASB papers as they are considered by the IASB, and to provide the IASB with comments and feedback on a continuous and timely basis.

Other IASB projects will be monitored as closely as possible by AASB staff, which will report issues of concern to the Board on an exception basis.

### 3 IFAC-PSC-related projects involving monitoring by the AASB

<b>Project</b>	<b>PSC Status</b>	<b>Proposed actions</b>
Non-exchange Revenues	PSC active project	Designated as a project that the AASB should monitor closely. Australia is represented on the PSC Steering Committee. This project may affect the AASB's work on revenue recognition (see Local Government Review)
Social Policy Obligations	PSC active project	Designated as a project that the AASB should monitor closely Australia is represented on the PSC Steering Committee
Budget Reporting	PSC active project	Designated as a project that the AASB should monitor closely
GAAP/GFS convergence	PSC active project	Designated as a project that the AASB should monitor closely. This project may affect the AASB's domestic work on GAAP/GFS convergence Australia is represented on the PSC Technical Working Group
Amending IPSASs for IASB Improvements	PSC active projects	Designated as a project that the AASB should monitor closely
Impairment, Non-cash flow Assets	PSC active project	Monitor
Other standards projects	PSC active projects	Monitor

Where the AASB has designated a project as one that it should monitor closely, to the extent possible, the Board (or a subcommittee of the Board) intends to consider PSC papers as they are considered by the PSC, and to provide the PSC with comments and feedback on a continuous and timely basis.

Other PSC projects will be monitored as closely as possible by AASB staff, which will report issues of concern to the Board on an exception basis.

### 4 New Zealand Convergence Exercise

In adopting the IASB standards, both the AASB and the New Zealand Financial Reporting Standards Board (FRSB) have removed optional treatments, added some disclosure requirements and catered for not-for-profit entities. In some cases, the amendments and additions made by the AASB are different from the amendments and additions made by the FRSB. It may be considered that, since both boards are adopting the same set of IASB standards, they would end up with the same standards. However, the respective starting points and regulatory environments of the two boards are different and have given rise to some differences in the 'adopted standards'.

The boards have undertaken to work together to remove as many differences as possible in keeping with the need for Trans-Tasman co-operation on regulatory matters. Much of this work will take place in 2004-05.

## 5 Domestic GAAP/GFS convergence project

<b>Project</b>	<b>Status</b>	<b>Proposed actions</b>
GAAP/GFS convergence – Phase 1 – whole of government (including sector reporting)	Consultation Papers issued – comments being considered by the Board	Continue to consider comments on consultation papers, develop an exposure draft, revise AAS 31 Financial Reporting by Governments and consider the need for other 'new' standards
GAAP/GFS convergence – Phase 2 – entities within the GGS (including government departments)		Consider flow on from Phase 1. See also the work on Government Department Review
GAAP/GFS convergence – Phase 3 – other public sector entities (including local governments, universities & GBEs)		Consider flow on from Phases 1 and 2. See also the work on Local Government Review

## 6 Other Domestic Projects

<b>Project</b>	<b>Status</b>	<b>Proposed actions</b>
Not-for-profit Entities	Definition used in existing AASB standards	Develop proposals on performance reporting and develop guidance to assist constituents to distinguish for-profit and not-for-profit entities
Government Department review (non-GAAP/GFS convergence issues)	AASB subcommittee considering staff papers	Develop and issue an Exposure Draft and revise AAS 29 <i>Financial Reporting by Government Departments</i> . This project is expected to be affected by GAAP/GFS harmonisation
Local Government review	ED 125 – comments being considered by the AASB	Revise AAS 27 <i>Financial Reporting by Local Governments</i> . This project may be affected by GAAP/GFS harmonisation
Superannuation Plans	AAS 25 (1993)	Revise AAS 25 <i>Financial Reporting by Superannuation Plans</i> to take account of the current environment in which plans operate
Managed Investment Schemes	Impacted by Financial Instruments standards	Develop recommendations for the schemes themselves and the managers of the schemes
Segment Reporting in the Public Sector	Currently scoped out of AASB 1005 and AASB 114	Examine the specific issues associated with the public sector in light of the PSC Standard on segment reporting and undertake the normal due process
Related Party Disclosures in the Public Sector	Currently scoped out of AASB 1017, AAS 22 and AASB 124	Examine the specific issues associated with the public sector in light of existing practice in the Australian public sector and the PSC Standard on related parties and undertake the normal due process
Concise Financial Reports	AASB 1039	Revise AASB 1039 <i>Concise Financial Reports</i> to take account of effects of adopting IASB Standards
Director and Executive Disclosures	AASB 1046	Revise AASB 1046 <i>Director and Executive Disclosures by Disclosing Entities</i> to reflect consequential amendments from AASB 2 <i>Share-based Payment</i>
Parent Entity Financial Reports	Discussion paper	Consider submissions and develop recommendations for submission to Treasury

## 7 UIG/IFRIC Interpretations

<b>Project</b>	<b>Status</b>	<b>Proposed actions</b>
Gold Hedging	Project proposal to be developed by the AASB	Present the project to the IFRIC.
Service Concessions	Project proposal	Closely monitor the IFRIC project. Australia is a member of a project team, led by Spain and including France and the UK.

The AASB/UIG expect to be identifying issues relating to the implementation of the Australian equivalents to IFRSs in Australia and raising issues for resolution by the IFRIC/UIG.

## APPENDIX G

# AASB AND UIG PRONOUNCEMENTS AS AT 30 JUNE 2004

### Statements of accounting concepts

No	Title	Issued (re-issued#)
SAC 1	Definition of the reporting entity	8/90
SAC 2	Objective of general purpose financial reporting	8/90
SAC 3	Qualitative characteristics of financial information	8/90
SAC 4	Definition and recognition of the elements of financial statements	#3/95

### Policy statements

No	Title	Issued (re-issued#)
PS 1	The development of statements of accounting concepts and accounting standards	7/93
PS 2	The AASB consultative group	#6/01
PS 3	AASB project advisory panels	#6/01
PS 4	International convergence and harmonisation policy	#4/02
PS 5	The nature and purpose of statements of accounting concepts	#7/01

**AASB and AAS-series accounting standards**

<b>AASB series</b>	<b>AAS series</b>	<b>Title</b>	<b>Issued (re-issued#)</b>
1001	6	Accounting policies	#3/99
1002	8	Events occurring after reporting date	#10/97
1004	15	Revenue	#6/98
1005	—	Segment reporting	#8/00
1006	19	Interests in joint ventures	#12/98
1008	17	Leases	#10/98
1009	11	Construction contracts	#12/97
1010	10	Recoverable amount of non-current assets	#12/99
1011	13	Accounting for research and development costs	5/87
1012	—	Foreign currency translation	#11/00
1013	18	Accounting for goodwill	#6/96
1014	23	Set-off and extinguishment of debt	#12/96
1015	21	Acquisitions of assets	#11/99
1016	14	Accounting for investments in associates	#8/98
		Accounting for investments in associates	5/97
1016A	—	Amendments to accounting standard AASB 1016	10/98
1017		Related party disclosures	#2/97
	22	Related party disclosures	5/93
1018	—	Statement of financial performance	#6/02
1019	2	Inventories	#3/98
1020	3	Income taxes	#12/99
1020A	—	Amendments to accounting standard AASB 1020 and Australian accounting standard AAS 3	#6/02
1020B	—	Amendments to accounting standard AASB 1020 and Australian accounting standard AAS 3	11/02
1021	4	Depreciation	#8/97
1022	7	Accounting for the extractive industries	10/89
1023	26	Financial reporting of general insurance activities	#11/96

**AASB and AAS-series accounting standards (continued)**

<b>AASB series</b>	<b>AAS series</b>	<b>Title</b>	<b>Issued (re-issued#)</b>
1024	24	Consolidated accounts	#5/92
1025	—	Application of the reporting entity concept and other amendments	7/91
1026	28	Statement of cash flows	#10/97
1027	—	Earnings per share	#6/01
1028	—	Employee benefits	#6/01
1029	—	Interim financial reporting	#10/00
1030	—	Application of accounting standards to financial year accounts and consolidated accounts of disclosing entities other than companies	12/94
1031	5	Materiality	9/95
1032	32	Specific disclosures by financial institutions	12/96
1033	33	Presentation and disclosure of financial instruments	#10/99
1034	37	Financial report presentation and disclosures	#10/99
1036	34	Borrowing costs	12/97
1037	35	Self-generating and regenerating assets	8/98
1037A	35A	Amendments to accounting standard AASB 1037	7/99
1038	—	Life insurance business	11/98
1039	—	Concise financial reports	#6/02
1040	36	Statement of financial position	10/99
1041	—	Revaluation of non-current assets	#7/01
1042	—	Discontinuing operations	8/00
1043	—	Changes to the application of AASB and AAS standards and other amendments	12/00
1044	—	Provisions, contingent liabilities and contingent assets	10/01
1045	—	Land under roads: amendments to AAS 27A, AAS 29A and AAS 31A	10/02
—	25	Financial reporting by superannuation plans	3/93
—	27	Financial reporting by local governments	#6/96
—	27A	Amendments to the transitional provisions in AAS 27	12/99
—	29	Financial reporting by government departments	#6/98
—	29A	Amendments to the transitional provisions in AAS 29	12/99

**AASB and AAS-series accounting standards (continued)**

<b>AASB series</b>	<b>AAS series</b>	<b>Title</b>	<b>Issued (re-issued#)</b>
—	31	Financial reporting by governments	6/98
—	31A	Amendments to the transitional provisions in AAS 31	12/99
1046		Director and executive disclosures by disclosing entities	1/04
1047		Disclosing the impacts of adopting Australian equivalents to international financial reporting standards	4/04

**Accounting interpretations**

<b>No</b>	<b>Title</b>	<b>Issued</b>
AI 1	Amortisation of identifiable intangible assets	6/99
AI 2	Transition to AASB equivalents of IASB standards and applying the hierarchy of pronouncements in AASB 1001 and AAS 6	5/03

**UIG Abstracts**

<b>Abstract</b>	<b>Title</b>	<b>Issued (re-issued#)</b>
1	Lessee accounting for surplus leased space under a non-cancelable operating lease	6/95
3	Lessee accounting for lease incentives under a non-cancelable operating lease	8/95
4	Disclosure of accounting policies for restoration obligations in the extractive industries	8/95
7	Accounting for non-current assets — derecognition of intangible assets and change in the basis of measurement of a class of assets	3/96
9	Accounting for acquisitions — recognition of acquired tax losses	6/96
10	Accounting for acquisitions — gold mining companies	11/96
11	Accounting for contributions of, or contributions for the acquisition of, non-current assets	12/96
13	The presentation of the financial report of entities whose securities are 'stapled'	#5/00
14	Directors' remuneration	6/97
16	Accounting for share buy-backs	1/98
17	Developer and customer contributions in price regulated industries	5/98

**UIG Abstracts (continued)**

<b>Abstract</b>	<b>Title</b>	<b>Issued (re-issued#)</b>
19	The superannuation contributions surcharge	7/98
20	Equity accounting — elimination of unrealised profits and losses on transactions with associates	10/98
21	Consistency — different cost formulas for inventories	10/98
22	Accounting for the buy-back of no par value shares	11/98
23	Transaction costs arising on the issue or intended issue of equity instruments	#6/00
24	Equity accounting — carrying amount of an investment in an associate	11/98
25	Redesignation of hedges	#12/00
27	Designation as hedges — sold (written) options	7/99
28	Consolidation — special purpose entities	7/99
29	Early termination of interest rate swaps	#12/00
30	Depreciation of long-lived physical assets, including infrastructure assets: condition-based depreciation and other related methods	1/00
31	Accounting for the goods and services tax (GST)	1/00
32	Designation as hedges — rollover strategies	#12/00
33	Hedges of anticipated purchases and sales	5/00
34	Acquisitions and goodwill — first-time application of accounting standards	6/00
36	Non-monetary contributions establishing a joint venture entity	12/00
37	Accounting for website costs	1/01
38	Contributions by owners made to wholly-owned public sector entities	1/01
	Effect of tax consolidation proposals on deferred tax balances	7/01
	[revised]	#9/02
39	[revised]	#12/02
40	Non-reciprocal transfers within an economic entity for monetary or no consideration	9/01
41	Fair value of equity instruments issued as purchase consideration	9/01
42	Subscriber acquisition costs in the telecommunications industry	10/01
43	Classification of financial instruments with conversion options	11/01
44	Acquisition of in-process research and development	3/02
45	Subsidiary becomes a joint venture entity or an associate	4/02
46	Initial foreign currency translation for redomiciled entities	4/02

**UIG Abstracts (continued)**

<b>Abstract</b>	<b>Title</b>	<b>Issued (re-issued#)</b>
47	Professional indemnity claims liabilities in medical defence organisations	6/02
49	Revenue – barter transactions involving advertising services	8/02
50	Evaluating the substance of transactions involving the legal form of a lease	9/02
51	Recovery of unfunded superannuation of universities	12/02
	Income tax accounting under the tax consolidation system	12/02
	[revised]	#5/03
52	[revised]	#12/03
	Pre-completion contracts for the sale of residential development properties	4/03
53		
54	Defined benefit superannuation disclosures by employers	#8/03
55	Accounting for road earthworks	#5/04