

**Financial Reporting Council**

**Australian Accounting Standards Board**

**Auditing and Assurance Standards Board**

**Annual Reports  
2004-05**

**Financial Reporting Council**

**Report on Auditor  
Independence  
2004-05**

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## Australian Government

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## Financial Reporting Council

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23 September 2005

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), Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) for the year ended 30 June 2005. In conjunction with these reports I also present the report of the FRC on its auditor independence functions.

The reports have been prepared in accordance with sections 235B and 235BA of the *Australian Securities and Investments Commission Act 2001* (ASIC Act), and section 9 of the *Commonwealth Authorities and Companies Act 1997* (CAC Act), which applies to both the AASB and the AUASB.

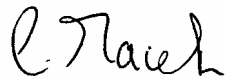
Subsection 235B(1) of the ASIC Act requires the FRC, by 31 October each year, to prepare a report on its operations and those of the AASB and the AUASB during the year, and on the achievement of the objects of Part 12 of the ASIC Act relating to accounting and auditing standards. Under subsection 235B(4)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

Subsection 235BA(1) of the ASIC Act requires the FRC, by 31 October each year, to prepare a report on its performance of its auditor independence functions, the findings and conclusions reached by the FRC in performing those functions, and the actions (if any) taken by the FRC in respect of those findings and conclusions. Under subsection 235BA(3) of the ASIC Act, the report must be tabled in each House of the Parliament as soon as practicable.

Subsection 9(1) of the CAC Act requires the directors of the AASB and the AUASB to each 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, these reports must be tabled in each House of the Parliament as soon as practicable.

As the AUASB came into being as a statutory body on from 1 July 2004, and the FRC's responsibilities in relation to auditing standards and auditor independence also commenced on 1 July 2004, this is the first occasion on which the relevant reports have been presented.

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:

AARF	Australian Accounting Research Foundation
AASB	Australian Accounting Standards Board
AGS	Australian Government Solicitor
APRA	Australian Prudential Regulatory Authority
AQEM	Audit Quality Enhancement Monitor
ASIC	Australian Securities and Investments Commission
ASIC Act	<i>Australian Securities and Investments Commission Act 2001</i>
ASRB	Accounting Standards Review Board – New Zealand
ASX	Australian Stock Exchange
AuASB	Auditing and Assurance Standards Board (to 30 Jun 2004)
AUASB	Auditing and Assurance Standards Board
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CALDB	Companies Auditors and Liquidators Disciplinary Board
CDS	Commonwealth Disability Strategy
CLERP	Corporate Law Economic Reform Program
CLERP 9 Act	<i>Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004</i>
CPAA	CPA Australia
FRC	Financial Reporting Council
FRLI	Federal Register of Legislative Instruments
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
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
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 Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standards on Auditing
MOU	Memorandum of Understanding

## **Abbreviations (*continued*)**

NIA	National Institute of Accountants
NSS	National Standard Setters
PCAOB	Public Company Accounting Oversight Board (United States)
SAC	Standards Advisory Council (of the IASB)
SEC	Securities and Exchange Commission (United States)
SME	Small and medium-size enterprises
UIG	Urgent Issues Group



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# **Part 1: Annual Reports 2004-05**

Financial Reporting Council

Australian Accounting Standards Board

Auditing and Assurance Standards Board



## 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 the Auditing and Assurance Standards Board (AUASB), to provide broad oversight of the processes for setting accounting and auditing standards in Australia, and 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 *Australian Securities and Investments Commission Act 2001* (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 in the Australian economy (including its capital markets).

### ACTIVITIES OF THE FINANCIAL REPORTING COUNCIL

During 2004-05 the FRC:

- commenced its new roles under the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (CLERP 9 Act), to provide oversight of the financing and operations of the AUASB, and monitoring the effectiveness of auditor independence requirements in Australia;
- established an Audit Independence Subcommittee to assist it with its tasks in this area;
- established a number of Memoranda of Understanding with the professional accounting bodies and a number of bodies performing regulatory functions, to facilitate co-operation and the sharing of information on auditor independence between the FRC and those other bodies;
- provided a strategic direction to the AUASB on the development of auditing standards;
- made appointments to both the AASB and AUASB;

## Overview

- considered a number of key issues that have been raised by various stakeholders in Australia regarding the transition to the use of International Financial Reporting Standards (IFRS), and continued to monitor developments in the implementation of IFRS internationally;
- enhanced its co-operative arrangements with New Zealand's Accounting Standards Review Board (ASRB) and the Financial Reporting Standards Board (FRSB);
- reviewed a number of aspects of its own operations; and
- secured funding for international and Australian accounting and auditing standard setting, from the professional accounting bodies, the Commonwealth and the States and Territories;

## ACCOUNTING STANDARD SETTING

The AASB held 10 meetings, including a one-day strategy meeting, in 2004-05 for a total of 20 meeting days, at which it addressed significant standard setting and administrative issues.

The AASB implemented the FRC's strategic directive regarding the adoption of International Accounting Standards Board (IASB) Standards in 2005, with the issue of 44 new and revised accounting standards (comprising 37 Australian equivalents to IASB Standards, six revised Australian Standards and one new Australian standard), and 28 Urgent Issues Group (UIG) Interpretations (comprising 17 Australian equivalents to International Financial Reporting Interpretations Committee (IFRIC) Interpretations and 11 revised Australian UIG Interpretations). The AASB also issued 11 Accounting Standards which incorporated subsequent amendments made by the IASB to its Standards and refinements made by the AASB.

The UIG met eight times in 2004-05. The UIG completed the process of reviewing IFRIC Interpretations for adoption in Australia and existing UIG Abstracts for consistency with Australian equivalents to IASB Standards. The UIG also continued to review IFRIC Interpretations for adoption in Australia as they were issued during the year.

The AASB's liaison relationship with the IASB continued with the AASB leading three joint research projects on accounting for intangible assets, joint ventures and the extractive industries and having direct involvement in the project on insurance contracts.

A major step was achieved in respect of meeting the FRC's broad strategic direction regarding harmonisation of requirements of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) with the issue of an exposure draft

in July 2005. The AASB also made significant progress in reviewing accounting standards relating to accounting by government departments and local governments.

## **AUDITING STANDARD SETTING**

The year commenced with the reconstitution of the AUASB as an independent statutory authority on 1 July 2004 under the CLERP 9 Act and subsequent appointment of the Chairman and the Board members.

The reconstituted AUASB submitted a Strategic Directions Paper in September 2004 for consideration by the FRC, outlining the strategies for setting auditing and assurance standards and guidance, for public comment. In April 2005, this process culminated in the FRC's approval of an appropriate Strategic Direction for the AUASB in relation to its work programme and its approach to setting Auditing and Assurance Standards in Australia.

During the year, the AUASB conducted an analysis of the suitability of the structure and content of existing Auditing Standards for re-issuance as legal instruments and approved the work programme for the review and reissue of Auditing Standards.

In view of the 30 June 2006 deadline for having enforceable Auditing Standards in place, the AUASB adopted a two-phase approach for the review and reissue of statutory Auditing Standards. Phase 1 of the review and revision of Auditing Standards will focus on enforceability of ('black letter') mandatory obligations, clarifying implied obligations and inclusion of improvements originating from other standard setting bodies. Phase 2 of the review and revision of the Auditing Standards will be an on-going project dependent on the 'Clarity of IAASB Standards' project developments by the International Auditing and Assurance Standards Board (IAASB) as well as other international standard setters.

The AUASB held eight meetings in 2004-05 for a total of eight meeting days, at which it addressed its strategies for setting Auditing and Assurance Standards and related guidance and administrative issues.

During the year, the AUASB recruited a number of new technical and support staff to assist with the implementation of the FRC's Strategic Direction.

The reconstituted AUASB has continued to maintain a strong relationship with the IAASB through regular representation at IAASB meetings.

## **AUDIT INDEPENDENCE FUNCTION**

From 1 July 2004, the FRC became responsible for monitoring the effectiveness of auditor independence requirements in Australia and giving the Minister reports and advice about those requirements.

## Overview

In 2004-05, the FRC finalised its preparations for the performance of this function and commenced substantive work. As this is the first year of operation of the CLERP 9 Act, the Council focussed on gaining an understanding of the roles of various stakeholders, their attitudes and monitoring systems and processes in relation to independence and quality control as it relates to the CLERP 9 Act.

The work conducted by the FRC revealed that there is an open approach to the significant changes required of all stakeholders by CLERP 9. As outlined in the separate report on auditor independence presented in conjunction with this report, a number of issues have been identified that warrant attention in the upcoming year, but no systemic deficiencies have been identified.

## CONSULTATION

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

In 2004-05, the FRC:

- continued consultation with key private sector representatives as well as with government agencies;
- liaised closely with international standard setting stakeholders;
- issued eight Bulletins about decisions taken at and between meetings;
- participated in the Trans-Tasman Accounting Standards Advisory Group which seeks to minimise differences in financial reporting standards between Australia and New Zealand, and promote the influence of the two countries in international standard-setting fora;
- used the [www.frc.gov.au](http://www.frc.gov.au) website to facilitate consultation, including in relation to the development of the strategic direction to the AUASB; and
- in conjunction with the AASB and AUASB, maintained liaison with Australians who are members of relevant international bodies, including: the International Accounting Standards Committee Foundation (IASCF) (Mr Richard Humphry AO), IASB (Mr Warren McGregor), the IASB Standards Advisory Council (Mr Peter Day), the International Federation of Accountants International Public Sector Accounting Standards Board (Mr Wayne Cameron), the International Auditing and Assurance Standards Board (Mr Ian McPhee and Professor Roger Simnett).



In 2004-05, the AASB:

- used its website [www.aasb.com.au](http://www.aasb.com.au) to provide information about the meetings, activities and work programme of the Board and 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.

In 2004-05 the AUASB:

- used its website [www.auasb.gov.au](http://www.auasb.gov.au) to provide information about the Board, its meetings (agendas prior to meetings and highlights to summarise the proceedings at each meeting) and activities;
- issued media releases to announce the release of publications; and
- met with a number of stakeholders in relation to these activities.

## **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 2004-05, 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, the International Public Sector Accounting Standards Board (IPSASB) and national accounting standard setting bodies in Canada, France, Germany, Japan, New Zealand, the United Kingdom and the United States.

## Overview

Furthermore, the FRC has a statutory obligation to:

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

In 2004-05, the FRC monitored the adoption of international auditing standards both in Australia and overseas. In April 2005, the FRC issued a strategic direction to the AUASB requiring it to develop Australian auditing standards of the highest quality and with a clear public interest focus.

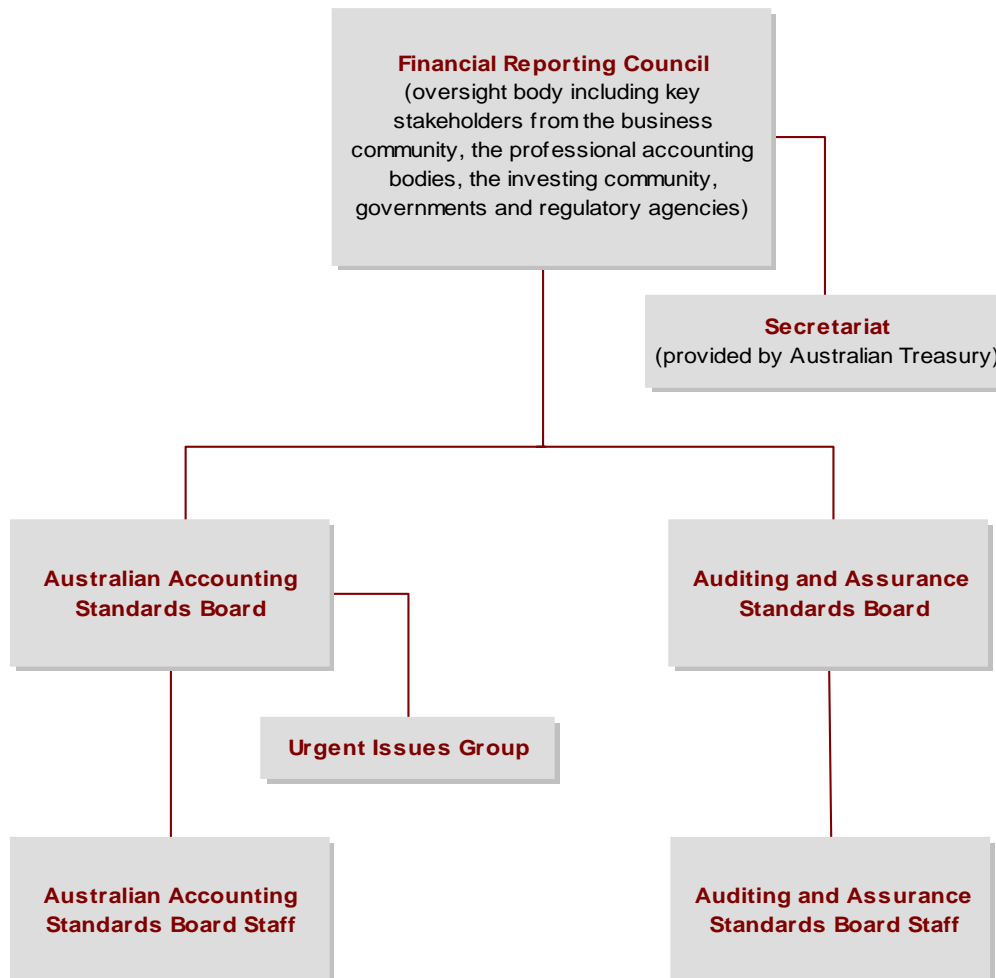
The FRC also monitored the work of the European Commission, the IAASB and national auditing standard setting bodies in Canada, France, Germany, Japan, New Zealand, the United Kingdom and the United States.

## ACCOUNTABILITY

The AASB Chairman Professor David Boymal appeared before the Parliamentary Joint Committee on Corporations and Financial Services on 7 February 2005, in relation to their inquiry into the Australian Accounting Standards tabled in compliance with the *Corporations Act 2001* on 30 August and 16 November 2004.

## AUSTRALIAN ACCOUNTING AND AUDITING STANDARD SETTING IN 2004-05

Figure 1: 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



The past year has seen the Financial Reporting Council (FRC) focus on its new responsibilities arising from the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act* (CLERP 9), along with implementation issues associated with the adoption of international financial reporting standards (IFRS) by Australian businesses for financial years commencing on or after 1 January 2005.

The expansion in the FRC's role to include oversight of the setting of auditing standards and of the promulgation of auditor independence requirements has broadened its mandate to promote the integration of Australian businesses into the global economy, thereby contributing to Australia's attractiveness as a destination for domestic and international investment. The FRC, with support from its Committees and the Secretariat, has worked to implement this mandate effectively in 2004-05. In doing so, it has laid the foundations for the critical work in the years ahead to further align Australian standards with those used internationally, and to contribute to the development of international standards.

## **New Financial Reporting Council responsibilities under the CLERP 9 legislation**

### **Auditing standard setting**

Since 1 July 2004, the FRC has held legislative responsibility for the oversight of audit standard setting, including the operations of the AUASB. This includes appointing its members (other than the Chair), monitoring its business plans and budgets, and providing it with a broad strategic direction on the process of making auditing standards.

Previously, auditing standards had been made by a body (also called the Auditing and Assurance Standards Board, or AuASB) which was constituted and funded by the accounting profession. To ensure a degree of continuity, the FRC agreed initially to appoint all of the members of the former AuASB to the AUASB. Some of those appointments only covered the period to the end of 2004, which allowed the FRC to conduct an assessment and selection process during the second half of 2004. Subsequently, at the FRC meeting in December 2004, four new members were

## Financial Reporting Council

appointed and three existing members re-appointed to the AUASB. An overarching aim of the selection exercise was to ensure that the membership of the AUASB reflected a diversity of professional backgrounds, and included academics, practising auditors from both large and medium sized firms, auditors with public sector experience and those working for the corporate sector.

As part of its new remit, the FRC commenced monitoring the AUASB's budget and business plans, as it has done in relation to the AASB's budget and business plans for the last few years. The AUASB Audit Committee assisted the FRC with much of this work.

At the FRC meeting in April 2005, following extensive public consultation with stakeholders, the FRC agreed on a strategic direction for the AUASB. The AUASB was directed to develop standards that have primarily a clear public interest focus. The AUASB should use as a base the International Standards on Auditing developed by the International Auditing and Assurance Standards Board. However, when appropriate and in the public interest, the AUASB should incorporate additional requirements in its auditing standards. The direction also stipulates that it will be necessary for standards to conform with the Australian regulatory environment and statutory requirements, and be capable of enforcement under the requirements of the *Corporations Act 2001* by 30 June 2006. In addition to this function the AUASB was directed to develop, as required, auditing and assurance standards for non-financial information and other guidance on auditing and assurance matters. The FRC encouraged the AUASB to participate in audit research that benefits its standard-setting activities, and allows it to provide leadership in audit standard setting at both a domestic and international level.

### **Auditor independence**

The commencement of the CLERP 9 legislation represented an important milestone in the development of the FRC as it saw the Council change from being a body with primarily an oversight role to one which performed both oversight roles and a key operational function: monitoring the effectiveness of auditor independence requirements in Australia and giving the Minister reports and advice about those requirements.

During 2004-05, in preparation for the performance of its expanded role, the FRC:

- established an Audit Independence Subcommittee to assist the Council in the performance of the independence function;
- entered into Memoranda of Understanding with the professional accounting bodies and relevant regulatory bodies (collectively referred to as the MOU bodies); and

- appointed a consultant, Mr William Bartlett, to provide guidance and advice to the Council in the performance of the function.

In performing this function, the FRC has met with, and gathered information from, the MOU bodies and selected accounting firms. In 2004-05, the FRC's work focused on gaining an understanding of the role of various stakeholders' attitudes and monitoring systems and processes in relation to independence and quality control as it relates to the CLERP Act.

The work conducted by the FRC revealed that there is an open approach to the significant changes required of all stakeholders by CLERP 9. As outlined in the separate report on auditor independence presented in conjunction with this report, a number of issues have been identified that warrant attention in the upcoming year, but no systemic deficiencies have been identified.

## **Transition to International Financial Reporting Standards**

The FRC has considered a number of key issues that have been raised by various stakeholders in Australia regarding the transition to the use of IFRS. These have included the preparedness of small and medium sized enterprises (SMEs) for the required changes, the treatment of intangible assets and issues associated with the funds management industry. Some of the concerns raised in Australia have also been raised in other jurisdictions which are implementing IFRS, and the FRC is keeping watch on how these issues are being dealt with.

While the FRC remains committed to the implementation timetable and to Australian equivalents of IFRS fully applying to all reporting entities, it supports initiatives to ensure a successful transition, for example, by facilitating access by smaller companies to professional advice.

On an international level more generally, it is apparent that some key issues on the direction of IFRS are going to be decided over the next year or two. This includes the extent of convergence of IFRS with standards issued by the Financial Accounting Standards Board of the United States. European countries are working more closely together to provide early and considered input to the global standard setting process, and this highlights the need for Australia and other countries in the Asian region to do likewise. In this respect, the initiative for a regional policy forum on IFRS later in 2005 is to be commended.

## **Stakeholder liaison**

Liaison with a broad range of domestic and international stakeholders continues to play a core role in informing the deliberations of the FRC. In 2004-05, the implementation of formal MOUs in relation to the co-operation and sharing of

## Financial Reporting Council

information on auditor independence added a significant dimension to the FRC's liaison functions.

At the international level, the FRC continues to take a strong interest in the broader structure and activities of the IASCF. The FRC provided submissions to the IASCF's review of its constitution, and acted to support the quality of Australian representation on various committees which convene under the auspices of the IASCF and IASB. Members of the IASB have expressed appreciation of the efforts being made by Australia (and New Zealand) to encourage the take-up of IFRS in the Asian region, and of the commitment demonstrated by practical involvement and funding which facilitates the development of IFRS.

In conjunction with the FRC Secretary, Mr Jorge del Busto, and the General Manager of the Corporations and Financial Services Division of Commonwealth Treasury, Mr Mike Rawstron, I undertook two sets of international visits with a range of standard setting, regulatory and professional accounting bodies. Those visits allowed us to enhance our understanding of the different views on some of the paramount issues bedevilling international financial reporting, such as IAS 39 on financial instruments, the impact of IFRS on SMEs, convergence between IFRS and US GAAP, the control over the development of auditing standards for international use and the extent of detail that should be contained in them. It was apparent that while the process of convergence will take some years, 2005-06 will see a number of critical decisions being made in respect of international accounting standards and hence, it will be important for Australia to be actively involved in discussions at the international level. The FRC will also need to be aware of prevailing international concerns with the tendency towards increased regulation in recent years. These concerns mirror similar concerns that have been raised by the accounting profession and the business community in Australia.

Locally I have met with the professional accounting bodies, regulatory bodies including Australian Securities and Investment Commission (ASIC) and the Australian Prudential Regulatory Authority (APRA), and other stakeholders including the Group of 100. In March both Mr Warwick Hunt and I spoke at the Third New Zealand IFRS Summit in Auckland.

Members of the Auditor Independence Subcommittee met with representatives from the United States' Public Company Accounting Oversight Board (PCAOB) in early March. The main issue of discussion was the respective roles to be undertaken by the PCAOB, ASIC and the FRC in relation to the inspection of auditors and the monitoring of auditor independence.

## New Zealand

The relationship between the Council and its New Zealand equivalent, the Accounting Standards Review Board (ASRB) was substantially strengthened during the course of the year. This was facilitated by my appointment to the ASRB and the appointment of



Mr Warwick Hunt, Chair of the ASRB, to the FRC. In addition to this, the Chairs of the AASB (Professor David Boymal) and of New Zealand's Financial Reporting Standards Board (Ms Joanna Perry) were appointed to each other's Board. These cross-appointments were made at the recommendation of the Trans-Tasman Accounting Standards Advisory Group (TTASAG), established by the Australian and New Zealand Governments early in 2004.

There was an increase in co-operation between the FRC and the ASRB in respect of dealings with the IASB. Via TTASAG, the FRC has been involved in preparations for a forum to bring together policy makers and accounting standard setters from the Asia Pacific region, to be held late in 2005. The FRC also contributed to a TTASAG submission to a review by the New Zealand Government of that country's Financial Reporting Act. It is hoped that as a result of that review, the institutional arrangements governing standard setting in the two countries will become more closely aligned, thereby facilitating greater co-operation in the adoption and implementation of IFRS.

## **Operations review**

During the year the FRC reviewed aspects of the FRC structure and functions. Comments were sought from key stakeholders as well as from FRC members. Three of the issues considered were the opening of FRC meetings to the public, the composition of the Council and the structure of its Secretariat.

In accordance with the view of the majority of FRC members, attendance at FRC meetings continues to be 'by invitation only' to maintain high levels of frankness and quality of discussion. Nevertheless, FRC members were unanimously supportive of initiatives aimed at enhancing the transparency of the FRC's decision-making processes and ensuring that stakeholders and the public are able to provide comment on key policy proposals under consideration by the FRC. The prompt release of FRC Bulletins following FRC meetings is one initiative adopted to enhance transparency. Following this Operations Review, the FRC determined to improve its consultative arrangements by seeking public comment on key policy proposals under consideration by the FRC. The process followed in the lead-up to the issuing of the strategic direction to the AUASB, which included the publication of a discussion document on the FRC website, was an example that the FRC will endeavour to follow in the future.

The FRC considered that there was no need to recommend any changes to current arrangements in respect of the composition of the Council or the structure of the Secretariat in the short term. However, the FRC agreed to a proposal to conduct an assessment by members of the performance of the Council. That assessment process commenced during June 2005.

## **Funding for standards setting activities**

The FRC has the task of securing the funding needed to ensure effective standard setting by the AASB and AUASB.

For a number of years, the FRC has employed a tri-partite funding model which has included contributions from the Commonwealth, State and Territory Governments, the professional accounting bodies, and the corporate sector. As a result of the extra responsibilities endowed to the FRC under CLERP 9, the Commonwealth announced substantial extra funding for the FRC and standard setting activities in the 2004-05 Budget. A firm commitment from the professional accounting bodies and from the States and Territories has also been secured for 2005-06. In view of the additional funding provided by the Commonwealth, there was no need to directly appeal for voluntary contributions from the corporate sector.

In keeping with the need for Australia to show its tangible support for international standard setting activities, the FRC agreed to a 2004-05 contribution to the IASCF of \$1 million. The FRC also developed a protocol governing the use of funds available to meet the costs of overseas travel by FRC representatives attending official international meetings and other Australians attending IASB or IAASB related activities. The protocol has been made available on the FRC web site.

The FRC has decided to fund a memorial to Mr Ken Spencer, a former member of the FRC and a trustee of the IASCF, who passed away in 2004. Further details on this will be announced during 2005-06.

## **Committees of the Financial Reporting Council**

The Committees have again played a vital role assisting the FRC in the detailed consideration of important matters. Committees which met during 2004-05 were:

- the FRC Finance Committee;
- the AASB Audit Committee;
- the AUASB Audit Committee;
- the Nominations Committee;
- the Audit Independence Subcommittee; and
- the AUASB Strategic Directions Taskforce.

During 2004-05, the FRC/AASB Audit Committee was superseded by three new Committees, the FRC Finance Committee, the AASB Audit Committee and the AUASB Audit Committee. The new committees have common membership and are chaired by Mr Graeme McGregor AO. The Finance Committee provides advice to the FRC on the funding and expenditures of the FRC and its constituent bodies, the AASB and AUASB, while the Audit Committees assist the directors of the AASB and AUASB (the members of the FRC) in discharging their responsibilities under the *Commonwealth Authorities and Companies Act 1997*. Charters for the three committees were approved by the FRC on 20 September 2004.

The Nominations Committee, chaired by Mr Phillip Prior, undertook a comprehensive selection exercise for both AASB and AUASB membership, culminating in a series of appointments at the FRC meeting held on 6 December 2004. Further appointments to the AASB were made during the first half of 2005. The Nominations Committee has also been involved in assessing the operations of the FRC.

The Audit Independence Subcommittee, chaired by Ms Elizabeth Alexander AM, is a standing committee of the FRC established to assist the FRC perform its auditor independence functions. A charter for the Subcommittee was approved by the FRC on 20 September 2004.

The AUASB Strategic Directions Taskforce was established to consider the work of the AUASB ahead of the CLERP 9 Bill coming into force at the start of 2004-05. It met for the final time in July 2004, when it agreed on the key themes for consideration as part of the strategic direction.

I express my gratitude to the Chairs and members of these committees who have given their time and contributed their expertise in carrying out these critical functions.

## Support

In view of the increased workload brought about in part by the need to operationalise the CLERP 9 requirements, I express my gratitude to all members of the FRC for their commitment to the work of the Council and its committees. A number of members departed the FRC during the course of the year. This includes Mr John Langoulant, Ms Karen Hamilton and Mr Greg Pound. The Council thanked them for their contribution and wished them all the best in their future endeavours.

Sadly, another former member of the Council, Mr Lewis Ting, passed away late in 2004 shortly after his resignation. The Council acknowledged his contribution over nearly two years as a Council member.

## Financial Reporting Council

Last year the FRC decided that members could appoint proxy members to vote on their behalf on an individual meeting basis. As a consequence, there is no further need for the appointment of alternate members to the FRC. Mr James Kerwin and Mr Greg Larsen, who were alternates to Mr Phillip Prior and Mr Graeme McGregor respectively, were not re-appointed when their terms expired. I thank them for their interest in FRC matters.

On a positive note, I welcomed Mr Richard Humphry AO, Mr Warwick Hunt and Ms Jan West to the Council. Mr Humphry was appointed as a Trustee on the IASCF at the start of 2005, following in the footsteps of the late Mr Ken Spencer. Ms West's nomination was supported by The Institute of Chartered Accountants in Australia, and followed Mr Ting's resignation. I have already referred to Mr Hunt's appointment and the important role it plays in enhancing co-operation with New Zealand on financial reporting matters. Four members – Ms Elizabeth Alexander, Mr Don Challen, Mr David Jackson and Mr Graeme McGregor – were reappointed to further terms on the Council.

Professor David Boymal has had his first full year as Chairman of the AASB. As well as coping with a heavy workload focusing on the implementation of IFRS, Professor Boymal has been of great assistance to the Council and its committees in respect of various AASB matters, including the appointment of members to the AASB and providing advice on the AASB's budget and work programme.

In August 2004, Ms Merran Kelsall was appointed by the Treasurer as Chairman of the AUASB. Ms Kelsall has wide experience in accounting and corporate governance, including regulation, which will hold her in good stead as she steers the AUASB in its formative years. Ms Kelsall has kept the FRC informed of developments with respect to the AUASB and its staff, and has provided valuable advice to the FRC and its committees in relation to AUASB and auditing issues. Mr Bill Edge, the Chairman of the former AuASB and interim Chairman of the AUASB, helped to ensure a smooth transition to the new audit standard setting arrangements.

The FRC Secretariat, under the stewardship of Mr Jorge del Busto, has continued to provide a reliable service while contending with a large paper flow and a sometimes complex myriad of requirements. The effective work of AASB and AUASB staff is also evident to the FRC and I extend my gratitude to them as well.

In implementing the new responsibilities under the CLERP 9 legislation, the FRC and the two boards were presented with many challenges. Meeting these has made for a very productive year, and allows us to look forward to facing future demands with a heightened sense of optimism.

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

Charles Macek  
Chairman of Financial Reporting Council  
16 September 2005

## 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 both 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 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, overall adequacy and effectiveness 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.

## Financial Reporting Council

- 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 2004-05, 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, no alternate members were appointed in 2004-05, and it is not expected that further alternate members will be appointed in the future.

## OPERATIONS AND ACTIVITIES

### **Appointments to the Australian Accounting Standards Board and the Auditing and Assurance Standards Board**

The Nominations Committee is responsible for recommending appointments to the AASB and AUASB. In making recommendations, the Committee reviews written applications, interviews candidates, and takes into consideration the past performance and future needs of the two Boards. The Committee is also given other tasks from time to time; for example, in 2004-05, the Committee advised the FRC on its operational review and self-assessment of the FRC's performance.



In 2004-05, 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 Zimmermann. The Nominations Committee formally met five times during the year.

The FRC appointed Mr Bruce Porter, Ms Kris Peach, Ms Joanna Perry, Mr Des Pearson, and Mr Frank Palmer, and re-appointed Ms Judith Downes (who subsequently retired due to increased work commitments) and Professor Ken Leo to the AASB during 2004-05. The appointment of Ms Perry, who is Chair of New Zealand's Financial Reporting Standards Board, was made at the recommendation of the Trans-Tasman Accounting Standards Advisory Group.

To facilitate a smooth transition from the AuASB to the statutory-based AUASB, the existing members of the AuASB retained their membership to at least the end of 2004. Subsequently, the FRC appointed Mr Kim Smith, Ms Dianne Azoor Hughes, Professor Christine Jubb, and Mr Jon Tyers, and re-appointed Mr Kevin Neville, Mr Bob Sendt, and Mr Clive Mottershead to the AUASB.

## **Overseeing the Australian Accounting Standards Board and the Auditing and Assurance Standards Board**

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

During 2004-05, the FRC Finance Committee, meeting as the AASB Audit Committee and the AUASB Audit Committee, undertook the detailed reviewing of the budgets, business plans and work programmes of the two Boards. Further information on the work programme for the AASB is contained in Appendix E. Further information on the work programme for the AUASB is contained in Appendix F.

The FRC considered the AUASB's broad strategic direction in the development of Australian auditing standards, and issued a directive in April 2005.

The Chairmen of both the AASB and AUASB provided updates on the operations, including staffing matters, at each meeting of the FRC.

## **Audit independence**

Under amendments made to the ASIC Act by the CLERP 9 legislation, the FRC has been given responsibility for monitoring the effectiveness of auditor independence requirements in Australia and giving the Minister reports and advice about those requirements.

## Financial Reporting Council

A detailed report on the FRC's performance of the auditor independence functions, prepared in accordance with section 235BA of the ASIC Act, is presented in conjunction with this Annual Report.

## Consultation

The FRC regularly issues bulletins that communicate decisions taken at its meetings and other important developments in accounting and auditing standard setting. These bulletins are distributed to the media and stakeholders. These bulletins are available on the FRC website.

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. The FRC Chairman travelled overseas and consulted widely with executives from corporate and accounting bodies on matters relating to international accounting and auditing standards, developments in respect of accounting and auditing standards, and matters regarding auditor independence.

## Financial Reporting Council consultant

On 23 December 2004, the FRC Chairman announced that Mr William Bartlett had been engaged to undertake the Council's auditor independence consultancy, to assist the FRC in the performance of the auditor independence functions conferred on the Council by the CLERP 9 legislation. Mr Bartlett, who retired as a partner of accounting firm Ernst & Young in June 2003, has spent 35 years working in the accounting field, including as auditor of a number of firms in the financial services industry.

## Finances

The 2003-04, 2004-05 and 2005-06 Commonwealth Budgets each contained measures designed to strengthen the financial position of the FRC and the standard setting bodies it oversees. In brief, these measures were:

- The 2003-04 Budget provided \$4,000,000 over four years to support the expanded functions of the FRC under the CLERP 9 reforms;
- In the 2004-05 Budget, an additional \$3,400,000 million was provided to assist with the implementation of the expanded role of the FRC under CLERP 9, including the reconstitution of the Auditing and Assurance Standards Board, and for the establishment of the Financial Reporting Panel. In addition, a provision was aside in the contingency reserve for the forward years, with the level of ongoing funding to be determined in the context of the 2005-06 Budget; and

- The 2005-06 Budget provided additional funding of \$19,200,000 over four years to support the FRC in its expanded role of overseeing auditor independence and audit standards-setting arrangements and for the continuation of the Financial Reporting Panel (which does not fall under the oversight of the FRC).

The additional funding provided in the 2005-06 Budget is funded out of consolidated revenue, which includes the fees and charges paid to the Australian Securities and Investments Commission by members of the business community. In view of this additional funding, there was no need for the FRC to continue to rely on voluntary contributions from the business community.

As a consequence of these measures, the Commonwealth provided total funding of \$4,400,000 in 2004-05 and will provide funding of \$5,800,000 in 2005-06 and 2006-07. A review of ongoing Commonwealth funding for the FRC will be undertaken by October 2006 as part of the planning for the 2007-08 Budget.

In addition, the States and Territories provided \$500,000 for the financial year ended 30 June 2005 and have committed to provide a further \$500,000 during 2005-06. As noted in previous reports, this funding is subject to the proviso that the current tripartite funding model continues and the professional accounting bodies renew their funding commitments in a similar manner.

In 2004-05, the professional accounting bodies provided contributions totalling \$1,750,000. CPA Australia (CPAA), and the Institute of Chartered Accountants in Australia (ICAA) contributed \$750,000 each while the National Institute of Accountants contributed \$250,000. On 11 May 2005, the bodies agreed to contribute a further \$1,750,000 for the year ended 30 June 2006, with some variations in the amount to be contributed by each body.

During 2004-05 the FRC approved payments to the IASCF totalling \$1,000,000 per year for calendar years 2004 and 2005. The payment in 2004 was made out of the funds that had been allocated in 2003-04 to the AASB from the Financial Institutions Development Account. The 2005 payments were made out of the funds allocated by the Commonwealth to the FRC in 2004-05. Subject to the FRC's budgetary situation at the time, consideration will be given to making further contributions in the future.

As noted above, in 2004-05 the Government provided \$4,400,000 to support the role of the FRC and to contribute towards the activities of the bodies it oversees. In 2004-05, a total of \$1,799,471 of FRC's own expenditure was paid by Treasury out of this appropriation. This consisted of:

- \$1,000,000 of 2005 contributions to the IASCF;
- \$446,720 in staffing costs;
- \$59,395 on consultants;

### Financial Reporting Council

- \$76,076 on the Chairman's salary (including superannuation);
- \$15,318 in sitting fees for FRC members (other than the Chairman);
- \$158,977 on travel; and
- \$42,985 on overheads.

The 2004-05 appropriation from the Commonwealth Government was also used to supplement the funding of the AASB (as noted in the adjunct 2004-05 AASB financial report) and allowed to meet certain costs associated with the reconstitution of the AUASB and the establishment of the Financial Reporting Panel.

### **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.

One application under the *Freedom of Information Act 1982* was received by the FRC during the year.

## **CONTACTING THE FINANCIAL REPORTING COUNCIL**

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](mailto:frcsecretary@treasury.gov.au)



# AUSTRALIAN ACCOUNTING STANDARDS BOARD

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## CHAIRMAN'S REPORT



### Introduction

Following the formal making of the 'stable platform' of the Australian equivalents of International Financial Reporting Standards on 15 July 2004, the activities of the AASB during 2004-5 became more focused upon the second FRC Strategic Directive to converge Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) in public sector accounting. At the same time considerable

AASB resources were devoted to monitoring subsequent changes to the suite of International Standards, to participating in IASB research projects and other international developments and to updating the existing UIG Consensus Views upon the introduction of the new International Standards. As a consequence, a backlog of other desirable AASB projects unconnected with IFRS is starting to appear owing to the heavy demand upon AASB resources during 2004-05 and these projects will require attention in the near future.

### The 2005 project

The 2005 project did not conclude as expected with the issuance of the 'stable platform' of standards, as the IASB found that the European Union insisted upon a number of changes to IAS 39 before granting European endorsement to the standards. The proposed changes were published in a number of exposure drafts and these changes were seen to have considerable effects upon financial reporting in Australia particularly in the financial services industries. In addition, problems began to be identified by the IASB in some of its newer standards, necessitating further amendments in time for the transition on 1 January 2005.

## **Ongoing compliance with international standards and relationships with the International Accounting Standards Board**

In order for the Australian economy to fully benefit from the adoption of IFRS, it is also necessary for us to keep up with subsequent changes to those standards in order that companies can continue to claim to be IFRS compliant. Furthermore it is important that Australian companies and the AASB maximise their influence upon the outcome of any such proposed changes.

Once the 'stable platform' of standards for 1 January 2005 adoption was completed, the IASB quickly moved forward, to consider further improvements and to move towards convergence with US GAAP.

As a consequence, 2004-05 has proven to be a year of considerable change to the new suite of standards, both in terms of exposure drafts issued and final changes made. Based upon the IASB's current work programme this rapid pace of change can also be expected to continue for the foreseeable future. It is important that constituents are aware of and take appropriate action to adapt to this changing environment

In order to maximise its influence, the AASB closely monitors the meetings, decisions and publications of the IASB and keeps its Australian constituency apprised of these events. New and amended standards, and exposure drafts issued by the IASB, are appropriately 'Australianised' by the AASB to conform with local legislation and are issued by the AASB within a short time of their original publication. The AASB also itself responds to all IASB exposure drafts.

The AASB is presently leading three research projects for the IASB, namely joint ventures, intangible assets and extractive activities. AASB staff periodically make presentations to the IASB on the progress of these projects. AASB staff are also on IASB project teams developing new international standards for insurance contracts and liability/revenue recognition. AASB staff have also been the principal drafters of an IASB document currently on exposure which is intended to become a Memorandum of Understanding between the IASB and national standard setters such as the AASB.

The relationship with the IASB remains healthy, and the IASB is appreciative of our ongoing efforts. However, maintaining and enhancing this relationship requires considerable effort and allocation of resources.

## **Urgent Issues Group**

During the year, the UIG completed the exercise of reviewing existing interpretations for their applicability under the new suite of international standards. This resulted in



some interpretations being retained, some withdrawn and some needing substantial rewriting.

In addition, the UIG considered each of the interpretations issued by IFRIC (the interpretation arm of the IASB) for suitability for issuance in Australia and issued these as UIG Interpretations for inclusion in the suite of Australian equivalents of international standards. The UIG also referred some topics to IFRIC for consideration and worked on a small number of interpretations on purely local issues.

Because the IFRIC's draft interpretations are exposed in a manner similar to the standards themselves, and the AASB now votes on both the adoption of domestic interpretations and the adoption of the Australian equivalents of IFRIC Interpretations, the existing Charter of the UIG in relation to membership representation, voting protocols and due process now needs reconsideration. The AASB has appointed a subcommittee to review these matters and the role of the UIG with a view to issuing a discussion document for comment and bringing recommendations for change to the FRC.

## **The Generally Accepted Accounting Principles/Government Finance Statistics project**

During 2004-05, the AASB continued to work on the FRC's second strategic directive that with regard to public sector reporting, the AASB pursue as an urgent priority the harmonisation of GFS and GAAP reporting, and devoted considerable resources to the project. The AASB has decided to progress the project in stages – dealing first with the general government sectors of the Australian, State and Territory governments with the intention of progressing to consider other sectors, local government and other public sector entities at later stages.

The AASB has no authority to alter GFS reporting. Therefore, it determined that the best approach would be to propose to align the two systems to the extent appropriate and to propose a single set of financial statements and notes covering both systems, with explanations of the differences.

On 21 July 2005, an Exposure Draft was issued containing proposals to combine GAAP and GFS in the financial reports of general government sectors. Some of the proposals are controversial, and when the comment period for the Exposure Draft closes on 21 October 2005, the responses will be analysed to determine a way forward to complete the project.

## **International Federation of Accountants (IFAC) International Public Sector Accounting Standards Board (IPSASB)**

The AASB is a strong supporter of the IFAC IPSASB and its standard setting activities for public sector entities. We respond to all IPSASB exposure drafts and a senior AASB technical manager attends each IPSASB meeting to act as the technical adviser to the Australian member of IPSASB.

The Australian equivalents of IFRS are made 'sector-neutral' by including the requirements of IPSASB into the standards, where appropriate, and otherwise adjusting the IFRS where necessary. However, the IPSASB 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 IPSASB deal with topics.

### **Copyright**

Initial problems with IASB copyright and the need to make AASB standards freely available as delegated legislation have now been resolved. Some Implementation Guidance and Bases for Conclusions are only available through a secure section of our website upon payment of an annual fee as a consequence of the IASB copyright entitlements.

### **Work programme**

The status of the 2004-05 AASB work programme is reported in Appendix E, and the AASB's standard setting priorities for the year ended 30 June 2006 have been approved by the FRC and are also set out in Appendix E.

The concentration of AASB efforts in the past few years to fulfil the two major FRC directives has resulted in a backlog of other AASB domestic projects which now require urgent attention. The 2005-06 work programme reflects these changing needs.

### **New Zealand convergence**

Greater convergence of Australian and New Zealand Accounting Standards is now the policy of the Governments of both countries. The Chair of the AASB is now a member of the New Zealand FRSB and the Chair of the FRSB, Ms Joanna Perry, is a member of the AASB.

Additional resources are devoted to attending and preparing for meetings of the FRSB, to monitoring the directions of the FRSB and to removing differences between the two countries' standards wherever possible.

On the other hand, convergence of the two countries' standards provides an opportunity to minimise duplication of effort by allocation of projects between the staff in the two countries and by sharing the significant task of monitoring the expanding activities of the IASB.

## **New premises**

On 1 November 2004, the AASB moved to new premises on the 4th floor of 530 Collins Street, Melbourne. These premises are shared with the newly constituted Auditing and Assurance Standards Board.

## **Future**

The implementation of the Year 2005 strategic directive provides the AASB with the opportunity to reflect on its role and activities and how it should be responding to the changing environment. In March 2005, the AASB held a one-day strategy meeting at which the AASB discussed its role, position, activities and how it engages with its constituency.

Decisions taken at that meeting are now being implemented and include enhancing consultative processes by forming additional groups to deal with industry and specific issues, reviewing communication activities, reviewing the UIG and the interpretations process, particularly to develop the relationship with the IFRIC and establishing protocols for determining who deals with providing interpretative guidance on issues raised by the AASB's constituents, and increased co-operation with regional and other national standard-setters, particularly New Zealand. The AASB agreed on the continued importance of influencing on the agenda and priorities of the IASB and the IPSASB.

## **Board changes**

During the year the terms of Ms Ruth Picker (the deputy chair), Ms Judith Downes, Mr Wayne Cameron and Professor Ken Leo expired. Ms Picker and Mr Cameron retired from the Board and Ms Downes and Professor Leo were each reappointed for a further three years. However, Ms Downes subsequently resigned from the Board as a consequence of additional work commitments.

New appointees during the year were:

- Ms Kris Peach Partner, KPMG;
- Mr Bruce Porter Partner, Deloitte Touche Tohmatsu;

## Australian Accounting Standards Board

- Ms Joanna Perry Chair, FRSB, New Zealand;
- Mr Des Pearson Auditor-General, Western Australia; and
- Mr Frank Palmer Director, Corporate Reporting Group, Macquarie Bank Ltd.

Professor Ken Leo was appointed deputy chair of the AASB by the AASB members.

## Appreciation

My thanks go to all of the present and retired members of the AASB and UIG for their significant contribution to accounting standard setting during the year. These members are all busy professionals who generously provided their time to this cause.

Similarly, thanks go to the AASB technical staff, headed by our Technical Director, Angus Thomson, and the AASB administrative staff, headed by our Administration Director, Leone Mansell, who all achieved much during a busy and eventful year in which a new ongoing role for the AASB needed to be established.

Finally, thanks go to the AASB constituents who continued to respond to exposure drafts and invitations to comment and participated in various advisory panels. It is vital that Australian constituents continue to make their views known to the AASB on the forever changing standard-setting scene.



David Boymal  
Chairman of Australian Accounting Standards Board  
16 September 2005

## AUSTRALIAN ACCOUNTING STANDARDS BOARD DIRECTORS' REPORT OF OPERATIONS

### Technical activities of AASB during 2004-05

#### 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 2004-05 are listed in Appendix B. The Board held 10 meetings for a total of 20 meeting days, including a one-day strategy meeting, 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 2004-2005, the Board issued or reissued the following standards and other documents:

<b>Standards</b>	
AASB 1	<i>First-time Adoption of Australian Equivalents to International Financial Reporting Standards</i> (July 2004)
AASB 2	<i>Share-based Payment</i> (July 2004)
AASB 3	<i>Business Combinations</i> (July 2004)
AASB 4	<i>Insurance Contracts</i> (July 2004)
AASB 5	<i>Non-current Assets held for Sale and Discontinued Operations</i> (July 2004)
AASB 6	<i>Exploration for and Evaluation of Mineral Resources</i> (December 2004)
AASB 101	<i>Presentation of Financial Statements</i> (July 2004)
AASB 102	<i>Inventories</i> (July 2004)
AASB 107	<i>Cash Flow Statements</i> (July 2004)

## Standard setting (*continued*)

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### Standards

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AASB 108	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i> (July 2004)
AASB 110	<i>Events after the Balance Sheet Date</i> (July 2004)
AASB 111	<i>Construction Contracts</i> (July 2004)
AASB 112	<i>Income Taxes</i> (July 2004)
AASB 114	<i>Segment Reporting</i> (July 2004)
AASB 116	<i>Property, Plant and Equipment</i> (July 2004)
AASB 117	<i>Leases</i> (July 2004)
AASB 118	<i>Revenue</i> (July 2004)
AASB 119	<i>Employee Benefits</i> (July 2004)
AASB 119	<i>Employee Benefits</i> (December 2004)
AASB 120	<i>Accounting for Government Grants and Disclosure of Government Assistance</i> (July 2004)
AASB 121	<i>The Effects of Changes in Foreign Exchange Rates</i> (July 2004)
AASB 123	<i>Borrowing Costs</i> (July 2004)
AASB 124	<i>Related Party Disclosures</i> (July 2004)
AASB 127	<i>Consolidated and Separate Financial Statements</i> (July 2004)
AASB 128	<i>Investments in Associates</i> (July 2004)
AASB 129	<i>Financial Reporting in Hyperinflationary Economies</i> (July 2004)
AASB 130	<i>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</i> (July 2004)
AASB 131	<i>Interests in Joint Ventures</i> (July 2004)
AASB 132	<i>Financial Instruments: Disclosure and Presentation</i> (July 2004)
AASB 133	<i>Earnings per Share</i> (July 2004)
AASB 134	<i>Interim Financial Reporting</i> (July 2004)
AASB 136	<i>Impairment of Assets</i> (July 2004)
AASB 137	<i>Provisions, Contingent Liabilities and Contingent Assets</i> (July 2004)
AASB 138	<i>Intangible Assets</i> (July 2004)
AASB 139	<i>Financial Instruments: Recognition and Measurement</i> (July 2004)
AASB 140	<i>Investment Property</i> (July 2004)
AASB 141	<i>Agriculture</i> (July 2004)
AASB 1004	<i>Contributions</i> (July 2004)
AASB 1023	<i>General Insurance Contracts</i> (July 2004)
AASB 1031	<i>Materiality</i> (July 2004)
AASB 1038	<i>Life Insurance Contracts</i> (July 2004)
AASB 1039	<i>Concise Financial Reports</i> (revised) (May 2005)
AASB 1046A	<i>Amendments to Accounting Standard AASB 1046</i> (September 2004).
AASB 1048	<i>Interpretation and Application of Standards</i> (July 2004)

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## Standard setting (continued)

Standards	
AASB 1048	<i>Interpretation and Application of Standards</i> (revised) (December 2004)
AASB 1048	<i>Interpretation and Application of Standards</i> (revised) (March 2005)
AASB 1048	<i>Interpretation and Application of Standards</i> (revised) (June 2005)
AASB 2004-1	<i>Amendments to Australian Accounting Standards</i> [AASB 1, AASB 116 & AASB 138] (December 2004)
AASB 2004-2	<i>Amendments to Australian Accounting Standards</i> [AASB 1, AASB 121, AASB 131, AASB 134, AASB 139 & AASB 141] (December 2004)
AASB 2004-3	<i>Amendments to Australian Accounting Standards</i> [AASB 1, AASB 101 & AASB 124] (December 2004)
AASB 2005-1	<i>Amendments to Australian Accounting Standard</i> [AASB 139] (May 2005)
AASB 2005-2	<i>Amendments to Australian Accounting Standard</i> [AASB 1023] (June 2005)
AASB 2005-3	<i>Amendments to Australian Accounting Standards</i> [AASB 119] (June 2005)
AASB 2005-4	<i>Amendments to Australian Accounting Standards</i> [AASB 1, AASB 132, AASB 139, AASB 1023 & AASB 1038] (June 2005)
AASB 2005-5	<i>Amendments to Australian Accounting Standards</i> [AASB 1 & AASB 139] (June 2005)
AASB 2005-6	<i>Amendments to Australian Accounting Standards</i> [AASB 3] (June 2005)
AASB 2005-7	<i>Amendments to Australian Accounting Standards</i> [AASB 134] (June 2005)
AASB 2005-8	<i>Amendments to Australian Accounting Standards</i> [AASB 1] (June 2005)

## Exposure drafts

ED 134	Request for Comment on IASB ED of Proposed Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement</i> and IFRS 4 <i>Insurance Contracts</i> — Financial Guarantee Contracts and Credit Insurance (July 2004).
ED 135	Request for Comment on IASB ED of Proposed Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement</i> — Cash Flow Hedge Accounting of Forecast Intra-Group Transactions (July 2004).
ED 136	Request for Comment on IASB ED of Proposed Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement</i> — Transition and Initial Recognition of Financial Assets and Financial Liabilities (July 2004).
ED 137	Request for Comment on IASB ED 7 <i>Financial Instruments: Disclosures</i> (August 2004).
ED 138	Concise Financial Reports: Revisions to AASB 1039 (December 2004).

## Invitations to comment

Invitation to Comment *The Role of Accounting Standard Setters and their Relationships with the IASB* (April 2005).

Invitation to Comment *The Definition of 'Contributions by Owners'* (April 2005).

## Statements of concepts

### Framework for the Preparation and Presentation of Financial Statements (July 2004)

The AASB implemented the FRC's strategic directive regarding the adoption of IASB Standards in 2005, with the issue of 44 new and revised accounting standards (comprising 37 Australian equivalents to IASB Standards, six revised Australian Standards and one new Australian standard), and 28 UIG Interpretations (comprising 17 Australian equivalents to IFRIC Interpretations and 11 revised Australian UIG Interpretations). The AASB also issued 11 Accounting Standards which incorporated subsequent amendments made by the IASB to its Standards and refinements made by the AASB.

The suite of Australian equivalents to IASB Standards and UIG Interpretations was posted on the website in July and August 2004, so as to inform constituents of the requirements applying for annual reporting periods commencing on or after 1 January 2005, and to facilitate their preparations for implementing these Standards and Interpretations. Further Standards, including Amending Standards, and UIG Interpretations were posted on the website as they were issued during the year.

## 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. A full list of UIG Abstracts and Interpretations 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, are required to be formally approved by the AASB and are called UIG Interpretations. UIG Abstracts currently on issue apply until annual reporting periods beginning on or after 1 January 2005.

The following Interpretations were issued during 2004-2005:

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<b>New</b>	
1	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i> (July 2004)
2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i> (March 2005)
3	<i>Emission Rights</i> (March 2005)
4	<i>Determining whether an Arrangement contains a Lease</i> (June 2005)
5	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i> (June 2005)

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**New (continued)**

107	<i>Introduction of the Euro</i> (July 2004)
110	<i>Government Assistance — No Specific Relation to Operating Activities</i> (July 2004)
112	<i>Consolidation — Special Purpose Entities</i> (July 2004)
113	<i>Jointly Controlled Entities — Non-Monetary Contributions by Venturers</i> (July 2004)
115	<i>Operating Leases — Incentives</i> (July 2004)
121	<i>Income Taxes — Recovery of Revalued Non-Depreciable Assets</i> (July 2004)
125	<i>Income Taxes — Changes in the Tax Status of an Entity or its Shareholders</i> (July 2004)
127	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i> (July 2004)
129	<i>Disclosure — Service Concession Arrangements</i> (July 2004)
131	<i>Revenue — Barter Transactions Involving Advertising Services</i> (July 2004)
132	<i>Intangible Assets — Web Site Costs</i> (July 2004)

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**Revised**

112	<i>Consolidation — Special Purpose Entities</i> (December 2004)
1013	<i>Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements</i> (April 2005)
1017	<i>Developer and Customer Contributions for Connection to a Price-Regulated Network</i> (November 2004)
1019	<i>The Superannuation Contributions Surcharge</i> (September 2004)
1030	<i>Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related Methods</i> (September 2004)
1031	<i>Accounting for the Goods and Services Tax (GST)</i> (July 2004)
1038	<i>Contributions by Owners to Wholly-Owned Public Sector Entities</i> (September 2004)
1039	<i>Substantive Enactment of Major Tax Bills in Australia</i> (July 2004)
1042	<i>Subscriber Acquisition Costs in the Telecommunications Industry</i> (December 2004)
1047	<i>Professional Indemnity Claims Liabilities in Medical Defence Organisations</i> (November 2004)
1052	<i>Tax Consolidation Accounting</i> (June 2005)
1055	<i>Accounting for Road Earthworks</i> (September 2004)

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**Due process**

The AASB adopts a comprehensive ‘due process’ (outlined in Policy Statement 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;

## Australian Accounting Standards Board

- 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 Interpretations 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 met twice during the year, in October 2004 and May 2005. The AASB is in the process of enhancing its consultative arrangements through establishing smaller more focussed groups of constituents comprising industry and user groups for consultation on particular issues.

## 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 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 Parliamentary Joint Committee on Corporations and Financial Services on 7 February 2005.

## **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 \$29,348.

## **Federal Register of Legislative Instruments**

The Federal Register of Legislative Instruments (FRLI) regime, introduced by the *Legislative Instruments Act 2003*, commenced on 1 January 2005, replacing the gazettal process previously required for those Accounting Standards made by the AASB that are disallowable instruments. The AASB has completed the backcapture process for Accounting Standards made before 1 January 2005. Standards made in 2005 have been lodged and registered and the AASB is in the process of finalising compiled versions of Accounting Standards to include subsequent amendments. In addition to lodging on the FRLI, compiled versions are also posted on the AASB website.

## **AUSTRALIAN ACCOUNTING STANDARDS BOARD 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 and interpretations, 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;

### Australian Accounting Standards Board

- 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 and the International Public Sector 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 and interpretations, 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, draft accounting standards and draft interpretations.

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 below.

## 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 2005.

## 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 CDS, the AASB performs *Policy Adviser* and *Regulator* roles.

### Commonwealth Disability Strategy performance reporting

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.

## **CONTACTING THE AUSTRALIAN ACCOUNTING STANDARDS BOARD**

The Australian Accounting Standards Board can be contacted as follows:

Post:	The Secretary Australian Accounting Standards Board PO Box 204 Collins St West MELBOURNE VIC 8007
Telephone:	(03) 9617 7600
Facsimile:	(03) 9617 7608
Document exchange:	DX 30897
E-mail:	<a href="mailto:standard@asb.com.au">standard@asb.com.au</a>

# AUDITING AND ASSURANCE STANDARDS BOARD

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## CHAIRMAN'S REPORT



### Introduction

The Auditing and Assurance Standards Board (AUASB) was reconstituted as an independent statutory body under the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* with effect on 1 July 2004. The Financial Reporting Council (FRC) is responsible for oversight of the AUASB and for approving its strategic direction.

### Role and mission of the AUASB

The mission of the AUASB is to develop, in the public interest, high quality standards and related guidance for auditors and providers of other assurance services, as a means to enhance the relevance and reliability of information provided to users of audit and other assurance services. It is essential to the position of the AUASB as a leading standard-setting body, that its Auditing and Assurance Standards and related guidance remain up-to-date and exhibit a clear public interest focus.

Auditing is a public interest activity and the work of the AUASB in setting Auditing and Assurance Standards forms part of the corporate governance framework in Australia. In developing standards and related guidance, the AUASB has due regard for the public interest. The importance of sound public interest oriented Auditing and Assurance Standards is necessary to reinforce the credibility of the auditing process for those who use audited financial information.

### Board appointments and changes during 2004-05

The AUASB comprises an independent part-time Chairman (appointed by the Federal Treasurer) and ten part-time members (appointed by the FRC). The members appointed by the FRC over the past year have consisted of five members from public practice, two members from the public sector, two members from academia, and one member representing users.

## Auditing and Assurance Standards Board

Chairman. Subsequently, Ms Dianne Azoor Hughes, Mr Kim Smith, Mr Jon Tyers were appointed to the AUASB at the commencement of 2005, replacing Mr Gavin Campbell, Associate Professor Grant Gay and Mr Paul Shannon, whose terms expired at the end of 2004. See Appendix C for full details of AUASB members and their terms of appointment.

## AUASB strategic direction

The combination of several key considerations have provided the reconstituted AUASB with an opportunity to refine the structure and content of Australian Auditing and Assurance Standards to achieve high quality standards and promote audit quality, whilst contributing to a single set of auditing and assurance standards accepted world-wide. These considerations include:

- the need for the reconstituted AUASB to review within a two year period from the date of its inception, existing Australian Auditing Standards issued prior to 1 July 2004, for their appropriateness as delegated legislation under the *Corporations Act 2001*;
- ideally maintaining a policy of conformity with the structure and content of pronouncements of the IAASB; and
- other international developments, which offer the potential to strengthen Auditing Standards.

In September 2004, the AUASB released a Strategic Directions Paper, which outlined the strategies that the AUASB considers appropriate for the setting of auditing and assurance standards and the development of guidance. This paper was provided for consideration by the FRC, which then proceeded to seek public comments in late 2004 on the key proposals relating to the AUASB's proposed strategies.

Following this public comment period and after further consultation with the AUASB, the FRC at its meeting on 4 April 2005, considered and approved the appropriate Strategic Direction for the AUASB in relation to its work programme and in particular, its approach to the setting of Australian Auditing Standards.

The FRC agreed that the following Strategic Direction be implemented by the AUASB going forward:

- (a) The AUASB should develop Auditing Standards that have a clear public interest focus and are of the highest quality.
- (b) The AUASB should use, as appropriate, the International Standards on Auditing (ISAs) of the IAASB as a base from which to develop Auditing Standards.



- (c) The AUASB should make such amendments to ISAs as necessary to accommodate and ensure that Auditing Standards both exhibit and conform with the Australian regulatory environment and statutory requirements, including amendments as necessary for Auditing Standards to have the force of law and be capable of enforcement under the requirements of the *Corporations Act 2001* by 30 June 2006.
- (d) The process of developing Auditing Standards should include monitoring and reviewing auditing and assurance standards issued by other standard setting bodies in other national jurisdictions and considering other matters relevant to achieving the objectives of Part 12 of the ASIC Act. Consequently, where appropriate and considered to be in the public interest and necessary to producing standards of the highest quality, the AUASB should incorporate additional requirements in its Auditing Standards.
- (e) The AUASB should continue to develop Auditing and Assurance Standards other than for historical financial information as well as developing and issuing other guidance on auditing and assurance matters, and may participate in audit research that is conducive to, and which significantly benefits, the standard-setting activities of the AUASB.

In addition, the FRC agreed that the AUASB should have regard to any programme initiated by the IAASB for the revision and enhancement of ISAs and make appropriate consequential amendments to Auditing Standards.

The AUASB has therefore revised its work programme to best reflect and implement its new Strategic Direction.

## **Reissuing Auditing Standards as legal instruments**

The key aspect of the AUASB's work programme in 2004-05, has been the preliminary analysis of the suitability of the structure and content of existing Auditing Standards for re-issuance as legal instruments, that is, statutory Auditing Standards. The AUASB has commenced a process of thorough review of pre-existing Auditing Standards issued prior to 1 July 2004, that were given interim endorsement prior to their re-issuance as statutory Auditing Standards in 2006.

This work has been necessary to ensure that the Auditing Standards are in a form that is legally enforceable as statutory standards, that they will meet the drafting requirements of the *Legislative Instruments Act 2003*, and that the requirements and guidance in the new standards will be unambiguous and clear. This is a major exercise that has occupied a considerable amount of AUASB's time both during and in between its formal meetings.

## Auditing and Assurance Standards Board

The AUASB has decided to adopt a two-phase approach to the review and reissue of Corporate Auditing Standards:

### Phase 1:

The drafting focus will be on

- the enforceability of ('black letter') mandatory obligations;
- clarifying implied obligations; and
- inclusion of improvements originating from other standard setting bodies.

The AUASB's deadline of having its standards in place by 30 June 2006, will be met under this phase and proposed improvements to explanatory guidance will be accumulated for Phase 2.

The review of the 40 auditing standards by staff and the AUASB members, a 45 day public exposure, subsequent review of revised standards by the AUASB members, and finalisation of the auditing standards as legal instruments will be completed by 31 March 2006, with monitoring of the instruments when they are in Parliament during the remaining period to 30 June 2006.

### Phase 2:

The drafting focus will be on reviewing Auditing Standards to improve quality, clarity, and presentation. Phase 2 will commence after the new Auditing Standards are in place for 1 July 2006, and in accordance with the AUASB's priority. Phase 2 is an ongoing project dependent on the 'Clarity of IAASB Standards' project developments by the IAASB (see below) as well as other international standard setters.

The status of the 2004-05 AUASB Work Programme is reported in Appendix F. The AUASB's standard setting priorities for the year ending 30 June 2006, have been approved by the FRC and are set out in Appendix F.

## Relationship with the International Auditing and Assurance Standards Board

Consistent with its strategic direction, the reconstituted AUASB has continued, wherever possible, to use ISAs as a base for its proposed Auditing Standards, and in doing so seek to maintain conformity of its standards with those of the IAASB. The strong rationale for continuing with this policy is the existence of the IAASB as the major global principles-based auditing and assurance standards setting body and the significant strengthening of its public interest focus in recent years, reinforced through oversight of its activities by IFAC's Public Interest Oversight Board.

The IAASB is currently pursuing a major exercise of reviewing its own auditing standards, through the 'Clarity of IAASB Standards' project. The objective of this project is primarily to address the distinction between requirements or obligations and explanatory material and the length and complexity of standards. This project is significant since it has major implications for Phase 2 of the strategy adopted by the AUASB in reviewing its Auditing Standards.

Membership of and input into the work of the IAASB is considered integral to the ability of the AUASB to continue as an effective national standard-setter, and is considered crucial to it maintaining and further developing the current body of auditing and assurance standards and related guidance, which is used by the Australian accounting profession. Traditionally, Australia has been regarded as an influential international contributor, through Australian representation on the IAASB, and the support provided by the AUASB to international standard-setting activities of the IAASB. AUASB member, Mr Ian McPhee, is also a member of the IAASB and its Steering Committee. Furthermore, AUASB Principal Executive, Mr Richard Mifsud has continued to serve as Mr McPhee's IAASB technical advisor over the past year.

## **Facilities, technical support and resources**

The AUASB moved into its new offices in November 2004. These facilities, which it occupies at Level 4, 530 Collins Street, Melbourne, as a co-tenant with the Australian Accounting Standards Board, should serve it well for the years ahead.

The AUASB is assisted by the technical and secretarial support that is provided by the Principal Executive and the technical and administrative staff of the AUASB. The AUASB has been extremely successful in recruiting a number of well qualified and experienced professional staff members, who commenced with the organisation at various stages during 2004-05. The work of the AUASB has also been assisted in some part, by the contributions of external working parties, which provided input to several projects being considered by the AUASB.

## **Acknowledgements**

I would like to thank the members of the AUASB for their contributions over the past year. I especially would like to thank Mr Bob Sendt (Deputy Chairman) and Mr Ian McPhee (IAASB Member) for their assistance in carrying out their respective roles over this period.

I would also like to thank the FRC and its Chairman, Mr Charles Macek, for their oversight and support of the reconstituted AUASB in its first year of operations. The support of the FRC in approving a mutually agreeable strategic direction for the AUASB is greatly appreciated.

## Auditing and Assurance Standards Board

Finally, I would also like to express my appreciation to the staff of the AUASB Technical Group, comprising, Richard Mifsud, (Principal Executive), Nina Lewis, Howard Pratt, and Margaret Salter (Senior Project Managers), Bernadette Dillon and Michael Sadhu (Project Managers), Neeta Gobin and Jessie Wong (Assistant Project Managers), as well as Christine Purtell (Executive Assistant) for their work in supporting the AUASB. Thanks are also extended to Leone Mansell (Administration Director) and the administrative staff of the AASB for additional administrative support services provided to the AUASB by the AASB over the past year.

## The AUASB going forward

The activities and initiatives undertaken by the AUASB for the year ended 30 June 2005, enable the AUASB to look forward with confidence to the challenges that lie ahead for the forthcoming year. The AUASB's planned release of the Auditing Standards as statutory standards in the first half of 2006, which will have the force of law for reporting periods commencing on or after 1 July 2006, will undoubtedly be a significant outcome in the year ahead. The AUASB's efforts and deliberations during 2004-2005 have laid the necessary foundations for the revision and release of these new Auditing Standards. However, much work associated with the exposure of the proposed Auditing Standards and communication of the AUASB's activities associated with the revisions process lies ahead in the coming months.



Merran H. Kelsall  
Chairman of Auditing and Assurance Standards Board  
16 September 2005

## **AUDITING AND ASSURANCE STANDARDS BOARD DIRECTORS' REPORT OF OPERATIONS**

### **Technical activities of Auditing and Assurance Standards Board during 2004-05**

#### **Establishment of the Auditing and Assurance Standards Board**

The establishment of the AUASB was the result of the following two significant amendments that emanated from the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (CLERP 9 Act):

- (a) the reconstitution of the Auditing and Assurance Standards Board (AuASB) as a statutory body (AUASB) under the oversight of the FRC; and
- (b) giving auditing standards the force of law for the purposes of the *Corporations Act 2001*.

On 1 July 2004, the AUASB was reconstituted under section 227A(1) of the *Australian Securities and Investments Commission Act 2001* (ASIC Act). The institutional change formally enshrined the functions and powers of the AUASB in legislation, which under section 227B of the ASIC Act are:

- to make auditing standards under section 336 of the *Corporations Act 2001*, for the purposes of the corporations legislation;
- to formulate auditing and assurance standards for other purposes;
- to formulate guidance on auditing and assurance matters;
- to participate in and contribute to the development of a single set of auditing standards for world-wide use; and
- to advance and promote the main objects of Part I of the Act.

On 1 July 2004, the majority of the Auditing Standards previously issued by the AuASB under the auspices of its predecessor entity, the Australian Accounting Research Foundation (AARF), were granted *interim legal endorsement* under section 1455(1) of the *Corporations Act 2001* and Corporations Regulation 10.5.01. The Auditing Standards with *interim legal endorsement* do not have effect for financial reports for periods ending after 30 June 2006, under section 1455(4) of the *Corporations Act 2001*.

## **Membership and meetings of the AUASB**

The responsibility for the appointment, including determination of terms and conditions, of the Chairman and the members of the AUASB resides with the Federal Treasurer and the FRC respectively under section 236F of the ASIC Act. In addition, the period of employment may not exceed five years, at which point retiring members are eligible for reappointment.

Eligibility requirements for appointment are knowledge of, or experience in, business, accounting, auditing, law or government.

Details of the Chairman and the members of the AUASB during 2004-05 are listed at Appendix C. During the year, the AUASB held eight meetings for a total of eight meeting days. Attendance of members at these meetings is set out at Appendix D.

## **Auditing Standards**

The reconstituted AUASB's initial project was the review of all Auditing Standards issued by its predecessor entities to enable *interim legal endorsement* to a specific group of Auditing Standards under section 1455(1) of the *Corporations Act 2001*, and Corporations Regulation 10.5.01. Following this, the AUASB embarked on

- an analysis of the suitability of the structure and content of existing Auditing Standards;
- securing staff and other resources to deliver within the timelines set in the Strategic Direction; and
- finalising the methodology including principles and rules for the review and reissue of Auditing Standards within the formal Strategic Direction issued by the FRC.

A list of Auditing Standards including those with interim legal endorsement, Auditing and Assurance Guidance Statements, Audit and Assurance Guides, Guidance Notes and Audit and Assurance Alerts and their issue dates is at Appendix G.

During the year, the AUASB issued the following documents:

### **Auditing and assurance guidance statement**

AGS 1068      Audit Requirements for Australian Financial Services Licensees under the *Corporations Act 2001* (October 2004).

### **Audit and assurance alert**

AAA 14      The Implications for Auditors on the Transition to Australian equivalents to IFRSs (October 2004).

### **Attendance at meetings of the International Auditing and Assurance Standards Board (IAASB)**

During the year, Mr Ian McPhee, AUASB and IAASB member, attended various meetings of the IAASB with the AUASB Principal Executive, Mr Richard Mifsud, as Technical Adviser. Meetings of the IAASB held during the year were as follows:

- 13 to 17 September 2004 in New York.
- 6 to 10 December 2004 in New Orleans.
- 7 to 11 March 2005 in Lima.
- 13 to 17 June 2005 in Rome.

### **Due process**

The AUASB is in the course of formalising a comprehensive due process for consideration of the revised Auditing Standards, which will encourage stakeholders to actively participate in the standards-setting process by:

- communicating its views and policies to key stakeholders via invitations to comment on exposure drafts;
- meeting with representatives of stakeholder organisations;
- inviting public comment on its policies and standards under consideration;
- issuing media releases related to its activities; and
- maintaining a website <[www.auasb.gov.au](http://www.auasb.gov.au)>.

In addition, the AUASB posts highlights of minutes of its meetings on the website to keep interested parties informed of the AUASB's deliberations during each of its meetings as well as the current status of projects.

### **Liaison with constituents**

The AUASB meets with key stakeholders to discuss the status of the initial phase of the review and revision of Auditing Standards as well as matters in relation to specific projects.

### **Use of website**

The AUASB has a website [www.auasb.gov.au](http://www.auasb.gov.au) which is continuously enhanced to meet stakeholder information needs. The website is used to provide information about the AUASB, its activities and work programme to its stakeholders and interested parties. The AUASB also publishes meeting agendas prior to meetings and meeting highlights after meetings on the website. During the year, the Strategic Direction issued by the

## Auditing and Assurance Standards Board

FRC for the AUASB's work programme and in particular, its approach to the setting of Auditing Standards going forward was published on the website.

## Accountability

The AUASB Chairman periodically reports on the activities of the AUASB at FRC meetings.

## 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 AUASB, including FRC Directors. The AUASB has arranged professional indemnity insurance with COMCOVER, to a value of \$100 million at a cost of \$7,571.

## FREEDOM OF INFORMATION

The AUASB maintains possession of the following documents:

- copies of Auditing Standards with interim legal endorsement;
- copies of media releases;
- AUASB meeting agenda papers;
- correspondence with constituents; and
- internal technical and administrative papers, including project proposals, key decisions, and issues papers.

Requests under the *Freedom of Information Act 1982*, for access to other documents in the possession of the AUASB can be directed to the AUASB using the contact details set out below.

## COMMONWEALTH FRAUD CONTROL GUIDELINES

The AUASB has in place a Fraud Control Plan and fraud control mechanisms which are appropriate to the needs of the AUASB. The AUASB complied with the requirements of the Commonwealth Fraud Control Guidelines for the year ended 30 June 2005.



## COMMONWEALTH DISABILITY STRATEGY

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

### Commonwealth Disability Strategy performance reporting

Requirement for role	How met
Provision of accessible policy, programme and regulatory information	
Internet format	AUASB: all news items, policy statements, Auditing and Standards, Assurance Standards, related guidance exposure drafts and other formal regulatory documents are available on a Government Standards compliant website.
Disk format	Contact details for the AUASB 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 AUASB consults widely in its own right, with users, preparers and others interested in financial reporting.  Because the nature of AUASB 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 AUASB are available on its website. People can call or write to register any complaint.

## CONTACTING THE AUDITING AND ASSURANCE STANDARDS BOARD

The AUASB can be contacted as follows:

Post:	The Principal Executive Auditing and Assurance Standards Board PO Box 204 Collins St West MELBOURNE VIC 8007
Telephone:	(03) 8080 7400
Facsimile:	(03) 8080 7450
Document exchange:	DX 30897
E-mail:	enquiries@auasb.gov.au



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## AUSTRALIAN ACCOUNTING STANDARDS BOARD

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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 website of the Australian Accounting Standards Board for the year ended 30 June 2005. The directors of the Australian Accounting Standards Board are responsible for the integrity of both the annual report and the website.

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 or from the audited financial statements.

If the 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 Position, Financial Performance 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 2005.

The directors of the Australian Accounting Standards Board are responsible for preparing the financial statements that give a true and fair view of the financial position and performance of the Australian Accounting Standards Board, and that comply with Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, accounting standards and other mandatory financial reporting requirements in Australia. The directors of the Australian Accounting Standards Board are also responsible 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 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 statements; 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 Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

### **Audit Opinion**

In my opinion, the financial statements of the Australian Accounting Standards Board:

- (a) have been prepared in accordance with Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*; and
- (b) give a true and fair view of the Australian Accounting Standards Board's financial position as at 30 June 2005 and of its performance and cash flows for the year then ended, in accordance with:
  - (i) the matters required by the Finance Minister's Orders; and
  - (ii) applicable accounting standards and other mandatory financial reporting requirements in Australia.

Australian National Audit Office



P Hinchey  
Senior Director  
Delegate of the Auditor-General

Sydney  
23 September 2005



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

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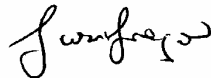
In our opinion, the attached financial statements for the year ended 30 June 2005 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*.

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.



C. Macek  
Chairman – FRC  
16 September 2005



Graeme McGregor, AO  
Director  
16 September 2005



David Boymal  
Chairman – AASB  
16 September 2005

**Australian Accounting Standards Board**  
**Statement of financial performance**  
for the year ended 30 June 2005

	Notes	2005 \$	2004 \$
<b>Revenues from ordinary activities</b>			
Revenues from government	4A	2,440,000	1,500,000
Sales of publications	4B	138,176	136,040
Interest	4C	91,864	99,051
Grants and contributions	4D	2,339,085	3,545,000
Other revenues	4E	78,374	1,964
<b>Total revenues from ordinary activities</b>		<b>5,087,499</b>	<b>5,282,055</b>
<b>Expenses from ordinary activities</b>			
Employees	5A	2,349,962	2,141,986
Suppliers	5B	1,210,836	834,648
Depreciation and amortisation	5C	197,094	100,234
Impairment of assets	1.10	11,644	-
Other - Contribution to IASCF	5D	1,000,000	300,000
Other - Contribution to AUASB	5D	544,431	-
<b>Total expenses from ordinary activities</b>		<b>5,313,967</b>	<b>3,376,868</b>
<b>Net (deficit)/surplus</b>		<b>(226,468)</b>	<b>1,905,187</b>
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>			
		<b>(226,468)</b>	<b>1,905,187</b>

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

**Australian Accounting Standards Board**  
**Statement of financial position**  
as at 30 June 2005

	Notes	2005 \$	2004 \$
<b>ASSETS</b>			
<b>Financial assets</b>			
Cash	6A	2,068,227	3,068,761
Receivables	6B	50,850	63,265
<b>Total financial assets</b>		<b>2,119,077</b>	<b>3,132,026</b>
<b>Non-financial assets</b>			
Leasehold improvements	7A,C	683,822	16,223
Plant and equipment	7B,C	230,785	116,706
Inventory	7D	4,537	2,638
Prepaid expenses		54,599	20,689
<b>Total non-financial assets</b>		<b>973,743</b>	<b>156,256</b>
<b>Total assets</b>		<b>3,092,820</b>	<b>3,288,282</b>
<b>LIABILITIES</b>			
<b>Provisions</b>			
Employees	8A	637,998	638,664
<b>Total provisions</b>		<b>637,998</b>	<b>638,664</b>
<b>Payables</b>			
Suppliers	9	121,318	90,811
Subscriptions in advance		41,886	45,056
Other	9	49,318	44,983
<b>Total payables</b>		<b>212,522</b>	<b>180,850</b>
<b>Total liabilities</b>		<b>850,520</b>	<b>819,514</b>
<b>NET ASSETS</b>		<b>2,242,300</b>	<b>2,468,768</b>
<b>EQUITY</b>			
Accumulated surplus	10	2,242,300	2,468,768
<b>Total equity</b>		<b>2,242,300</b>	<b>2,468,768</b>
<b>Current liabilities</b>		<b>366,856</b>	<b>283,817</b>
<b>Non-current liabilities</b>		<b>483,664</b>	<b>535,697</b>
<b>Current assets</b>		<b>2,178,213</b>	<b>3,155,353</b>
<b>Non-current assets</b>		<b>914,607</b>	<b>132,929</b>

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 2005

	Notes	2005 \$	2004 \$
<b>OPERATING ACTIVITIES</b>			
<b>Cash received</b>			
Revenues from government		2,440,000	1,500,000
Goods and services		149,350	147,795
Interest		91,864	99,051
GST recovered from taxation authority		237,377	111,329
Grants and contributions		2,530,000	3,560,000
Other		78,374	44,542
<b>Total cash received</b>		<b>5,526,965</b>	<b>5,462,717</b>
<b>Cash used</b>			
Employees		2,350,080	2,250,069
Suppliers		1,486,893	1,889,555
GST paid to taxation authority		175,110	96,068
Contribution to IASB		1,000,000	-
Contribution to AUASB		525,000	-
<b>Total cash used</b>		<b>5,537,083</b>	<b>4,235,692</b>
<b>Net cash (used by) from operating activities</b>	11	<b>(10,118)</b>	<b>1,227,025</b>
<b>INVESTING ACTIVITIES</b>			
<b>Cash received</b>			
		-	-
<b>Cash used</b>			
Purchase of leasehold improvements, plant and equipment		(990,416)	(62,991)
<b>Total cash used</b>		<b>(990,416)</b>	<b>(62,991)</b>
<b>Net cash used by investing activities</b>		<b>(990,416)</b>	<b>(62,991)</b>
<b>Net decrease in cash held</b>		<b>(1,000,534)</b>	<b>1,164,034</b>
Cash at the beginning of the reporting period	6A	3,068,761	1,904,727
<b>Cash at the end of the reporting period</b>	6A	<b>2,068,227</b>	<b>3,068,761</b>

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

**Australian Accounting Standards Board**  
**Schedule of commitments**  
as at 30 June 2005

	Notes	2005	2004
		\$	\$
<b>BY TYPE</b>			
<b>Other commitments</b>			
Operating leases		2,729,842	160,398
<b>Total other commitments</b>		<b>2,729,842</b>	160,398
<b>Commitments receivable</b>		<b>(248,168)</b>	(23,672)
<b>Net commitments</b>		<b>2,481,674</b>	136,726
<b>BY MATURITY</b>			
<b>Operating lease commitments</b>			
One year or less		636,814	50,948
From one to five years		2,093,028	109,450
<b>Total operating lease commitments</b>		<b>2,729,842</b>	160,398
<b>Commitments receivable</b>		<b>(248,168)</b>	(23,672)
<b>Net commitments</b>		<b>2,481,674</b>	136,726

All commitments are GST inclusive where relevant.

Operating leases are effectively non-cancellable and comprise:

<i>Nature of lease</i>	<i>General description of leasing arrangement</i>
Lease for office accommodation	Lease payments are subject to increase in accordance with upward movements in the Consumer Price Index.
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.

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

**Australian Accounting Standards Board**  
**Schedule of contingencies**

as at 30 June 2005

<b>Contingent liability</b>	<b>Note</b>	<b>Contribution to IASCF</b>	
		<b>2005</b>	<b>2004</b>
Balance from previous period		<b>1,000,000</b>	-
New		-	1,000,000
Obligation expired *	5D	<b>(1,000,000)</b>	-
<b>Total contingent liabilities</b>		-	1,000,000

\* Contribution of \$1 million was paid to the IASCF in November 2004.

There are no known contingencies at 30 June 2005.

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

## 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 2005)*);
- 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 2003-04 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.

## Financial reports

Certain of the grants and contributions revenue received in 2003-04 was earmarked as a contribution to the International Accounting Standards Committee Foundation (IASCF) and was expended in 2004-05.

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 2005. 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 2005 amounted to \$2,282,500 (2004: \$1,985,275) compared to the net market value of attributable assets of \$2,169,500 (2004: \$1,789,489), giving a deficiency of \$113,000 (2004: deficiency \$195,786). A provision for this guaranteed deficiency has been recognised at 30 June 2005 (refer Notes 5A and 8A).

Contributions during the year ended 30 June 2005 on behalf of employees with minimum guaranteed benefits amounted to \$47,799 (2004: \$58,159). 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 \$82,786 in 2005.

**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 18.

**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.

## Financial reports

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 leasehold improvements, 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 generally carried at fair value. Valuations at fair value, as at 30 June 2004, were Directors' valuations after a review of all leasehold improvements, plant and equipment assets, their useful lives, depreciation rates and methods applied.

Leasehold improvements at 30 June 2005 are carried at depreciated replacement cost because the Leasehold Improvements relate to a fitout which was carried out in the period September to December 2004, and therefore the carrying amount is not materially different, as at the reporting date, from its fair value.

Valuations undertaken in any year are as at 30 June.

Fair values for each class of asset are determined as follows:

Furniture and equipment (other than computer equipment)	Market selling price
Computers and related equipment	Depreciated replacement cost
Leasehold Improvements	Depreciated replacement cost

#### *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:

	2005	2004
Leasehold improvements	<b>Lease term</b>	Lease term
Plant and equipment	<b>3 to 10 years</b>	3 to 10 years

### 1.10 Impairment of non-current assets

Other than a write-down of old assets amounting to \$11,644, non-current assets have been assessed as having no other indications of impairment.

### 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 2005-06**

Accounting Standard AASB 1047 *Disclosing the Impact of Adopting Australian Equivalents to International Financial Reporting Standards* requires that the financial statements for 2004-05 disclose:

- an explanation of how the transition to the Australian equivalents to International Financial Reporting Standards (AEIFRS) is being managed;
- narrative explanations of the key differences in accounting policies arising from the transition to AEIFRS;
- any known or reliably estimable information about the impacts on the financial report had it been prepared using AEIFRS; and
- if the impacts of the above are not known or reliably estimable, a statement to that effect.

Where an entity is not able to make a reliable estimate, or where quantitative information is not known, the entity should update the narrative disclosures of the key differences in accounting policies that are expected to arise from the adoption of AEIFRS.

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). IFRSs 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 AEIFRS, in his Orders for the Preparation of Authorities' financial statements for 2005-06 and beyond.

AEIFRS 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 AEIFRS.

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 AEIFRS:

- Identification of all major accounting policy differences between current AASB standards and AEIFRS;
- Identification of system changes necessary to be able to report under AEIFRS, including those necessary to enable capture of data under both sets of rules for 2004-05;
- Preparation of a transitional balance sheet as at 1 July 2004, under AEIFRS, within 30 days of 30 June 2004;
- An AEIFRS compliant balance sheet was also prepared during the preparation of the 2004-05 statutory financial reports; and
- The 2004-05 Balance Sheet under AEIFRS will be reported to the Department of Finance and Administration in line with their reporting deadlines.

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 2004, 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 AEIFRS is expected to have no effect on the carrying value of these assets. In accordance with AEIFRS, property, plant and equipment will be subject to impairment testing.

*Employee benefits:*

The AASB has always recognised actuarial gains and losses relating to the guaranteed minimum benefits (equivalent to a defined benefit) section of the AASB superannuation plan. These gains and losses have been recognised in the Statement of Financial Performance and as a liability in the Statement of Financial Position of the AASB.

Under AEIFRS the calculation of actuarial gains and losses may produce slightly different figures and these will be recognised. The differences in gains and losses as calculated under AEIFRS are not expected to be material.

AEIFRS require that annual leave that is not expected to be taken within 12 months of balance date is to be discounted. Previously the AASB has recognised this liability at nominal value. The difference in the liability is not expected to be material.

*Financial instruments:*

Cash, receivables and payables will continue to be measured at nominal value.

Other financial assets and liabilities (if any) will be accounted for at fair value. Fair values will be published prices where an active market exists or by appraisal.

## Financial reports

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.

### Reconciliation of impacts — AGAAP to AEIFRS

	30 June 2005	Opening balance 1 July 2004
	\$	\$
<b>Reconciliation of AASB equity</b>		
Total equity under AGAAP	2,242,300	2,468,768
Adjustments to accumulated surplus	(86,765)	27,420
<b>Total equity under AEIFRS</b>	<b>2,155,535</b>	<b>2,496,188</b>
<b>Reconciliation of AASB net (deficit)</b>		
Total net (deficit) under AGAAP	(226,468)	
Adjustments:		
Employee entitlements — non-current annual leave	4,409	
Employee entitlements — superannuation	(91,174)	
<b>Total net (deficit) under AEIFRS</b>	<b>(313,233)</b>	
<b>Reconciliation of AASB employee provisions</b>		
Total employee provisions under AGAAP	637,998	638,664
Adjustment to superannuation	91,174	(22,885)
Adjustment to non-current annual leave	(4,409)	(4,535)
<b>Total employee provisions under AEIFRS</b>	<b>724,763</b>	<b>611,244</b>

### 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 to carry out its normal activities.

**Note 4: Operating revenues**

	2005 \$	2004 \$
<b>4A. Revenues from Government</b>		
ASIC funding	1,500,000	1,500,000
Appropriation funds from FRC	940,000	-
	<b>2,440,000</b>	1,500,000
<b>4B. Sales of publications</b>		
Publications	138,176	136,040
Sale of publications to:		
Related entities	4,000	3,803
External entities	134,176	132,237
<b>Total sales of publications</b>	<b>138,176</b>	136,040
Cost of sales of publications	138,478	39,022
<b>4C. Interest</b>		
Deposits	91,864	99,051
<b>4D. 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	110,000	60,000
Voluntary Corporate Contributions	32,500	235,000
Financial Institution Development Account. (for contribution to IASCF)	-	1,000,000
Companies Unclaimed Monies Account. (for 2004-05 operating expenses and relocation)	946,585	1,000,000
<b>Total grants and contributions revenue</b>	<b>2,339,085</b>	3,545,000
<b>4E. Other revenue</b>		
Seminar income	-	1,964
Recoupment of costs from AUASB	78,374	-

**Note 5: Operating expenses**

	2005 \$	2004 \$
<b>5A. Employee expenses</b>		
Wages and salaries	2,085,819	1,901,228
Superannuation*	169,687	164,227
Leave and other benefits	82,850	67,469
<b>Total employee benefits expenses</b>	<b>2,338,356</b>	2,132,924
Comcare premium	11,606	9,062
<b>Total employee expenses</b>	<b>2,349,962</b>	2,141,986
* Includes a decrease in the provision for superannuation of \$82,786 (decrease of \$68,385 in 2004). [Note 1.4 (c)]		
<b>5B. Suppliers expenses</b>		
Goods from external entities	171,769	124,052
Services from related entities	117,721	169,443
Services from external entities	541,114	444,874
Operating lease rental	380,232	96,279
<b>Total supplier expenses</b>	<b>1,210,836</b>	834,648
<b>5C. Depreciation and amortisation</b>		
Depreciation of leasehold improvements, plant and equipment	197,094	100,234
The aggregate amounts of depreciation or amortisation expensed during the reporting period for each class of depreciable asset are as follows:		
Leasehold improvements	119,910	48,668
Plant and equipment	77,184	51,566
<b>Total depreciation and amortisation</b>	<b>197,094</b>	100,234
<b>5D. Other</b>		
Contribution to International Accounting Standards Committee Foundation towards the development of international accounting standards	1,000,000	300,000
Contribution to the Auditing and Assurance Standards Board*	544,431	-
<b>Total other</b>	<b>1,544,431</b>	300,000

\* During the AUASB establishment period AUASB funding from the FRC was via the AASB.



**Note 6: Financial assets**

	2005 \$	2004 \$
<b>6A. Cash and Term Deposit</b>		
Cash at bank and on hand	2,068,227	3,068,761
	<b>2,068,227</b>	3,068,761
Balance of cash as at 30 June shown in the Statement of Cash Flows	<b>2,068,227</b>	3,068,761
<b>6B. Receivables</b>		
Goods and services	50,296	42,661
GST receivable	554	20,604
	<b>50,850</b>	63,265
Receivables (gross) are aged as follows:		
Not overdue	<b>50,850</b>	63,265

**Note 7: Non-financial assets**

	2005 \$	2004 \$
<b>7A. Leasehold improvements</b>		
Leasehold improvements at valuation - 30 June 2003	-	364,313
Leasehold improvements at fair value	803,732	-
Accumulated amortisation	(119,910)	(348,090)
<b>Total leasehold improvements (non-current)</b>	<b>683,822</b>	16,223
<b>7B. Plant and equipment</b>		
Plant and equipment at valuation - 30 June 2003	-	187,134
Plant and equipment at cost	-	62,991
Plant and equipment at fair value	396,585	-
Accumulated depreciation	(165,800)	(133,419)
<b>Total plant and equipment (non-current)</b>	<b>230,785</b>	116,706

**7C. 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 \$
<b>As at 1 July 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>
Additions by purchase	787,509	202,907
Depreciation/amortisation expense	(119,910)	(77,184)
Impairment of assets	-	(11,644)
<b>As at 30 June 2005</b>		
Gross book value	803,732	396,585
Accumulated Depreciation/Amortisation	(119,910)	(165,800)
<b>Net book value</b>	<b>683,822</b>	<b>230,785</b>

**Note 7: Non-financial assets (continued)**

**7C. Analysis of leasehold improvements, plant and equipment (continued)**

Table A2: Assets at valuation

	Leasehold Improvements \$	Plant and equipment \$	Total \$
<b>As at 30 June 2005</b>			
Gross book value	803,732	396,585	1,200,317
Accumulated Depreciation/Amortisation	(119,910)	(165,800)	(285,710)
<b>Net book value</b>	<b>683,822</b>	<b>230,785</b>	<b>914,607</b>
<b>As at 30 June 2004</b>			
Gross book value	364,313	187,134	551,447
Accumulated Depreciation/Amortisation	(348,090)	(44,496)	(392,586)
<b>Net book value</b>	<b>16,223</b>	<b>142,638</b>	<b>158,861</b>
	<b>2005</b>		2004
	<b>\$</b>		<b>\$</b>
<b>7D. Inventories</b>			
Inventories held for sale		<b>4,537</b>	2,638
<b>Total inventories</b>		<b>4,537</b>	2,638

All inventories are current assets.

**Note 8: Provisions**

	2005 \$	2004 \$
<b>8A. Employee Provisions</b>		
Salaries and wages	1,326	2,145
Annual Leave	241,940	190,986
Long Service Leave	281,732	249,747
Superannuation [Note 1.4 (c)]	113,000	195,786
<b>Aggregate employee entitlement liability</b>	<b>637,998</b>	638,664
Employee provisions are categorised as follows:		
Current	154,334	102,968
Non-current	483,664	535,696
	<b>637,998</b>	638,664

**Note 9: Payables**

	2005 \$	2004 \$
Trade creditors	121,318	90,811
Other payables	49,318	44,982
	<b>170,636</b>	135,793

All payables are current.

**Note 10: Equity**

	Accumulated surplus	
	2005 \$	2004 \$
Opening balance 1 July	2,468,768	563,581
Net (deficit)/surplus	(226,468)	1,905,187
Closing balance as at 30 June	2,242,300	2,468,768
<b>Total equity attributable to the Commonwealth</b>	<b>2,242,300</b>	<b>2,468,768</b>

**Note 11: Cash flow reconciliation**

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

	2005 \$	2004 \$
Net (deficit)/surplus	(226,468)	1,905,187
Depreciation and amortisation	197,094	100,234
Impairment of assets	11,643	-
Changes in assets and liabilities		
Decrease/(increase) in receivables	12,415	(37,968)
Decrease/(increase) in inventories	(1,899)	452
Decrease/(increase) in prepaid expenses	(33,910)	(6,608)
Increase/(decrease) in employee provisions	(665)	(9,271)
Increase/(decrease) in liability to suppliers	30,507	(31,185)
Decrease in subscriptions in advance	(3,170)	(2,375)
Increase/(decrease) in other payables	4,335	(691,441)
Net cash (used by)/from operating activities	(10,118)	1,227,025

**Note 12: Directors remuneration**

	2005	2004
The number of directors of the AASB included in these figures are shown below in the relevant remuneration bands.		
\$. . . Nil — \$9,999 <sup>#</sup>	22	21
\$20,000 — \$29,999	-	1
\$70,000 — \$79,999	1	-
Total	23	22
Aggregate amount of superannuation payments in connection with the retirement of directors	7,412	2,250
Other remuneration received or due and receivable by directors of the AASB	84,402	25,000
<b>Total remuneration received or due and receivable by directors of the AASB*</b>	<b>91,814</b>	<b>27,250</b>

\* Directors' remuneration relates to the remuneration of the FRC Chairman and the sitting fees paid to members of the FRC. The members of the FRC are the Directors of both the AASB and the AUASB, however their remuneration, and all FRC related expenses are met by the Department of Treasury.

# Thirteen (13) (2004: 21) of the members in the Nil — \$9,999 range received no remuneration.

## Financial reports

### **Note 13: Related party disclosures**

The members of the FRC are the Directors of the AASB.

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

- Charles Macek – Chairman
- Elizabeth Alexander, AM – Deputy Chairman
- Don Challen
- Karen Hamilton (resigned 31 December 2004)
- Richard Humphry, AO (appointed 7 March 2005)
- Warwick Hunt (appointed 9 February 2005)
- David Jackson
- John Langoulant (resigned 16 July 2004)
- Graeme McGregor, AO
  - Greg Larsen (alternate to Mr McGregor until 6 March 2005)
- Jim Murphy
  - Mike Rawstron (alternate to Mr Murphy)
- Tom Pockett
- Gregory Pound (resigned 30 June 2005)
- Phillip Prior
  - James Kerwin (alternate to Mr Prior until 12 September 2004)
- Brian Scullin
- Lewis Ting (resigned 6 September 2004)
- Catherine Walter AM
- Jan West (appointed 7 March 2005)
  - Stephen Harrison, AO (alternate to Ms West)
- Klaus Zimmermann
  - Roger Cotton (alternate to Mr Zimmermann)

**Note 14: Remuneration of officers**

	2005	2004
The number of Officers who received or were due to receive total remuneration of \$100,000 or more:		
\$130,001 — \$140,000	1	1
\$170,001 — \$180,000	-	1
\$260,001 — \$270,000	2	1
	<b>3</b>	<b>3</b>
The aggregate amount of total remuneration of officers shown above	<b>\$673,895</b>	\$573,503

The officer remuneration includes officers concerned with or taking part in the management of the AASB during 2004-05 except the FRC Chairman. Details in relation to the remuneration of the FRC Chairman and FRC members have been incorporated into Note 12: Directors Remuneration.

**Note 15: Remuneration of part-time members of the AASB**

	2005	2004
	\$	\$
Sitting fees	<b>79,069</b>	94,612

**Note 16: Remuneration of auditors**

	2005	2004
	\$	\$
Remuneration to the Australian National Office (ANAO) for auditing the financial statements for the reporting period	<b>15,000</b>	15,000

No other services were provided by the (ANAO) during the reporting period.

**Note 17: Average staffing levels**

	2005	2004
The average staffing levels for the AASB during the year were (equivalent full time staff)	<b>22</b>	21

Financial reports

**Note 18: Financial instruments**

(a) Terms, conditions and accounting policies

<b>Financial instrument</b>	<b>Notes</b>	<b>Accounting policies and methods (including recognition criteria and measurement basis)</b>	<b>Nature of underlying instruments (including significant terms and conditions affecting the amount, timing and certainty of cash flows)</b>
Financial assets		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash and term deposit	6A	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	6B	These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts.	Credit terms are net 14 days (2004: 14 days)
Financial liabilities		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	9	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	9	Refer to Note 9.	Refer to Note 9.

## Note 18: Financial instruments (continued)

### (b) Interest rate risk

	Notes	Floating interest rate		Non-interest bearing		Total		Weighted average effective interest rate	
		04-05	03-04	04-05	03-04	04-05	03-04	04-05	03-04
		\$	\$	\$	\$	\$	\$	%	%
<b>Financial assets (recognised)</b>									
Cash on hand	6A	-	-	1,691	2,669	1,691	2,669	n/a	n/a
Cash at bank-cheque account	6A	527,375	38,901	-	-	527,375	38,901	3.8	3.52
Cash at bank-AASB bus invest a/c	6A	1,518,619	425,638	-	-	1,518,619	425,628	5.1	4.73
Cash at bank-FRC bus invest a/c	6A	20,542	2,601,553	-	-	20,542	2,601,553	4.28	4.46
Receivables	6B	-	-	50,850	63,265	50,850	63,265	n/a	n/a
Total financial assets (recognised)		2,066,536	3,066,092	52,541	65,934	2,119,077	3,132,016		
<b>Total assets</b>						<b>3,092,820</b>	<b>3,288,282</b>		
<b>Financial liabilities (recognised)</b>									
Supplier payables	9	-	-	121,318	90,811	121,318	90,811	n/a	n/a
Other payables	9	-	-	49,318	44,983	49,318	44,983	n/a	n/a
Total financial liabilities (recognised)		-	-	170,636	135,794	170,636	135,794		
<b>Total liabilities</b>						<b>850,520</b>	<b>819,514</b>		

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

### (d) Credit risk exposures

The economic entity's maximum exposures 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.





## **AUDITING AND ASSURANCE STANDARDS BOARD**

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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 website of the Auditing and Assurance Standards Board for the year ended 30 June 2005. The directors of the Auditing and Assurance Standards Board are responsible for the integrity of both the annual report and the website.

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 or from the audited financial statements.

If the 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 Auditing and Assurance Standards Board's annual report.

### **Scope**

The financial statements comprise:

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

for the Auditing and Assurance Standards Board for the year ended 30 June 2005.

The directors of the Auditing and Assurance Standards Board are responsible for preparing the financial statements that give a true and fair view of the financial position and performance of the Auditing and Assurance Standards Board, and that comply with Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, accounting standards and other mandatory financial reporting requirements in Australia. The directors of the Auditing and Assurance Standards Board are also responsible 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 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 Auditing and Assurance 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 statements; 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 Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

### **Audit Opinion**

In my opinion, the financial statements of the Auditing and Assurance Standards Board:

- (a) have been prepared in accordance with Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*; and
- (b) give a true and fair view of the Auditing and Assurance Standards Board's financial position as at 30 June 2005 and of its performance and cash flows for the year then ended, in accordance with:
  - (i) the matters required by the Finance Minister's Orders; and
  - (ii) applicable accounting standards and other mandatory financial reporting requirements in Australia.

Australian National Audit Office



P Hinchey  
Senior Director  
Delegate of the Auditor-General

Sydney  
23 September 2005

## **AUDITING AND ASSURANCE 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 2005 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 Auditing and Assurance 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.



C. Macek  
Chairman – FRC  
16 September 2005



Graeme McGregor AO  
Director  
16 September 2005



Merran Kelsall  
Chairman – AUASB  
16 September 2005

**Auditing and Assurance Standards Board**  
**Statement of financial performance**  
for the year ended 30 June 2005

	Notes	2005 \$
<b>Revenues from ordinary activities</b>		
Grants and contributions	4B	1,544,431
Interest	4A	4,854
Other revenues	4C	34,804
<b>Total revenues from ordinary activities</b>		<b>1,584,089</b>
<b>Expenses from ordinary activities</b>		
Employees	5A	638,972
Suppliers	5B	557,201
Depreciation and amortisation	5C	7,769
<b>Total expenses from ordinary activities</b>		<b>1,203,942</b>
<b>Net surplus</b>		<b>380,147</b>
<b>Total changes in equity other than those resulting from transactions with owners as owners.</b>		<b>380,147</b>

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

**Auditing and Assurance Standards Board**  
**Statement of financial position**  
as at 30 June 2005

	Notes	2005 \$
<b>ASSETS</b>		
<b>Financial assets</b>		
Cash	6A	399,613
Receivables	6B	132,910
<b>Total financial assets</b>		<u>532,523</u>
<b>Non-financial assets</b>		
Plant and equipment	7A,B	35,385
Prepaid expenses		3,144
<b>Total non-financial assets</b>		<u>38,529</u>
<b>Total assets</b>		<u>571,052</u>
<b>LIABILITIES</b>		
<b>Provisions</b>		
Employees	8A	79,287
<b>Total provisions</b>		<u>79,287</u>
<b>Payables</b>		
Suppliers	9	79,930
Other	9	31,688
<b>Total payables</b>		<u>111,618</u>
<b>Total liabilities</b>		<u>190,905</u>
<b>NET ASSETS</b>		<u>380,147</u>
<b>EQUITY</b>		
Accumulated surplus	10	380,147
<b>Total equity</b>		<u>380,147</u>
<b>Current liabilities</b>		136,399
<b>Non-current liabilities</b>		54,506
<b>Current assets</b>		535,667
<b>Non-current assets</b>		35,385

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

**Auditing and Assurance Standards Board**  
**Statement of cash flows**  
for the year ended 30 June 2005

	Notes	2005 \$
<b>OPERATING ACTIVITIES</b>		
<b>Cash received</b>		
Interest		4,854
GST recovered from taxation authority		13,221
Grants and contributions		1,248,132
Other		34,888
<b>Total cash received</b>		<b>1,301,095</b>
<b>Cash used</b>		
Employees		432,040
Suppliers		422,018
GST paid to taxation authority		28,750
<b>Total cash used</b>		<b>882,808</b>
<b>Net cash from operating activities</b>	11	<b>418,287</b>
<b>INVESTING ACTIVITIES</b>		
<b>Cash used</b>		
Purchase of plant and equipment		(18,674)
<b>Total cash used</b>		<b>(18,674)</b>
<b>Net cash used by investing activities</b>		<b>(18,674)</b>
<b>Net increase in cash held</b>		<b>399,613</b>
Cash at the beginning of the reporting period	6A	0
<b>Cash at the end of the reporting period</b>	6A	<b>399,613</b>

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



**Auditing and Assurance Standards Board**  
**Schedule of commitments**  
as at 30 June 2005

	Notes	2005 \$
<b>BY TYPE</b>		
<b>Other commitments</b>		
Operating leases		26,374
<b>Total other commitments</b>		<u>26,374</u>
<b>Commitments receivable</b>		<u>(2,398)</u>
<b>Net commitments</b>		<u>23,976</u>
<b>BY MATURITY</b>		
<b>Operating lease commitments</b>		
One year or less		8,792
From one to five years		17,582
<b>Total operating lease commitments</b>		<u>26,374</u>
<b>Commitments receivable</b>		<u>(2,398)</u>
<b>Net commitments</b>		<u>23,976</u>

All commitments are GST inclusive where relevant.

Operating leases are effectively non-cancellable and comprise:

<i>Nature of lease</i>	<i>General description of leasing arrangement</i>
Lease of photocopier	The lessor provides a photocopier for 36 months at a fixed instalment rate.

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

**Auditing and Assurance Standards Board**  
**Schedule of contingencies**  
as at 30 June 2005

There are no known contingencies at 30 June 2005.

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

## **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 2005)*);
- Australian Accounting Standards and Accounting Interpretations issued by the Australian Accounting Standards Board; and
- Consensus Views of the Urgent Issues Group.

The Auditing and Assurance Standards Board (AUASB) 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 AUASB 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 AUASB 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**

This the first year of reporting for the AUASB, accordingly no changes to accounting policy are applicable.

#### **1.3 Revenue**

The revenues described in this Note are revenues relating to the core operating activities of the AUASB.

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

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 AUASB 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 AUASB 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 2005. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

##### **(c) Superannuation**

The AUASB participates as an Associate Employer in the AASB Superannuation Plan, which provides accumulation benefits to members.

## Financial reports

For certain employees, the AUASB has guaranteed minimum accumulated balances equivalent to benefits under a defined benefit plan. Vested and accrued benefits of these members as at 30 June 2005 amounted to \$209,500 compared to the net market value of attributable assets of \$190,100, giving a deficiency of \$19,400. A provision for this guaranteed deficiency has been recognised at 30 June 2005 (refer Notes 5A and 8A).

Contributions during the year ended 30 June 2005 on behalf of employees with minimum guaranteed benefits amounted to \$41,987. Contribution expense represents the annual funding which is determined based on actuarial advice and the provision for the deficient asset position. The provision of \$19,400 has been recognised.

### 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 18.

### 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 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*

Plant and equipment are carried at fair value. Valuations undertaken in any year are as at 30 June.

Fair values for each class of asset are determined as follows:

Furniture and equipment (other than computer equipment)	Market selling price
Computers and related equipment	Depreciated replacement cost

#### *Depreciation and amortisation*

Depreciable plant and equipment assets are written-off to their estimated residual values over their estimated useful lives to the AUASB using, in all cases, the straight line method of depreciation.

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:

	2005
Plant and equipment	3 to 10 years

#### **1.10 Impairment of non-current assets**

Non-current assets carried at fair value 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 Taxation**

The AUASB 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.

#### **1.12 Insurance**

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

**Note 2: Adoption of Australian equivalents to international financial reporting standards from 2005-06**

Accounting Standard AASB 1047 *Disclosing the Impact of Adopting Australian Equivalents to International Financial Reporting Standards* requires that the financial statements for 2004-05 disclose:

- an explanation of how the transition to the Australian equivalents of International Financial Reporting Standards (AEIFRS) is being managed
- narrative explanations of the key differences in accounting policies arising from the adoption of AEIFRS
- any known or reliably estimable information about the impacts on the financial report had it been prepared using AEIFRS; and
- if the impacts of the above are not known or reliably estimable, a statement to that effect.

Where an entity is not able to make a reliable estimate, or where quantitative information is not known, the entity should update the narrative disclosures of the key differences in accounting policies that are expected to arise from the adoption of AEIFRS.

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). IFRSs 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 AEIFRS, in his Orders for the Preparation of Authorities' financial statements for 2005-06 and beyond.

AEIFRS contain certain additional provisions which will apply to not-for-profit entities, including the AUASB. However, it is expected that the AUASB will be able to assert compliance with AEIFRS.

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

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

The AUASB has taken the following steps in preparation for the implementation of AEIFRS:

- Identification of all major accounting policy differences between current AASB standards and AEIFRS;
- Identification of system changes necessary to be able to report under AEIFRS, including those necessary to enable capture of data under both sets of rules for 2004-05;
- An AEIFRS compliant balance sheet was prepared during the preparation of the 2004-05 statutory financial reports; and
- The 2004-05 Balance Sheet under AEIFRS will be reported to the Department of Finance and Administration in line with their reporting deadlines.

Changes to major accounting policies are as follows:

*Plant and equipment*

At 30 June 2005, the AUASB assets were reported at fair value. The AUASB intends to continue to report plant and equipment at fair value and accordingly the application of AEIFRS is expected to have no effect on the carrying value of these assets. In accordance with AEIFRS, plant and equipment will be subject to impairment testing.

*Employee benefits*

The AUASB has recognised actuarial gains and losses relating to the guaranteed minimum benefits (equivalent to a defined benefit) section of the AASB superannuation plan in 2004-05. These gains and losses have been recognised in the Statement of Financial Performance and as a liability in the Statement of Financial Position of the AUASB.

Under AEIFRS the calculation of actuarial gains and losses may produce slightly different figures and these will be recognised. The differences in gains and losses as calculated under AEIFRS are not expected to be material.

AEIFRS require that annual leave that is not expected to be taken within 12 months of balance date is to be discounted. In 2004-05 the AUASB has recognised this liability at nominal value. The difference in the liability is not expected to be material.

*Financial instruments*

Cash, receivables and payables will continue to be measured at nominal value.

Other financial assets and liabilities (if any) will be accounted for at fair value. Fair values will be published prices where an active market exists or by appraisal.

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.

## Reconciliation of impacts — AGAAP to AEIFRS

	30 June 2005 \$
Reconciliation of AUASB equity	
Total equity under AGAAP	380,147
Adjustments to Accumulated Surplus	(17,398)
<b>Total equity under AEIFRS</b>	<b>362,749</b>
Reconciliation of AUASB net surplus	
Total net surplus under AGAAP:	380,147
Adjustments	
Employee entitlements — non-current annual leave	535
Employee entitlements — superannuation	(17,933)
<b>Total net surplus under AEIFRS</b>	<b>362,749</b>
Reconciliation of AUASB employee Provisions	
Total employee provisions under AGAAP	79,287
Adjustment for superannuation	17,933
Adjustment for non-current annual leave	(535)
<b>Total employee provisions under AEIFRS</b>	<b>96,685</b>

### Note 3: Economic dependency

The AUASB is dependent on funding from the Parliament of the Commonwealth and contributions from CPA Australia, The Institute of Chartered Accountants in Australia and the National Institute of Accountants to carry out its normal activities.

### Note 4: Operating revenues

	2005 \$
<b>4A. Interest</b>	
Deposits	4,854
<b>4B. Grants and contributions</b>	
Contributions	
- CPA Australia	425,000
- The Institute of Chartered Accountants in Australia	425,000
- National Institute of Accountants	150,000
- Australian Accounting Standards Board*	544,431
<b>Total grants and contributions revenue</b>	<b>1,544,431</b>
* During the AUASB establishment period AUASB funding from the FRC was via the AASB.	
<b>4C. Other revenue</b>	
Settlement for Employee Entitlements transferred from Australian Accounting Research Foundation to AUASB	34,804



**Note 5: Operating expenses**

	<b>2005</b>
	<b>\$</b>
<b>5A. Employee expenses</b>	
Wages and salaries	538,542
Superannuation*	63,627
Leave and other benefits	35,106
<i>Total employee benefits expenses</i>	<u>637,275</u>
Comcare premium	1,697
<b>Total employee expenses</b>	<u>638,972</u>
* Includes a provision for superannuation of \$19,400. [Note 1.4 (c)]	
<b>5B. Suppliers expenses</b>	
Goods from external entities	145,866
Services from related entities	216,183
Services from external entities	195,152
<b>Total supplier expenses</b>	<u>557,201</u>
<b>5C. Depreciation and amortisation</b>	
Depreciation of plant and equipment	7,769
<b>Total depreciation and amortisation</b>	<u>7,769</u>

**Note 6: Financial assets**

	<b>2005</b>
	<b>\$</b>
<b>6A. Cash and Term Deposit</b>	
Cash at bank and on hand	399,613
	<u>399,613</u>
Balance of cash as at 30 June shown in the Statement of Cash Flows	<u><b>399,613</b></u>
<b>6B. Receivables</b>	
Goods and services	132,910
	132,910
Receivables (gross) are aged as follows:	
Not overdue	<u><b>132,910</b></u>

## Note 7: Non-financial assets

	<b>2005</b>
	<b>\$</b>
<b>7A. Plant and equipment</b>	
Plant and equipment at fair value	43,154
Accumulated depreciation	(7,769)
Total Plant and Equipment (non-current)	<b>35,385</b>

### 7B. Analysis of Plant and Equipment

Table A1: Reconciliation of the opening and closing balances of plant and equipment

	<b>Plant and equipment</b>
	<b>\$</b>
As at 1 July 2004	
Gross book value	-
Accumulated depreciation/amortisation	-
<b>Net book value</b>	<b>-</b>
Additions by purchase	43,154
Depreciation/amortisation expense	(7,769)
As at 30 June 2005	
Gross book value	43,154
Accumulated Depreciation/Amortisation	(7,769)
<b>Net book value</b>	<b>35,385</b>

Table A2: Assets at valuation

	<b>Plant and Equipment</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
As at 30 June 2005		
Gross book value	43,154	43,154
Accumulated Depreciation/Amortisation	(7,769)	(7,769)
<b>Net book value</b>	<b>35,385</b>	<b>35,385</b>

## Note 8: Provisions

	<b>2005</b>
	<b>\$</b>
<b>8A. Employee provisions</b>	
Salaries and wages	2,911
Annual leave	32,650
Long service leave	24,326
Superannuation [Note 1.4 (c)]	19,400
<b>Aggregate employee entitlement liability</b>	<b>79,287</b>
Employee provisions are categorised as follows:	
Current	24,781
Non-current	54,506
	<b>79,287</b>

**Note 9: Payables**

	<b>2005</b>
	<b>\$</b>
Trade creditors	79,930
Other payables	31,688
	<b>111,618</b>

All payables are current.

**Note 10: Equity**

	<b>Accumulated Surplus 2005</b>
	<b>\$</b>
Opening balance 1 July	-
Net surplus	380,147
Closing balance as at 30 June	380,147
Total equity attributable to the Commonwealth	<b>380,147</b>

**Note 11: Cash Flow Reconciliation****Reconciliation of net surplus to net cash from operating activities**

	<b>2005</b>
	<b>\$</b>
Net surplus	380,147
Depreciation and amortisation	7,769
Contributions in kind	(19,431)
Changes in assets and liabilities	
Decrease/(increase) in receivables	(132,910)
Decrease/(increase) in prepaid expenses	(3,144)
Increase/(decrease) in employee provisions	79,287
Increase/(decrease) in liability to suppliers (operating)	74,881
Increase/(decrease) in other payables	31,688
Net cash from operating activities	<b>418,287</b>

**Note 12: Directors' remuneration**

	<b>2005</b>
The number of directors of the AUASB included in these figures are shown below in the relevant remuneration bands.	
\$Nil — \$9,999 <sup>#</sup>	22
\$70,000 — \$79,999	1
Total	<b>23</b>
Aggregate amount of superannuation payments in connection with the retirement of directors	7,412
Other remuneration received or due and receivable by directors of the AUASB	84,402
<b>Total remuneration received or due and receivable by directors of the AUASB*</b>	<b>\$91,814</b>

\* Directors' remuneration relates to the remuneration of the FRC Chairman and the sitting fees paid to members of the FRC. The members of the FRC are the Directors of both the AASB and the AUASB, however their remuneration, and all FRC related expenses are met by the Department of Treasury. The AUASB was established on 1 July 2004, therefore no Directors' remuneration for 2004 relates to the AUASB.

# Thirteen (13) of the 22 members in the Nil — \$9,999 range received no remuneration.

**Note 13: Related Party Disclosures**

The members of the FRC are the Directors of the AUASB.

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

- Charles Macek – Chairman
- Elizabeth Alexander, AM – Deputy Chairman
- Don Challen
- Karen Hamilton (resigned 31 December 2004)
- Richard Humphry, AO (appointed 7 March 2005)
- Warwick Hunt (appointed 9 February 2005)
- David Jackson
- John Langoulant (resigned 16 July 2004)
- Graeme McGregor, AO
  - Greg Larsen (alternate to Mr McGregor until 6 March 2005)
- Jim Murphy
  - Mike Rawstron (alternate to Mr Murphy)
- Tom Pockett
- Gregory Pound (resigned 30 June 2005)
- Phillip Prior
  - James Kerwin (alternate to Mr Prior until 12 September 2004)
- Brian Scullin
- Lewis Ting (resigned 6 September 2004)
- Catherine Walter AM
- Jan West (appointed 7 March 2005)
  - Stephen Harrison, AO (alternate to Ms West)
- Klaus Zimmermann
  - Roger Cotton (alternate to Mr Zimmermann)

**Note 14: Remuneration of officers**

	<b>2005</b>
The number of Officers who received or were due to receive total remuneration of \$100,000 or more:	
\$140,000 — \$149,999	1
	<u>1</u>
The aggregate amount of total remuneration of officers shown above	<u>\$142,248</u>

The officer remuneration includes officers concerned with or taking part in the management of the AUASB during 2004-05 except the FRC Chairman. Details in relation to the remuneration of the FRC Chairman and FRC members have been incorporated into Note 12: Directors Remuneration.

**Note 15: Remuneration of part-time members of the AUASB**

	<b>2005</b>
	<b>\$</b>
Sitting fees	<u>32,776</u>

**Note 16: Remuneration of auditors**

	<b>2005</b>
	<b>\$</b>
Remuneration to the Australian National Audit Office (ANAO) for auditing the financial statements for the reporting period	<u>15,000</u>

No other services were provided by the ANAO during the reporting period.

**Note 17: Average staffing levels**

	<b>2005</b>
The average staffing levels for the AUASB during the year were (equivalent full time staff)	<u>7</u>

**Note 18: Financial instruments****(a) Terms, conditions and accounting policies**

<b>Financial Instrument</b>	<b>Notes</b>	<b>Accounting Policies and Methods (including recognition criteria and measurement basis)</b>	<b>Nature of underlying instruments (including significant terms and conditions affecting the amount, timing and certainty of cash flows)</b>
Financial assets		Financial assets are recognised when control over future economic benefits is established and the amount of the benefit can be reliably measured.	
Cash and Term Deposit	6A	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 AUASB's bank in a Business Investment Account.
Receivables	6B	These receivables are recognised at the nominal amounts due less any provision for bad and doubtful debts.	Credit terms are net 14 days (2004: N/A).
Financial Liabilities		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	9	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	9	Refer to Note 9.	Refer to Note 9.

**(b) Interest rate risk**

	<b>Notes</b>	<b>Floating Interest Rate</b>	<b>Non-Interest Bearing</b>	<b>Total</b>	<b>Weighted Average Effective Interest Rate</b>
		<b>2004-05</b>	<b>2004-05</b>	<b>2004-05</b>	<b>2004-05</b>
		<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>%</b>
<b>Financial assets (recognised)</b>					
Cash on hand	6A	-	300	<b>300</b>	n/a
Cash at Bank-Cheque Account	6A	292,387	-	<b>292,387</b>	3.45
Cash at Bank-AUASB Bus Invest A/c	6A	106,926	-	<b>106,926</b>	4.68
Receivables	6B	-	132,910	<b>132,910</b>	n/a
Total financial assets (recognised)		399,313	133,210	<b>532,523</b>	
<b>Total assets</b>				<b>571,052</b>	
<b>Financial liabilities (recognised)</b>					
Supplier payables	9	-	79,930	<b>79,930</b>	n/a
Other payables	9	-	31,688	<b>31,688</b>	n/a
Total financial liabilities (recognised)		-	111,618	<b>111,618</b>	
<b>Total liabilities</b>				<b>190,905</b>	

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

(d) **Credit risk exposures**

The economic entity's maximum exposures 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 FINANCIAL REPORTING COUNCIL 1 JULY 2004 TO 30 JUNE 2005

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The Chairman, all members and alternates are non-executive directors of the Financial Reporting Council (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 2005, for 18 months

#### Members

Don Challen  
Secretary, Tasmanian Department of Treasury and Finance,  
Hobart  
Nominated by Heads of State and Territory Treasuries  
Reappointed on 7 March 2005, for 18 months

Karen Hamilton  
Chief Integrity Officer, Australian Stock Exchange, Sydney  
Nominated by the Australian Stock Exchange  
Appointed on 7 March 2003, for 3 years  
Resigned 31 December 2004

Richard Humphry AO  
Trustee, International Accounting Standards Committee  
Foundation  
Appointed on 7 March 2005, for 3 years

Warwick Hunt  
Chair, Accounting Standards Review Board of New Zealand  
Nominated by the New Zealand Minister of Finance  
Appointed on 9 February 2005, for 3 years

David Jackson  
Director, Australian Shareholders' Association, Sydney  
Nominated by the Australian Shareholders' Association  
Reappointed on 7 March 2005 for 18 months

John Langoulant  
Under Treasurer, Western Australian Department of Treasury  
and Finance, Perth  
Appointed on 7 March 2003, for 3 years  
Resigned 16 July 2004

## Members of the Financial Reporting Council (*continued*)

Graeme McGregor AO	Company Director, Melbourne Nominated by CPA Australia Reappointed on 7 March 2005, for 18 months
Jim Murphy	Executive Director, Markets Group, Department of the Treasury, Canberra Nominated by the Australian Government Appointed on 7 March 2003, for 3 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, Financial Management Group Department of Finance and Administration Nominated by the Australian Government Re-appointed on 13 September 2004, for 2 years
Gregory Pound	Chief Accountant, Australian Securities and Investments Commission, Melbourne Nominated by Australian Securities and Investment Commission Appointed on 7 March 2003, for 3 years Resigned 30 June 2005
Brian Scullin	Company Director and Adviser to Head of Deutsche Asset Management, Asia Pacific, Sydney Nominated by the Investment and Financial Services Association Appointed on 11 June 2003, for 3 years
Lewis Ting	Company Director, Sydney Nominated by The Institute of Chartered Accountants in Australia Appointed on 7 March 2003, for 3 years Resigned 6 September 2004
Catherine Walter AM	Company Director and Solicitor, Melbourne, and Chair of the Business Regulation Advisory Group Appointed on 7 March 2003, for 3 years
Jan West	Partner, Deloitte Touche Tohmatsu Nominated by The Institute of Chartered Accountants in Australia Appointed on 7 March 2005, for 3 years
Klaus Zimmermann	Chief Executive Officer, Eldercare Incorporated and Director, National Institute of Accountants, Adelaide Nominated by National Institute of Accountants Appointed on 7 March 2003, for 3 years

## Members of the Financial Reporting Council (*continued*)

### Alternate Members

Roger Cotton	Chief Executive Officer, National Institute of Accountants, Melbourne Nominated by National Institute of Accountants 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 Institute of Chartered Accountants in Australia Appointed as alternate to Mr Ting on 7 March 2003, for 3 years
James Kerwin	First Assistant Secretary, Agency Advice Unit, Department of Finance and Administration, Canberra 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

## APPENDIX B

### MEMBERS OF THE AUSTRALIAN ACCOUNTING STANDARDS BOARD 1 JULY 2004 TO 30 JUNE 2005

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The following were appointed to the Australian Accounting Standards Board (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 Retired 6 June 2005
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 Re-appointed 1 March 2005, for 2 years Resigned 30 April 2005.
Brett Kaufmann	Branch Manager, Accounting and Policy Branch, Department of Finance and Administration, Canberra Appointed 15 February 2003, for 3 years
Ken Leo (appointed Deputy Chairman, 4 May 2005)	Professor of Accounting, Curtin University of Technology, Perth Re-appointed 15 February 2005, for 2 years
Steve McClintock	Chief Financial Officer, Southcorp Limited, Sydney Appointed 15 February 2003, for 3 years

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

Frank Palmer	Director, Corporate Reporting Group, Macquarie Bank, Sydney Appointed 7 June 2005, for 3 years
Kris Peach	Partner, KPMG, Melbourne Appointed 15 February 2005, for 2 years
Des Pearson	Auditor General of Western Australia, Perth Appointed 7 June 2005, for 3 years
Joanna Perry	Chairman, FRSB (New Zealand) Appointed 1 January 2005, for one year
Ruth Picker (Deputy Chairman to 14 February 2005)	Partner, Ernst & Young, Melbourne Retired 14 February 2005
Bruce Porter	Partner, Deloitte Touche Tohmatsu, Melbourne Appointed 1 January 2005, for 3 years
Alice Williams	Director, Strategic Analytics (Aust) Pty Ltd, Melbourne Appointed 18 December 2002, for 3 years

### Observers

Wayne Cameron	Australian representative on the IPSASB Continued as an observer following his retirement as an AASB member on 6 June 2005
Warren McGregor	IASB Liaison member
Joanna Perry	Representative of New Zealand Financial Reporting Standards Board until appointed as a member on 1 January 2005

## MEMBERS OF THE UIG 1 JULY 2004 TO 30 JUNE 2005

### 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 2007
Paul Brunner	PricewaterhouseCoopers	Term ends 31 December 2005
Phil Hancock	Not-for-Profit Sector and Accounting and Finance Association of Australia and New Zealand	Term ends 11 May 2006
Elwyn Ingley	Local Government Sector	Term ends 31 March 2007
Julie Jagôt	Local Government Sector	Retired 31 March 2005
Alison Kitchen	KPMG	Term ends 14 February 2007
Jeffrey Knott	Medium and small accounting firms	Term ends 30 June 2006
Gerard Meade	Deloitte Touche Tohmatsu	Term ends 4 February 2007
John O'Grady	Ernst & Young	Term ends 30 June 2006
Kris Peach <sup>#</sup>	KPMG	Retired 14 February 2005
Christopher Pidcock*	Securities Institute of Australia	Term ends 28 February 2007
Bruce Porter <sup>#</sup>	Deloitte Touche Tohmatsu	Retired 31 December 2004
Keith Reilly	Professional Accounting Bodies	Term ends 30 June 2006
Geoff Steel	Group of 100	Term ends 11 May 2006
Robert Williams*	Heads of Treasuries Accounting and Reporting Advisory Committee	Terms ends February 2007

### Observer

Douglas Niven	Deputy Chief Accountant, ASIC	From October 2002
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<sup>#</sup> Ms Peach and Mr Porter retired from the UIG on being appointed to the AASB.

\* Mr Blake, Mr Pidcock and Mr Williams were reappointed for further two-year terms during 2004-05.



## APPENDIX C

### MEMBERS OF THE AUDITING AND ASSURANCE STANDARDS BOARD 1 JULY 2004 TO 30 JUNE 2005

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

#### **Chairman (part-time appointment by Treasurer)**

Merran Kelsall	Chairman AUASB Appointed 10 August 2004, for 3 years
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#### **Members (part-time appointments by the FRC)**

Dianne Azoor Hughes	National Technical Director Pitcher Partners, Melbourne Appointed 1 January 2005 until 31 December 2006
Gavin Campbell	Company Director Appointed 12 August 2004 Retired 31 December 2004
William Edge	Partner PricewaterhouseCoopers, Melbourne Appointed 30 August 2004 until 31 December 2005
Graham Ezzy	Partner Ernst & Young, Sydney Appointed 12 August 2004 Retired 31 December 2004
Grant Gay	Associate Professor Monash University, Clayton, Victoria Appointed 12 August 2004 Retired 31 December 2004
Keith Houghton	Dean and Professor of Business Administration, Faculty of Economics and Commerce The Australian National University, Canberra Appointed 12 August 2004 until 31 December 2005
Christine Jubb	Professor of Accounting Deakin Business School, Deakin University, Malvern, Victoria Appointed 1 January 2005 until 31 December 2007

## Appendix C: Members of the AUASB

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

Ian McPhee (IAASB Member)	Auditor-General Australian National Audit Office, Canberra Appointed 12 August 2004 until 31 December 2005.
Clive Mottershead	Partner Deloitte Touche Tohmatsu, Melbourne Appointed 12 August 2004 until 30 June 2005 Re-appointed on 1 July 2005 until 30 June 2007
Kevin Neville	Managing Partner Moore Stephens HF, Melbourne Appointed 12 August 2004 until 31 December 2004 Re-appointed 1 January 2005 until 31 December 2007
Robert Sendt (Deputy Chairman)	Auditor-General New South Wales Audit Office, Sydney Appointed 12 August 2004 until 30 June 2005 Re-appointed 1 July 2005, until 31 December 2006
Paul Shannon	Partner KPMG, Melbourne Appointed 12 August 2004 Retired 31 December 2004
Kim Smith	Partner Ernst & Young, Sydney Appointed 1 January 2005 until 31 December 2007
Jon Tyers	Head of Corporate Audit Services ING Group Australia, Sydney Appointed 1 January 2005 until 31 December 2007

### Observers

Roger Simnett	Professor, School of Accounting The University of New South Wales, Sydney
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## APPENDIX D

### ATTENDANCE AT MEETINGS

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#### Financial Reporting Council

The FRC met four times during 2004-05. Members' attendance is shown in the table:

Members	Number of meetings			Apologies
	Eligible to attend	Attended	Represented by alternate	
C Macek	4	4		
E Alexander	4	3		1
D Challen	4	4		
K Hamilton	2	2		
R Humphry	1	1		
W Hunt	2	2		
D Jackson	4	3		1
J Langoulant	0	0		
G McGregor	4	4		
J Murphy	4	4		
T Pockett	4	2		2
G Pound	4	3		1
P Prior	4	4		
B Scullin	4	3		1
L Ting	0	0		
C Walter	4	4		
J West	1	1		
K Zimmermann	4	3	1	
<b>Alternates:</b>				
R Cotton(a)		1		
S Harrison(b)		0		
J Kerwin(c)		0		
G Larsen(d)		0		
M Rawstron(e)		0		

Notes:

- (a) Alternate for Mr Zimmermann.
- (b) Alternate for Mr Ting.
- (c) Alternate for Mr Prior.
- (d) Alternate for Mr McGregor.
- (e) Alternate for Mr Murphy.

Appendix D: Attendance at meetings

**FRC Nominations Committee**

The FRC Nominations Committee held five meetings in 2004-05. Members' attendance is shown in the table below:

Members	Number of meetings			Apologies
	Eligible to attend	Attended	Represented by alternate	
P Prior (Chairman)	5	4		1
D Challen	5	4		1
K Zimmermann	5	4	1 (R Cotton)	
C Macek	5	4		1

**FRC Finance Committee  
AASB Audit Committee  
AUASB Audit Committee**

The FRC/AASB Audit Committee held one meeting during 2004-05. On 20 September 2004, the FRC agreed to the establishment of separate audit committees for each of the AASB and AUASB and to the establishment of a FRC Finance Committee, with the same FRC members comprising the membership for the three Committees. The Finance Committee and the two Audit Committees held four combined meetings during 2004-05. Members' attendance is shown in the table below.

Members	Number of meetings			Apologies
	Eligible to attend	Attended		
G McGregor AO (Chairman)	5	5		
E Alexander AM	1			1
D Jackson	5	5		
C Macek	5	3		2
B Scullin	5	5		
D Boymal (ex officio)	5	4		1
M Kelsall (ex officio)	5	1		4

### Audit Independence Subcommittee

The Audit Independence Subcommittee was established by the FRC on 18 June 2004 to supersede the CLERP 9 taskforce. The Subcommittee met eight times during 2004-05. Members' attendance is shown in the table below.

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
E Alexander AM (Chairman)	8	8	
K Hamilton	4	3	1
D Jackson	4	4	
C Macek	8	8	
G Pound	5	4	1
B Scullin	4	3	1
C Walter AM	8	6	2

### AUASB Strategic Direction Taskforce

The AUASB Strategic Direction taskforce was established towards the end of 2003-04 and met once in that year. It was wound up in September 2004 after one more meeting. Members' attendance in 2004-05 is shown in the table below.

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

### Australian Accounting Standards Board

The AASB met 10 times during 2004-2005 for a total of 20 meeting days, including a one-day strategy meeting. Members' attendance is shown in the table below:

Members	Number of days eligible to attend	Number of days attended	Apologies (days)
D Boymal	20	20	0
G Appleyard	20	18	2
W Cameron	18	15	3
G Campbell-Cowan	20	18	2
B Denison	20	17	3
J Downes	16	14	2
B Kaufmann	20	15	5
K Leo	20	17	3

Appendix D: Attendance at meetings

**Australian Accounting Standards Board (continued)**

<b>Members</b>	<b>Number of days eligible to attend</b>	<b>Number of days attended</b>	<b>Apologies (days)</b>
S McClintock	20	14	6
F Palmer	2	2	0
K Peach	11	11	0
D Pearson	2	2	0
J Perry	11	9	2
R Picker	11	9	2
B Porter	11	11	0
A Williams	20	12	8

**Urgent Issues Group**

The UIG met eight times during 2004-2005. 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	8	7	0	1
F Balzer	8	8	0	0
J Beecher	8	8	0	0
M Blake	8	6	2	2
P Brunner	8	7	0	1
P Hancock	8	6	2	2
E Ingley	2	2	0	0
J Jagôt	6	6	0	1
A Kitchen	3	3	0	0
J Knott	8	8	0	0
G Meade	4	4	0	0
J O'Grady	8	6	2	2
K Peach	5	5	0	0
C Pidcock	8	7	0	1
B Porter	4	4	0	0
K Reilly	8	7	1	1
G Steel	8	7	0	1
R Williams	8	8	0	0

### Auditing and Assurance Standards Board

The AUASB met eight times during the financial year for a total of eight 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>
M Kelsall	8	8	0
D Azoor Hughes	5	5	0
G Campbell	3	2	1
W Edge	8	7	1
G Ezzy	3	1	2
G Gay	3	3	0
K Houghton	8	6	2
C Jubb	5	5	0
I McPhee	8	6	2
C Mottershead	8	7	1
K Neville	8	8	0
R Sendt	8	8	0
P Shannon	3	2	1
K Smith	5	5	0
J Tyers	5	5	0

## APPENDIX E

# AUSTRALIAN ACCOUNTING STANDARDS BOARD WORK PROGRAMME

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### Progress made on 2004-05 work programme

#### FRC Year 2005 Strategy — Adoption of IASB Standards and Framework

Implementing the FRC Year 2005 strategic directive involved the adoption of the IASB Framework and the Accounting Standards as listed below.

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#### Framework for preparation and presentation of financial statements

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AASB 101	Presentation of Financial Statements
AASB 102	Inventories
AASB 107	Cash Flow Statements
AASB 108	Accounting Policies, Changes in Accounting Estimates and Errors
AASB 110	Events After the Balance Sheet Date
AASB 111	Construction Contracts
AASB 112	Income Taxes
AASB 114	Segment Reporting
AASB 116	Property, Plant and Equipment
AASB 117	Leases
AASB 118	Revenue
AASB 119	Employee Benefits
AASB 120	Accounting for Government Grants and Disclosure of Government Assistance
AASB 121	The Effects of Changes Foreign Exchange Rates
AASB 123	Borrowing Costs
AASB 124	Related Party Disclosures
AASB 127	Consolidated and Separate Financial Statements
AASB 128	Investments in Associates
AASB 129	Financial Reporting in Hyperinflationary Economies
AASB 130	Disclosures in the Financial Statements of Banks and Similar Financial Institutions
AASB 131	Interests in Joint Ventures
AASB 132	Financial Instruments: Disclosure & Presentation
AASB 133	Earnings per Share

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## FRC Year 2005 Strategy — Adoption of IASB Standards and Framework (*continued*)

### Framework for preparation and presentation of financial statements

AASB 134	Interim Financial Reporting
AASB 136	Impairment of Assets
AASB 137	Provisions, Contingent Liabilities and Contingent Assets
AASB 138	Intangible Assets
AASB 139	Financial Instruments: Recognition & Measurement
AASB 140	Investment Property
AASB 141	Agriculture
AASB 1	First-time Adoption of Australian Equivalents to International Financial Reporting Standards
AASB 2	Share-based Payment
AASB 3	Business Combinations
AASB 4	Insurance Contracts
AASB 5	Non-Current Asset as Held for Sale and Discontinued Operations
AASB 6	Exploration for and Evaluation of Mineral Resources
Implementing the FRC Year 2005 strategic directive also involved consequential amendments to remaining AASB Standards	
AASB 1004	Contributions(r) issued
AASB 1031	Materiality(r) issued
AASB 1023	General Insurance Contracts(r) issued
AASB 1038	Life Insurance Contracts(r) issued
AASB 1039	Concise Financial Reports(r)
AASB 1046A	Amendments to Accounting Standard AASB 1046

In addition, the AASB issued eleven amending standards during the year to reflect amendments made by the IASB to its Standards and some refinements made by the AASB and issued AASB 1048 *Interpretation and Application of Standards*.

### IASB-related projects involving significant AASB input

Project	IASB status	Outcomes to 30 June 2005
Extractive Activities	IASB research project	AASB leads a team (Canada, Norway and South Africa) researching issues for consideration by the IASB and National Standard Setters (NSS). Education session held with IASB in April 2005.
Joint Ventures	IASB research project	AASB leads a team (Hong Kong, Malaysia and New Zealand) researching issues for consideration by the IASB and NSS. A questionnaire was prepared and responses analysed, consultation with project panel and papers for consideration by IASB in preparation.
Intangible Assets	IASB research project	Project programme, issues and approach agreed by the IASB. AASB is researching issues for consideration by the IASB and NSS. Includes implementation review of IFRS 3/AASB 3.
Insurance Contracts Phase 2	IASB active project	AASB contributes through Working Group and a staff member on IASB Project Team.

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

Project	IASB status	Outcomes to 30 June 2005
Business Combinations Phase 2	IASB active project	Exposure Draft approved for issue.
Non-financial Liabilities	IASB active project	Exposure Draft approved for issue.
Reporting Comprehensive Income	IASB research project	Monitoring of project continues.
Revenue and related Liabilities	IASB research project	Monitoring of project continues.
Consolidation (including Special Purpose Entities)	IASB active project	Exposure Draft approved for issue. Monitoring project in respect of special purpose entities continues.
Post-employment Benefits (convergence)	IASB active project	Monitoring of project continues.
Measurement	IASB research project	Monitoring of project continues.
Leases	IASB research project	Monitoring of project continues.
Financial Instruments	IASB research project	Monitoring of project continues. Australia is represented on the IASB Advisory Working Group.
Small and Medium-sized Entities	IASB research project	Monitoring project and submissions made on questionnaire.

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

### IPSASB-related projects involving monitoring by the AASB

Project	PSC status	Outcomes to 30 June 2005
Non-exchange Revenues	PSC active project	The AASB decided it will issue the IPSASB Exposure Draft to coincide with its issue by IPSASB.
Social Policy Obligations	PSC active project	Monitoring of project continues. Australia is represented on the IPSASB Steering Committee.
Budget Reporting	PSC active project	Monitoring of project continues.
GAAP/GFS convergence	PSC active project	Monitoring of project continues. This project may affect the AASB's domestic work on GAAP/GFS convergence. Australia is represented on the IPSASB Technical Working Group.
Amending IPSASs for IASB Improvements	PSC active projects	Monitoring of project continues.
Impairment, Non-cash flow Assets	PSC active project	Monitoring of project continues.

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

### **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. This co-operation is reflected in the appointment of the Chairman of the New Zealand FRSB to the AASB and the AASB Chairman to the FRSB. In addition the Boards are considering proposals to share work and prepare common Board papers in respect of monitoring and involvement in IASB and IPSASB projects.

### **Domestic GAAP/GFS convergence project**

<b>Project</b>	<b>Outcomes to 30 June 2005</b>
GAAP/GFS convergence — Phase 1 — whole of government (including sector reporting). Reconciliation of government general purpose financial reporting with government finance statistics.	Consultation with a HOTARAC subcommittee, a Reference committee and a project advisory panel and analysis of responses to Consultative Papers. Exposure Draft ED 142 <i>Financial Reporting of General Government Sectors by Governments</i> approved for issue in July 2005.
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 and GBEs).	Consider flow on from Phases 1 and 2. See also the work on Local Government Review.
Not-for-profit Entities. Develop proposals on performance reporting and develop guidance to assist constituents to distinguish for-profit and 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.

## Appendix E: AASB Work Programme

### Other domestic projects (*continued*)

Project	Outcomes to 30 June 2005
Government Department review (non-GAAP/GFS convergence issues) 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.	AASB subcommittee and AASB considered staff papers and developed draft Exposure Draft. AASB decided to propose withdrawal of AAS 29 and to develop issues-based standards dealing with specific issues such as the distinction between controlled and administered items.
Local Government review. Revise AAS 27 <i>Financial Reporting by Local Governments</i> . This project may be affected by GAAP/GFS harmonisation.	Comments on ED 125 considered by the AASB and draft Standard developed. AASB decided to propose withdrawal of AAS 27 and to develop issues-based standards.
Revise AAS 25 <i>Financial Reporting by Superannuation Plans</i> to take account of the current environment in which plans operate.	No action on this project.
Develop recommendations for Managed Investment Schemes and the managers of the schemes in the context of impact of Financial Instruments standards.	No action on this project.
Segment Reporting in the Public Sector. Examine the specific issues associated with the public sector in light of the PSC Standard on segment reporting and undertake the normal due process as currently scoped out of AASB 1005 and AASB 114.	AASB decided to develop an Exposure Draft by updating IPSASB 18 <i>Segment Reporting</i> to reflect changes included in AASB 114.
Related Party Disclosures in the Public Sector. 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 as currently scoped out of AASB 1017, AAS 22 and AASB 124.	No action on this project.
Revise AASB 1039 <i>Concise Financial Reports</i> to take account of effects of adopting IASB Standards.	Revised AASB 1039 issued.
Revise AASB 1046 <i>Director and Executive Disclosures by Disclosing Entities</i> to reflect consequential amendments from AASB 2 <i>Share-based Payment</i> and general compliance with IFRSs.	AASB subcommittee formed. A draft Exposure Draft prepared with a view to withdrawing AASB 1046 and including disclosures in a revised AASB 124 <i>Related Party Disclosures</i> .
Parent Entity Financial Reports Consider submissions on Discussion paper and develop recommendations for submission to Treasury.	No action on this project.

### UIG interpretation projects

The UIG completed its review of IFRIC Interpretations and existing UIG Abstracts for consistency with Australian equivalents to IASB Standards. As part of this programme nine UIG Abstracts were withdrawn in 2003-04 and the remaining 45 Abstracts were withdrawn in 2004-05. 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 for adoption in Australia. The UIG also maintained its liaison with IFRIC on issues relating to gold hedging, service concessions, electricity derivatives, employee share plan loans, presentation of employee entitlements as financial liabilities and production taxes.

### **AASB work programme 2005-06**

The AASB work programme approved by the FRC includes:

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

Generally speaking, the AASB will be participating in and monitoring the projects of both the IASB/IFRIC and the IPSASB and progressing its own domestic projects, many of which relate mainly to the public sector. It is planned to work in conjunction with our New Zealand colleagues in respect of the IASB/IFRIC and IPSASB projects.

During 2005-06, the AASB is likely to spend a much greater amount of time on developing the research projects that it is leading on behalf of the IASB. Among other things, this involves preparing papers for consideration by the IASB.

The most time-consuming of the AASB's domestic projects is likely to remain the convergence of GAAP and GFS reporting.

Comment will be provided to the IASB/IFRIC and to the IPSASB on a wide range of their outputs. AASB staff will regularly provide comment on IASB/IFRIC and IPSASB 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 IPSASB meeting papers. The Board will also be involved in commenting on Exposure Drafts and other consultative documents issued by the IASB/IFRIC and IPSASB.

AASB staff will also provide briefings to Australians on the IPSASB, on IPSASB Steering Committees on Non-exchange Revenues and Social Policy Obligations, and on the IASB Working Groups on Insurance, Reporting Comprehensive Income and Financial Instruments, just prior to meetings.

## Appendix E: AASB Work Programme

### 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.
Joint Ventures	IASB research project	AASB leading a team (Hong Kong, Malaysia and New Zealand) to develop draft recommendations for consideration by the IASB.
Intangible Assets	IASB research project	AASB developing papers for consideration by the IASB.  Includes implementation review of IFRS 3/AASB 3.
Insurance Contracts Phase 2	IASB active project	AASB contributing through Project Team membership and input to the Australian member of Working Group.
Liability/Revenue Recognition	IASB active project	AASB contributing through Project Team membership.

### IASB-related projects involving monitoring by the AASB (in conjunction with New Zealand FRSB)

Project	IASB status	Proposed actions
Non-financial Liabilities (Provisions)	IASB active project	Designated as a project that the AASB should monitor closely.
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. AASB staff providing input to the Australian member of the Working Group.
Consolidation (including Special Purpose Entities)	IASB active project	Designated as a project that the AASB should monitor closely.
Financial Instruments	IASB research project	Monitor. AASB staff providing input to the Australian member of the Working Group.
Post-employment Benefits (convergence)	IASB active project	Monitor.
Measurement	IASB research project	Monitor.
Leases	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.

### **IFAC-IPSASB-related projects involving monitoring by the AASB (in conjunction with New Zealand FRSB)**

<b>Project</b>	<b>IPSASB status</b>	<b>Proposed actions</b>
Non-exchange Revenues	IPSASB active project	The AASB has agreed to the IPSASB ED as the basis for an AASB ED and is monitoring this project closely. Australia is represented on the PSC Steering Committee.
Social Policy Obligations	IPSASB active project	Designated as a project that the AASB should monitor closely. Australia is represented on the IPSASB Steering Committee.
GAAP/GFS convergence	IPSASB 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 IPSASB Technical Working Group.
Heritage Assets	IPSASB active project	Designated as a project that the AASB should monitor closely.
Budget Reporting	IPSASB active project	Monitor.
Amending IPSASs for IASB Improvements	IPSASB 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 IPSASB papers as they are considered by the IPSASB, and to provide comments and feedback on a continuous and timely basis.

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

#### **New Zealand Convergence Exercise**

In adopting the IASB standards, both the AASB and the New Zealand 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 2005-06.

## Appendix E: AASB Work Programme

### Domestic GAAP/GFS convergence project

Project	Status	Proposed actions
GAAP/GFS convergence — Phase 1 — whole of government (including sector reporting)	Consultation Paper comments considered — ED about to be released	Consider comments on ED, 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.

### Other domestic projects

Project	Status	Proposed actions
Definition of Not-for-Profit Entities	Definition used in existing AASB standards	Develop guidance to assist constituents to distinguish for-profit and not-for-profit entities. Consider New Zealand guidance on Public Benefit Entities.
Government Department review (non-GAAP/GFS convergence issues)	Draft ED in progress	Issue ED and revise AAS 29 Financial Reporting by Government Departments. This project is expected to be affected by GAAP/GFS convergence.
Local Government review	ED 125 comments considered	Deal with revenue recognition via IPSASB process and revise AAS 27 Financial Reporting by Local Governments. This project may be affected by GAAP/GFS convergence.
Superannuation Plans	AAS 25 (1993)	Develop an ED and revise AAS 25 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.
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 IPSASB Standard on related parties and undertake the normal due process.



**UIG/IFRIC interpretations**

<b>Project</b>	<b>Status</b>	<b>Proposed actions</b>
Public Sector Contributions by Owners	UIG Interpretation 1038	Revise for AASB decisions re definition of 'contributions by owners' and consider measurement issues.
Inventory Rebates and Discounts	UIG Interpretation in progress	Develop Australian Interpretation as IFRIC declined to address issues.
Service Concessions	IFRIC Draft Interpretations	Closely monitor the project.
Electricity Derivatives	Pending at IFRIC Agenda Committee	Further research requested. Consulting with Australian industry.
IFRIC projects	Draft Interpretations as they arise	Issue for comment in Australia and develop submissions.
IFRIC projects	Active projects as they arise	Monitor.
Domestic projects	Active projects as they arise	Carry out normal UIG due process.

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

Other IFRIC projects will be monitored as closely as possible by AASB staff, which will report issues of concern to the UIG on an exception basis. AASB staff will also provide briefings to the New Zealand member of the IFRIC prior to IFRIC meetings.

## APPENDIX F

# AUDITING AND ASSURANCE STANDARDS BOARD WORK PROGRAMME

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### Status of AUASB's 2004-05 work programme

#### Highest priorities

<b>Making Auditing Standards Framework</b>	<b>Output to 30 June 2005</b>
Foreword to Auditing Standards	Drafting commenced
<b>Standards</b>	
<b>GROUP 1</b>	
AUS 202 Objectives and General Principles Governing an Audit of a Financial Report	Drafting near completion. Issue of ED delayed.
AUS 402 Understanding the Entity and its Environment and Assessing the Risks of Material Misstatements	Drafting near completion. Issue of ED pending.
AUS 406 The Auditor's Procedures In Response to Assessed Risks	Drafting near completion. Issue of ED pending.
AUS 502 Audit Evidence	Drafting near completion. Issue of ED pending.
AUS 504 External Confirmations	Drafting near completion. Issue of ED pending.
AUS 506 Existence and Valuation of Inventory	Drafting near completion. Issue of ED pending
AUS 508 Inquiry Regarding Litigation and Claims	Drafting near completion. Issue of ED delayed.
AUS 520 Management Representations	Drafting commenced
<b>GROUP 2</b>	
AUS 204 Terms of Audit Engagements	Drafting commenced
AUS 206 Quality Control for Audits of Historical Financial Information	Drafting commenced
AUS 208 & AGS 1038 Documentation	Drafting not commenced
AUS 302 Planning	Drafting commenced

**Highest priorities (continued)**

<b>Making Auditing Standards Framework</b>	<b>Output to 30 June 2005</b>
<b>Standards</b>	
<b>GROUP 3</b>	
AUS 210 The Auditor's Responsibility to Consider Fraud and Error in an Audit of a Financial Report	Drafting commenced
AUS 218 Consideration of Laws and Regulations in an Audit of a Financial Report	Drafting not commenced
AUS 710 Communicating with Management on Matters Arising from an Audit	Drafting not commenced
<b>GROUP 4</b>	
AUS 212 Other Information in Documents Containing Audited Financial Reports	Drafting commenced
AUS 702 & AGS 1066 The Audit Report on a General Purpose Financial Report	Drafting not commenced
AUS 706 Subsequent Events	Drafting commenced
AUS 708 & AGS 1028 Going concern	Drafting not commenced
AUS 802 & AGS 1044 The Audit Report on Financial Information Other than a General Purpose Financial Report	Drafting not commenced
<b>GROUP 5</b>	
AUS 510 Initial Engagements — Opening Balances	Drafting not commenced
AUS 518 Related Parties	Drafting not commenced
AUS 704 Comparatives	Drafting not commenced
AUS 902 AGS 1016 Review of Financial Reports	Drafting not commenced
<b>GROUP 6</b>	
AUS 404 Audit Implications Relating to Entities Using a Service Entity	Drafting not commenced
AUS 522 & AGS 1026 Audit Evidence Implications of Externally Managed Assets of Superannuation, Provident or Similar Funds	Drafting not commenced
AUS 524 The Auditor's Use of the Work of the Actuary and the Actuary's Use of the Work of the Auditor in Connection with the Preparation and Audit of a Financial Report	Drafting not commenced
AUS 602 Using the Work of Another Auditor (Group audits)	Drafting not commenced
AUS 604 Considering the Work of Internal Auditing	Drafting not commenced
AUS 606 Using the Work of an Expert	Drafting not commenced
<b>GROUP 7</b>	
AUS 512 Analytical Procedures	Drafting not commenced
AUS 514 Audit Sampling and Other Selective Testing Procedures	Drafting not commenced
<b>GROUP 8</b>	
AUS 516 Audit of Accounting Estimates	Drafting not commenced
AUS 306 Materiality and Audit Adjustments	Drafting not commenced
AUS 526 Auditing Fair Value Measurements and Disclosures	Drafting not commenced

**Highest priorities (continued)**

<b>Making Auditing Standards Framework</b>	<b>Output to 30 June 2005</b>
<b>Standards</b>	
GROUP 9	Drafting not commenced
AUS 104 Glossary of Terms	
<b>Projects</b>	
Develop Business Plan to meet FRC's Strategic Direction	Completed
Develop Project Plan, including drafting protocols and work programme, for the re-issue of Auditing Standards as legislative instruments (CLERP 9).	Completed
International	
International Auditing and Assurance Standards Board (IAASB):	
<ul style="list-style-type: none"> <li>▪ Preparation and attendance at meetings</li> <li>▪ Commentary on exposure drafts</li> </ul>	<ul style="list-style-type: none"> <li>▪ 4 meetings attended</li> <li>▪ Responses given on 2 EDs, Materiality and Accounting Estimated</li> </ul>
Royal NIVRA: Commentary on EDs	Responses given on 2 EDs, Assurance Engagements Relating to Sustainability Reports and Practitioners Working with Subject Matter Experts from Other Disciplines on Non- Financial Assurance Engagements.
IAASB Clarity Project	AUASB is consulted by, and provides submissions to, the Clarity Task Force regarding proposals to re-draft International Standards on Auditing (ISAs).
Review of Standards not included in legislative instruments group	Reviews commenced on both Compliance and Performance auditing.
Reporting under Investor Directed Portfolio Service class orders	Working party ongoing. Awaiting ASIC input to proposals.
Auditing Guidance Statement	AGS 1068 Audit Requirements for Australian Financial Services Licensees under the Corporations Act 2001 issued October 2004.
<ul style="list-style-type: none"> <li>▪ New guidance</li> <li>▪ Revision of AGS 1038 – Access to Working Papers</li> </ul>	Project working party near to finalising revisions to the AGS.
Audit and Assurance Alert	AAA 14 <i>The Implications for Auditors on the Transition to Australian Equivalents to IFRS</i> issued October 2004.
APRA	AUASB consulted on reporting in regard to <i>Superannuation Audit and Review Reports for Risk Management Strategies and Risk Management Plans</i> . Final reports issued by APRA June 2005.

**Highest priorities (continued)**

<b>Making Auditing Standards Framework</b>	<b>Output to 30 June 2005</b>
<p><b>Projects</b></p> <p>Academic Research</p> <p>Monitoring the activities of Other Standard Setters</p> <p>Development of an AUASB Communications Strategy</p>	<ul style="list-style-type: none"> <li>▪ Quarterly reports</li> <li>▪ AUASB commissioned research into the impact that proposed changes to wording of Audit Reports have on users' perceptions. Research report by UNSW and ANU published December 2004.</li> <li>▪ Research Committee Charter ready for approval at the July 2005 Board Meeting</li> </ul> <p>Reports for all Board meetings.</p> <p>External consultant appointed. Strategic plan commenced.</p>

**AUASB's 2005-06 work programme**

The AUASB 2005-06 work programme includes:

- Review and reissue of Auditing Standards as legislative instruments, which is expected to be complete by 31 March 2006 for the 30 June 2006 deadline;
- IAASB projects such as:
  - Monitoring the activities of the IAASB especially keeping abreast of the progress on the Clarity Project;
  - Providing comments on Exposure Drafts and other consultative documents issued by the IAASB;
  - Compiling briefing papers for the AUASB on IAASB meeting papers;
  - Attendance of IAASB meetings.
- Finalisation of a Communications Strategy to articulate the key messages of the AUASB;
- Review and reissue of other Auditing Standards and Guidance Statements;
- Monitoring the activities of other International standard setters;
- Monitoring auditing research undertaken in Australia and internationally; and
- Other ad hoc projects such as participating in and developing responses to regulatory developments, for example, ASIC and APRA.

## Appendix F: AUASB Work Programme

### Highest priority projects

Project	Status	Project description
Review and reissue of Auditing Standards (by 31 March 2006)	In progress	<ul style="list-style-type: none"> <li>▪ Reviewing and reissuing Auditing Standards as Legislative Instruments using ISAs as a base;</li> <li>▪ developing a communication plan specific to this project;</li> <li>▪ restructuring the audit framework.</li> </ul>
IAASB Projects	Ongoing	<ul style="list-style-type: none"> <li>▪ monitoring the activities of the IAASB including the progress of the IAASB Clarity Project;</li> <li>▪ providing comment on IAASB outputs (such as Exposure Drafts);</li> <li>▪ Attendance at IAASB meetings;</li> <li>▪ staff briefings to the AUASB on IAASB meeting papers.</li> </ul>

### Other projects

Project	Status	Project description
Communications strategy	In progress	<ul style="list-style-type: none"> <li>▪ Finalisation of a Communications Strategy;</li> <li>▪ developing and ongoing maintenance of the AUASB web site;</li> <li>▪ liaising with regulators, constituents and media groups.</li> </ul>
Review and reissue of other auditing standards (not issued as legislative instruments) and guidance statements	To commence in 2006	<ul style="list-style-type: none"> <li>▪ reviewing and reissuing other auditing standards and guidance statements (liaising with working parties and experts where appropriate);</li> <li>▪ developing and issuing new auditing standards or guidance statements (for example, compliance auditing).</li> </ul>
Monitoring of other international standard setters	Ongoing	<ul style="list-style-type: none"> <li>▪ monitoring and reviewing the activities of other international standard setting bodies, including the PCAOB, and subsequent reporting to the Board.</li> </ul>
Monitoring auditing research undertaken in Australia and internationally	Ongoing	<ul style="list-style-type: none"> <li>▪ establishing a Research Committee;</li> <li>▪ monitoring auditing research undertaken in Australia and internationally;</li> <li>▪ facilitating auditing research in Australia in order to maximise funding opportunities for auditing research that are of interest to an impact on the AUASB work plan.</li> </ul>
Other ad hoc projects	Ongoing	<ul style="list-style-type: none"> <li>▪ participating in and responding to developments or changes initiated by regulators (for example, ASIC and APRA).</li> </ul>

## APPENDIX G

### PRONOUNCEMENTS OF THE STANDARDS SETTING BODIES AS AT 30 JUNE 2005

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#### AUSTRALIAN ACCOUNTING STANDARDS BOARD

##### 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
Framework	Framework for the Preparation and Presentation of Financial Statements	7/04

\* SAC 3 and SAC 4 are superseded by the Framework for reporting periods beginning on or after 1 January 2005.

##### 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

\* PS 5 is withdrawn with effect for reporting periods beginning on or after 1 January 2005.

## Appendix G: Pronouncements of the Standards Setting Bodies

### AASB and AAS series of accounting standards

The following Accounting Standards currently on issue are operative until superseded by Accounting Standards that apply in respect of reporting periods beginning on or after 1 January 2005.

<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
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



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

<b>AASB series</b>	<b>AAS series</b>	<b>Title</b>	<b>Issued (re-issued#)</b>
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
—	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
1046A	—	Amendments to Accounting Standard AASB 1046	9/04
1047	—	Disclosing the impacts of adopting Australian equivalents to international financial reporting standards	4/04

**AASB series**

The following Accounting Standards apply in respect of reporting periods beginning on or after 1 January 2005.

AASB 1	<i>First-time Adoption of Australian Equivalents to International Financial Reporting Standards (July 2004)</i>
AASB 2	<i>Share-based Payment (July 2004)</i>
AASB 3	<i>Business Combinations (July 2004)</i>
AASB 4	<i>Insurance Contracts (July 2004)</i>

## Appendix G: Pronouncements of the Standards Setting Bodies

### AASB series (continued)

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AASB 5	<i>Non-current Assets held for Sale and Discontinued Operations</i> (July 2004)
AASB 6	<i>Exploration for and Evaluation of Mineral Resources</i> (December 2004)
AASB 101	<i>Presentation of Financial Statements</i> (July 2004)
AASB 102	<i>Inventories</i> (July 2004)
AASB 107	<i>Cash Flow Statements</i> (July 2004)
AASB 108	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i> (July 2004)
AASB 110	<i>Events after the Balance Sheet Date</i> (July 2004)
AASB 111	<i>Construction Contracts</i> (July 2004)
AASB 112	<i>Income Taxes</i> (July 2004)
AASB 114	<i>Segment Reporting</i> (July 2004)
AASB 116	<i>Property, Plant and Equipment</i> (July 2004)
AASB 117	<i>Leases</i> (July 2004)
AASB 118	<i>Revenue</i> (July 2004)
AASB 119	<i>Employee Benefits</i> (July 2004)
AASB 119	<i>Employee Benefits</i> (December 2004)
AASB 120	<i>Accounting for Government Grants and Disclosure of Government Assistance</i> (July 2004)
AASB 121	<i>The Effects of Changes in Foreign Exchange Rates</i> (July 2004)
AASB 123	<i>Borrowing Costs</i> (July 2004)
AASB 124	<i>Related Party Disclosures</i> (July 2004)
AASB 127	<i>Consolidated and Separate Financial Statements</i> (July 2004)
AASB 128	<i>Investments in Associates</i> (July 2004)
AASB 129	<i>Financial Reporting in Hyperinflationary Economies</i> (July 2004)
AASB 130	<i>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</i> (July 2004)
AASB 131	<i>Interests in Joint Ventures</i> (July 2004)
AASB 132	<i>Financial Instruments: Disclosure and Presentation</i> (July 2004)
AASB 133	<i>Earnings per Share</i> (July 2004)
AASB 134	<i>Interim Financial Reporting</i> (July 2004)
AASB 136	<i>Impairment of Assets</i> (July 2004)
AASB 137	<i>Provisions, Contingent Liabilities and Contingent Assets</i> (July 2004)
AASB 138	<i>Intangible Assets</i> (July 2004)
AASB 139	<i>Financial Instruments: Recognition and Measurement</i> (July 2004)
AASB 140	<i>Investment Property</i> (July 2004)
AASB 141	<i>Agriculture</i> (July 2004)
AASB 1004	<i>Contributions</i> (July 2004)
AASB 1023	<i>General Insurance Contracts</i> (July 2004)
AASB 1031	<i>Materiality</i> (July 2004)
AASB 1038	<i>Life Insurance Contracts</i> (July 2004)
AASB 1039	<i>Concise Financial Reports</i> (May 2005)
AASB 1045	<i>Land Under Roads: Amendments to AAS 27A, AAS 29A and AAS 31A</i> (February 2002)
AASB 1046	<i>Director and Executive Disclosures by Disclosing Entities</i> (January 2004)

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## Appendix G: Pronouncements of the Standards Setting Bodies

### AASB series (continued)

AASB 1046A	<i>Amendments to Accounting Standard AASB 1046</i> (September 2004).
AASB 1047	<i>Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards</i> (April 2004)
AASB 1048	<i>Interpretation and Application of Standards</i> (June 2005)
AASB 2004-1	<i>Amendments to Australian Accounting Standards</i> [AASB 1, AASB 116 & AASB 138] (December 2004)
AASB 2004-2	<i>Amendments to Australian Accounting Standards</i> [AASB 1, AASB 121, AASB 131, AASB 134, AASB 139 & AASB 141] (December 2004)
AASB 2004-3	<i>Amendments to Australian Accounting Standards</i> [AASB 1, AASB 101 & AASB 124] (December 2004)
AASB 2005-1	<i>Amendments to Australian Accounting Standard</i> [AASB 139] (May 2005)
AASB 2005-2	<i>Amendments to Australian Accounting Standard</i> [AASB 1023] (June 2005)
AASB 2005-3	<i>Amendments to Australian Accounting Standards</i> [AASB 119] (June 2005)
AASB 2005-4	<i>Amendments to Australian Accounting Standards</i> [AASB 1, AASB 132, AASB 139, AASB 1023 & AASB 1038] (June 2005)
AASB 2005-5	<i>Amendments to Australian Accounting Standards</i> [AASB 1 & AASB 139] (June 2005)
AASB 2005-6	<i>Amendments to Australian Accounting Standards</i> [AASB 3] (June 2005)
AASB 2005-7	<i>Amendments to Australian Accounting Standards</i> [AASB 134] (June 2005)
AASB 2005-8	<i>Amendments to Australian Accounting Standards</i> [AASB 1] (June 2005)

### AAS series

AAS 25	<i>Financial Reporting by Superannuation Plans</i> (March 1993)
AAS 27	<i>Financial Reporting by Local Governments</i> (June 1996)
AAS 29	<i>Financial Reporting by Government Departments</i> (June 1998)
AAS 31	<i>Financial Reporting by Governments</i> (June 1998)

### Accounting interpretations

The following Accounting Interpretations apply until superseded by Accounting Standards operative for reporting periods beginning on or after 1 January 2005.

No	Title	Issued
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

## Appendix G: Pronouncements of the Standards Setting Bodies

### UIG abstracts

The following UIG Abstracts currently on issue are operative until superseded by Accounting Standards and UIG Interpretations that apply in respect of reporting periods beginning on or after 1 January 2005.

Abstract	Title	Issued (re-issued#)
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
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

## Appendix G: Pronouncements of the Standards Setting Bodies

### UIG abstracts (continued)

Abstract	Title	Issued (re-issued#)
39	Effect of tax consolidation proposals on deferred tax balances [revised] [revised]	7/01 #9/02 #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
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
52	Income tax accounting under the tax consolidation system [revised] [revised]	12/02 #5/03 #12/03
53	Pre-completion contracts for the sale of residential development properties	4/03
54	Defined benefit superannuation disclosures by employers	#8/03
55	Accounting for road earthworks	#5/04

### UIG interpretations

The following UIG Interpretations apply in respect of reporting periods beginning on or after 1 January 2005.

Interpretation	Title
1	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i> (July 2004)
2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i> (March 2005)
3	<i>Emission Rights</i> (March 2005)
4	<i>Determining whether an Arrangement contains a Lease</i> (June 2005)
5	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i> (June 2005)
107	<i>Introduction of the Euro</i> (July 2004)
110	<i>Government Assistance – No Specific Relation to Operating Activities</i> (July 2004)
112	<i>Consolidation – Special Purpose Entities</i> (December 2004)
113	<i>Jointly Controlled Entities – Non-Monetary Contributions by Venturers</i> (July 2004)
115	<i>Operating Leases – Incentives</i> (July 2004)
121	<i>Income Taxes – Recovery of Revalued Non-Depreciable Assets</i> (July 2004)

## Appendix G: Pronouncements of the Standards Setting Bodies

### UIG interpretations (continued)

Interpretation	Title
125	<i>Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</i> (July 2004)
127	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i> (July 2004)
129	<i>Disclosure – Service Concession Arrangements</i> (July 2004)
131	<i>Revenue – Barter Transactions Involving Advertising Services</i> (July 2004)
132	<i>Intangible Assets – Web Site Costs</i> (July 2004)
1013	<i>Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements</i> (April 2005)
1017	<i>Developer and Customer Contributions for Connection to a Price-Regulated Network</i> (November 2004)
1019	<i>The Superannuation Contributions Surcharge</i> (September 2004)
1030	<i>Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related Methods</i> (September 2004)
1031	<i>Accounting for the Goods and Services Tax (GST)</i> (July 2004)
1038	<i>Contributions by Owners to Wholly-Owned Public Sector Entities</i> (September 2004)
1039	<i>Substantive Enactment of Major Tax Bills</i> (July 2004)
1042	<i>Subscriber Acquisition Costs in the Telecommunications Industry</i> (December 2004)
1047	<i>Professional Indemnity Claims Liabilities in Medical Defence Organisations</i> (November 2004)
1052	<i>Tax Consolidation Accounting in Australia</i> (June 2005)
1055	<i>Accounting for Road Earthworks</i> (September 2004)

## AUASB PRONOUNCEMENTS AS TO 30 JUNE 2005

### Auditing Standards — interim legal endorsement

The following Auditing Standards (AUSs) issued by the former Auditing and Assurance Standards Board (AuASB) of the Australian Accounting Research Foundation were given *interim legal endorsement* under the *Corporations Act 2001* for financial reporting periods ending on and prior to 30 June 2006. After this time, these standards will be re-issued by the reconstituted Auditing and Assurance Standards Board (AUASB) as legislative instruments under the *Legislative Instruments Act 2003* with effect under the *Corporations Act 2001*.

No	Title	Issued (re-issued#)
AUS 104	Glossary of Terms	July 2002
AUS 202	Objective and General Principles Governing an Audit of a Financial Report	July 2002 (February 2004)
AUS 204	Terms of Audit Engagements	June 2002
AUS 206	Quality Control for Audits of Historical Financial Information	July 2002 (June 2004)

**Auditing Standards — interim legal endorsement (continued)**

<b>No</b>	<b>Title</b>	<b>Issued (re-issued#)</b>
AUS 208	Documentation	July 2002
AUS 210	The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report	January 2002 (June 2004)
AUS 212	Other Information in Documents Containing Audited Financial Reports	October 1995
AUS 214	Auditing in a CIS Environment	October 1995
AUS 218	Consideration of Laws and Regulations in an Audit of a Financial Report	January 2002
AUS 302	Planning	October 1995
AUS 304	Knowledge of the Business	July 2002
AUS 306	Materiality and Audit Adjustments	June 2001
AUS 402	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatements	February 2004
AUS 404	Audit Implications Relating to Entities Using a Service Entity	July 2002
AUS 406	The Auditor's Procedures In Response to Assessed Risks	February 2004
AUS 502	Audit Evidence	October 1995
AUS 504	External Confirmations	July 2002
AUS 506	Existence and Valuation of Inventory	July 2002
AUS 508	Inquiry Regarding Litigation and Claims	July 2002
AUS 510	Initial Engagements - Opening Balances	July 2002
AUS 512	Analytical Procedures	October 1995
AUS 514	Audit Sampling and Other Selective Testing Procedures	April 1998
AUS 516	Audit of Accounting Estimates	October 1995
AUS 518	Related Parties	July 2002
AUS 520	Management Representations	July 2002
AUS 522	Audit Evidence Implications of Externally Managed Assets of Superannuation, Provident or Similar Funds	October 1995
AUS 524	The Auditor's Use of the Work of the Actuary and the Actuary's Use of the Work of the Auditor in Connection with the Preparation and Audit of a Financial Report	July 2002
AUS 526	Auditing Fair Value Measurements and Disclosures	September 2002
AUS 602	Using the Work of Another Auditor	July 2002
AUS 604	Considering Work of Internal Auditing	October 1995
AUS 606	Using the Work of an Expert	July 2002
AUS 702	The Audit Report on a General Purpose Financial Report	March 2002
AUS 704	Comparatives	July 2002
AUS 706	Subsequent Events	October 1995
ASU 708	Going Concern	July 2002
AUS 710	Communication with Management on Matters Arising from an Audit	May 1999
AUS 802	Communication with Management on Matters Arising from an Audit	May 2002
AUS 902	Review of Financial Reports	July 2002

## Other standards

The following Auditing Standards (AUSs) issued by the former Auditing and Assurance Standards Board (AuASB) of the Australian Accounting Research Foundation were not part of the Auditing Standards given *interim legal endorsement* under the *Corporations Act 2001*. These standards remain in force and will be progressively reviewed by the AUASB over the next two years.

No	Title	Issued (re-issued#)
AUS 102	Foreword to Australian Auditing and Assurance Standards and Guidance Statements	January 2002
AUS 106	Explanatory Framework for Standards on Audit and Audit Related Services	November 2001
AUS 108	Framework for Assurance Engagements	June 2004
AUS 110	Assurance Engagements other than Audits or Reviews of Historical Financial Information	June 2004
AUS 804	The Audit of Prospective Financial Information	July 2002
AUS 806	Performance Auditing	July 2002
AUS 808	Planning Performance Audits	October 1995
AUS 810	Special Purpose Reports on the Effectiveness of Control Procedures	July 2002
AUS 904	Engagements to Perform Agreed-upon Procedures	July 2002

## Auditing and Assurance Guidance Statements

The following Auditing and Assurance Guidance Statements were issued by the former Auditing and Assurance Standards Board (AuASB) of the Australian Accounting Research Foundation and continue to remain current. The AUASB will be reviewing these Auditing and Assurance Guidance Statements progressively over the next two years.

No	Title	Issued (re-issued#)
AGS 1002	Bank Confirmation Requests	October 1995
AGS 1004	Transitional Arrangements on Changes in Audit Appointments under the Corporations Act 2001	July 2002
AGS 1006	Expression of an Opinion on Internal Control	October 1995
AGS 1008	Audit Implications of Prudential Reporting Requirements for Authorised Deposit-taking Institutions (ADIs)	July 2002
AGS 1014	Privity Letter Requests	July 2002
AGS 1016	Audit and Review Reports on Half-Year Financial Reports of Disclosing Entities Under the Corporations Act 2001	October 2003
AGS 1024	Life Insurance Act 1995 - Audit Obligations	December 2002
AGS 1026	Superannuation Funds - Auditor Reports on Externally Managed Assets	February 1999
AGS 1028	Uncertainty	July 1997
AGS 1030	Auditing Derivative Financial Instruments	July 2002
AGS 1032	The Audit Implications of Accounting for Investments in Associates	July 2002



**Auditing and Assurance Guidance Statements (continued)**

<b>No</b>	<b>Title</b>	<b>Issued (re-issued#)</b>
AGS 1036	The Consideration of Environmental Matters in the Audit of a Financial Report	July 2002
AGS 1038	Access to Audit Working Papers	July 2002
AGS 1040	Franchising Code of Conduct	November 2002
AGS 1042	Reporting on Control Procedures at Outsourcing Entities	July 2002
AGS 1044	Audit Reports on Information Provided Other than in a Financial Report (May 1999)	May 1999
AGS 1046	Responding to Questions at an Annual General Meeting	July 2002
AGS 1048	The Special Considerations in the Audit of Small Entities (March 2004)	March 2004
AGS 1050	Audit Issues Relating to the Electronic Presentation of Financial Reports	July 2002
AGS 1052	Special Considerations in the Audit of Compliance Plans of Managed Investment Schemes	July 2002
AGS 1054	Auditing Revenue of Charitable Entities	July 2002
AGS 1056	Electronic Commerce - Effect on the Audit of a Financial Report	May 2002
AGS 1058	Auditing Mortgage Investment Schemes	July 2002
AGS 1062	Reporting in Connection with Proposed Fundraisings	August 2002
AGS 1064	Audit Implications of Prudential Reporting Requirements for General Insurers	March 2003
AGS 1066	Reporting by Auditors on Compliance with International Financial Reporting Standards	July 2003
AGS 1068	Audit Requirements for Australian Financial Services Licensees under the Corporations Act 2001	as issued by the reconstituted AUASB in October 2004

**Guidance Note**

This Guidance Note was issued by the former Auditing and Assurance Standards Board (AuASB) of the Australian Accounting Research Foundation and will continue to provide guidance until such time as it is reviewed by the AUASB.

<b>Title</b>	<b>Issued (re-issued#)</b>
Improving Communication between Auditors and Shareholders	July 2003

## Appendix G: Pronouncements of the Standards Setting Bodies

### Audit and Assurance Guides

This Audit and Assurance Guide was issued by the former Auditing and Assurance Standards Board (AuASB) of the Australian Accounting Research Foundation and continues to provide guidance until such time as it is withdrawn.

No	Title	Issued (re-issued#)
Audit Guide No. 4	The Audit of Superannuation Funds	2004 edition

### Audit and Assurance Alerts

These Audit and Assurance Alerts including those issued by the former Auditing and Assurance Standards Board (AuASB) of the Australian Accounting Research Foundation and will remain until such time as they are withdrawn.

No	Title	Issued (re-issued#)
AAA 10	Earnings Management by Entities: Audit Considerations And Issues	November 2001
AAA 11	Communicating with Entities in Relation to Auditor Independence	May 2002
AAA 12	The Implications for Auditors of the Private Sector Amendments to the Privacy Act	August 2002
AAA 13	The Implications of the U.S. Sarbanes-Oxley Act 2002 (U.S.) for Auditors and Their Clients	September 2002
AAA 14	The Implications for Auditors on the Transition to Australian equivalents to IFRSs	as issued by the reconstituted AUASB in October 2004

**Part 2: Financial Reporting Council  
Auditor Independence Report**

**2004-05**



## INTRODUCTION

The FRC's functions were significantly expanded from 1 July 2004, following legislative amendments made by the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* (the CLERP Act), to include monitoring the effectiveness of auditor independence requirements in Australia and giving the Minister reports and advice about those requirements.

Since the enactment of the CLERP legislation, the FRC's role in respect of the auditor independence function has been primarily concerned with establishing arrangements needed for monitoring the effectiveness of auditor independence requirements in Australia on an ongoing basis.

## FRC'S AUDITOR INDEPENDENCE FUNCTIONS

The FRC's auditor independence functions are conferred on it under paragraphs 225(1)(c) and (d), and subsection 225(2B) of the *Australian Securities and Investments Commission Act 2001* (ASIC Act).

Under subsection 225(1) of the ASIC Act, the FRC is required to monitor the effectiveness of auditor independence requirements in Australia and to give the Minister reports and advice about those requirements.

In addition, the FRC has the following specific auditor independence functions conferred on it under subsection 225(2B) of the ASIC Act:

- 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 that 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

## Auditor Independence Report

- 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 standards;
- giving the Minister reports and advice about the matters referred to in the above paragraphs;
- giving professional accounting bodies reports and advice about matters related to their quality assurance reviews and disciplinary procedures as detailed in the above paragraphs;
- monitoring international developments in auditor independence, assessing the adequacy of the Australian auditor independence requirements provided for in:
  - the Corporations Act; and
  - codes of professional conduct;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.

To facilitate the performance of the audit independence functions by the FRC, section 225A of the ASIC Act sets out powers that may be used by the FRC for gathering information from Australia's professional accounting bodies and Australian auditors.

## SCOPE OF AUDITOR INDEPENDENCE FUNCTION

During 2004-05, the FRC sought the advice of the Australian Government Solicitor (AGS) on the scope of its auditor independence functions.

The AGS advised that the FRC's functions should be primarily directed to ensuring that auditors are complying with auditor independence requirements in their *Corporations Act 2001* audits. However, the advice also said that it would also be open to the FRC, at least in some of its functions, to look at the issue of auditor independence more broadly, and to examine the non-Corporations Act audits of 'Australian auditors'.

The implication of this advice is that the FRC should extend the scope of its work beyond Corporations Act audits to cover entities such as self managed superannuation funds.

## **PERFORMANCE OF FUNCTIONS**

To facilitate the performance of the auditor independence functions, the following actions were taken by the FRC during 2004-05:

- the establishment of an Audit Independence Subcommittee;
- signing Memoranda of Understanding (MOU) with the professional accounting bodies, ASIC, ASX and APRA (MOU bodies);
- the appointment of a consultant to provide guidance and advice to the FRC in the performance of the function; and
- meeting with, and gathering information from, the MOU bodies and selected accounting firms.

## **Audit Independence Subcommittee**

The Audit Independence Subcommittee, which was established by the FRC on 18 June 2004, held eight meetings during 2004-05.

Members of the Committee during the year were Ms Elizabeth Alexander AM (Chairman), Ms Karen Hamilton (to December 2004), Mr David Jackson (from February 2005), Mr Charles Macek, Mr Greg Pound (to March 2005), Mr Brian Scullin (from February 2005), and Ms Catherine Walter AM.

The Subcommittee's Charter, which was approved by the FRC on 20 September 2004, provides that it will assist the FRC by:

- making recommendations to the FRC concerning the engagement of a person, or persons, to assist the FRC in the performance of the functions conferred on it under subsection 225(2B) of the ASIC Act (the consultant);
- performing, either alone or in conjunction with the consultant, the work and other activities needed to ensure the FRC meets the obligations imposed on it by subsection 225(2B) of the ASIC Act;
- making recommendations to the FRC Chairman concerning the notices that should be given by the Chairman pursuant to section 225A of the ASIC Act; and

## Auditor Independence Report

- preparing, for the consideration of the FRC, a draft of the report the FRC is required to prepare under section 235BA of the ASIC Act.

## Memoranda of Understanding

MOUs were signed with the three professional accounting bodies (CPA Australia, The Institute of Chartered Accountants in Australia and the National Institute of Accountants), the Australian Stock Exchange, the Australian Prudential Regulation Authority, and the Australian Securities and Investments Commission in order to facilitate the efficient exchange of information between the MOU bodies and the FRC.

In addition, a letter of understanding was also entered into between the Companies Auditors and Liquidators Disciplinary Board and the FRC.

## Appointment of Consultant

On 23 December 2004, the FRC Chairman announced that Mr William Bartlett had been engaged to undertake the FRC's auditor independence consultancy. The purpose of the consultancy is to assist the FRC in the performance of the auditor independence functions conferred on the FRC by the CLERP Act. Before retiring as a partner of accounting firm Ernst & Young in June 2003, Mr Bartlett spent 35 years working in the accountancy field, including as auditor of firms in the financial services industry. He is presently a director of a number of Australian public companies and also a company which is listed on the New York Stock Exchange.

## Meetings with MOU bodies and accounting firms

Meetings were held with all the MOU bodies and the CALDB and information requests were sent to all bodies. Replies were received from and the relevant information produced by all bodies.

1. Meetings were also held with the four major accounting firms and one mid-tier firm. The four major accounting firms (Deloitte Touche Tohmatsu, Ernst and Young, KPMG and PricewaterhouseCoopers) audit listed entities comprising 91 per cent of the market capitalisation of the 300 largest ASX listed entities and 54 per cent of all ASX listed entities.

A meeting was held in March 2005, with staff from the US Public Company Accounting Oversight Board (PCAOB) and ASIC to determine their approach to companies and auditors registered with the PCAOB. The PCAOB staff advised that they were discussing the possibility of a cooperative arrangement with ASIC under which ASIC would work jointly with them in respect of the Australian audit firms that are registered with them.



## **FRC'S FINDINGS AND CONCLUSIONS**

Section 235BA of the ASIC Act requires the FRC to report annually to the Minister on the performance of its auditor independence functions, including the findings and conclusions that the FRC reached in performing those functions, and the actions (if any) that were taken by the FRC in respect of those findings and conclusions. This chapter focuses on reporting the FRC's findings and conclusions for 2004-05 and any actions that the FRC took in respect to those findings and conclusions.

### **Systems and processes used by Australian auditors**

Subparagraph 225(2B)(a)(i) of the ASIC Act requires the FRC to monitor and assess the nature and overall adequacy of the systems and processes used by Australian auditors to ensure compliance with auditor independence requirements. In 2004-05, the FRC performed this function by gathering information from ASIC under the terms of its MOU with that body and through meetings with the four largest accounting firms and one mid-tier firm.

### **Report from ASIC**

The MOU that the FRC has entered into with ASIC provides for periodic consultations and information sharing between the two bodies to assist in undertaking their respective responsibilities under the law. In this context, ASIC advised the FRC of their intention to conduct in 2004-05, a review of the big four accounting firms, with particular emphasis on the systems and processes used by these firms to ensure compliance with auditor independence requirements, and to report to the FRC on any systemic issues that might be identified as a result of this activity. The review undertaken by ASIC has thus constituted a key source of information for the FRC with respect to its responsibilities in this area during 2004-05.

ASIC informed the FRC that during the second half of 2004-05, it conducted on site inspections at each of the big four accounting firms. ASIC reviews were focussed on whether the firms had documented and implemented a quality control system that provides reasonable assurance that the firms comply with the independence requirements of the Corporations Act. The firms have not previously had a regulator's inspection of their policies, systems and processes. Not surprisingly, in each case, ASIC suggested improvements to the firms' systems and processes. Generally, ASIC's report focuses on suggested areas of improvement in the systems, policies, procedures, practices or conduct of certain audit firms, rather than setting out all of the positive aspects. ASIC noted in its report that the suggested areas of improvement do not detract from the conclusions listed in the next paragraph.

In their report to the FRC, ASIC noted that:

### Auditor Independence Report

- All firms had documented policies in place and these were assessed as being generally adequate;
- While ASIC conducted a limited review of engagement files to see whether these policies were being implemented in practice, they did not seek to comprehensively test for breaches of the audit independence requirements; and
- No breaches of the Act were identified in the course of their inspections.

ASIC also noted that:

- Overall, the firms have responded positively to the new legislative requirements for auditor independence; and
- The firms have committed resources and where needed have developed policies, systems and processes to assist them in complying with Australian legislative requirements, being assisted in this by being part of global firms.

In addition to the above general observations, ASIC has identified and conveyed to the firms areas where there is scope for improvements in their systems and processes. Particular observations made by ASIC are noted below:

- Each firm's executive leadership has sent a strong message within their firm about the importance of independence, but in some firms there is scope to improve oversight of independence policies and practices, and to improve formal reporting on independence to the firms' Boards;
- The firms have systems to monitor compliance with internal policies and processes, and with the firms' legislative obligations (including CLERP 9). The firms' own internal testing of compliance with their policies and procedures has revealed some unsatisfactory results, although in every case the firms asserted this did not result in a breach of Australian legal independence requirements;
  - ASIC has noted that a high level of non-compliance with internal policies potentially increases the risk that breaches of legal requirements may occur in the future (although, as noted above, ASIC did not identify specific breaches of legal requirements);
- All the firms' documentation of engagement level independence confirmations was inadequate, partly as a result of some firms not having a documented process for obtaining independence confirmations from individual team members on each engagement or, when this process was in place, due to an unsatisfactory level of compliance with it;
  - ASIC has noted that there is a potential for independence policies to be breached without this engagement level sign-off;

- The extent of documentation for approving non-audit services varied amongst the firms. Each firm has a policy requiring that non-audit engagements for existing audit clients be pre-approved by the lead client service partner, but most policies do not specify whether or how the approval should be documented;
- Varying commitments have been made to CLERP 9 training by the firms. Despite each firm's leadership reiterating the importance of independence requirements of the Corporations Act, at several firms this support has not translated into attendance and completion of mandatory training by all professional staff;
- In some of the firms the link between breaching policies and processes and the impact on performance and / or remuneration was not clear to staff;
  - ASIC has noted the need to better communicate the consequences of non-compliance for staff; and
- Most firms do not have formal collection of data on independence queries and issues and some firms did not have a register of all independence breaches;
  - ASIC has noted that formalising how knowledge is retained and shared will reduce reliance on key independence personnel.

In addition to the above procedural observations, ASIC has also made some comments on a number of principles and timing-related issues. These are indicated below with the FRC's comments.

- In some instances firms have remained more focussed on the requirements of the Sarbanes-Oxley than CLERP 9. Some firms did not update their global policies, systems and processes for Australian legislative requirements until after 1 July 2004.
  - The FRC acknowledges that the CLERP 9 legislation was not passed until late June 2004 and it is understandable that firms would have required some time for implementation.
- All the firms have policies in respect of holding of a financial interest in audit clients. While all the policies comply with the requirements of the Corporations Act, some firms have implemented higher standards than others. The different policies range from where one firm prohibits all professional staff from holding a financial interest in any audit client worldwide, to where only members of the engagement team are prohibited from having a financial interest in the audit client when they work on that engagement. All firms require their partners to be financially independent of all audit clients.
  - The FRC acknowledges ASIC's comments and believes that it is appropriate for the firms to further consider this issue.

## Auditor Independence Report

- ASIC has also noted that some firms appeared to take a somewhat narrow and legalistic view of their obligations. They may provide services to Australian clients that they do not provide to their SEC-registered clients on the basis that those services are prohibited in the US and not in Australia.
  - The FRC considers it is appropriate for firms to take into account public perceptions in relation to auditor independence when deciding to offer these services.

## Issues raised by accounting firms

In addition to the report from ASIC, the FRC obtained additional information from a separate round of meetings it conducted around the end of 2004-05 with each of the big four accounting firms and with a mid-tier sized firm.

The overall message that emerged from these meetings was that it is early days in respect of the implementation of the new audit independence requirements. The firms noted and the FRC acknowledged that there could be some anomalies reflecting unintended consequences from the CLERP 9 legislation. The FRC understands that most of the anomalies are being dealt with by ASIC and Treasury.

Particular observations raised by the firms that may warrant further examination by the FRC during the upcoming 2005-06 year are:

- Takeovers are creating practical issues for firms being free of independence conflicts with partners and personnel having to rearrange their affairs in a short time frame;
- Firms wishing to take part in an audit tender need to cleanse themselves from an audit independence perspective where the proposed audit independence change takes place retrospectively. This requirement could lead to companies having a reduced appetite for audit change. Some firms are experiencing problems in hiring new lateral partners, and are finding some resistance from graduates to consider the auditing profession as a career path.
  - The FRC is of the view that it would be unfortunate if the audit independence framework, including the practical issues referred to above, made it more difficult to hire appropriate personnel. This is an area the FRC will be focusing on in 2005-06 with a view to considering whether recommendations for any legislative changes might be considered appropriate.
- Difficulties are being encountered by the mid-tier firms and the small offices of major firms with the requirement to rotate review partners; and

- Firms are spending a great deal of time dealing with minor procedural issues as opposed to the important issues. Their perception is that interpretation by the regulators is more rules based (black letter law) than principles based.
  - As noted above, the FRC welcomes the work that is being undertaken to address these anomalies.

Following the introduction of CLERP 9, the four major firms, subsequently joined by most of the mid tier firms and with support from the accounting profession, have been proposing to set up an independent body known as the Audit Quality Enhancement Monitor (AQEM) to monitor the processes by which participating firms seek to ensure compliance with independence and quality related professional standards and law. As at 30 June 2005, the establishment of this body had not been finalised. The FRC considers that the establishment of a common audit oversight board (instead of firm-specific audit review boards) could be seen as a strengthening of self-regulation. To the extent that AQEM replaces the independent review boards of two of the big four firms, it should achieve greater consistency across the industry.

## **Systems and processes used by professional accounting bodies**

Under subparagraphs 225(2B)(a)(ii), (iii) and (iv) of the ASIC Act, the FRC is required to monitor and assess the nature and overall adequacy of the systems and processes used by the professional accounting bodies for planning and performing quality assurance reviews of audit work undertaken by Australian auditors to the extent that those reviews relate to auditor independence requirements and subsequent follow-up actions by both auditors subject to such reviews and the professional bodies. In addition, under subparagraph 225(2B)(a)(v) the FRC is required to monitor and assess the nature and overall adequacy of the investigation and disciplinary procedures of professional accounting bodies as those procedures apply to Australian auditors.

In 2004-05, the FRC performed this function by gathering information from the three professional accounting bodies (ICAA, CPA Australia and NIA) with which it has entered into MOUs. As stated in the respective MOUs, each of the professional accounting bodies has undertaken to provide the FRC with information about their respective:

- quality assurance reviews in relation to auditor independence, including general outcomes from the reviews undertaken; and
- disciplinary processes regarding auditors, including general information about Australian auditors who have been subject to disciplinary action.

## Quality reviews

The three accounting bodies have periodical quality review programmes for their members. Reviews undertaken by ICAA are now scheduled to take place on a rolling three years programme for auditors of listed entities. Up to mid-2003, the ICAA reviewed all members in public practice on the basis of a five year rolling programme. CPA Australia is contemplating introducing a three year cycle as part of its current review. Members who have a joint public practice certificate can choose either ICAA or CPA Australia to undertake a review. Reviews of the big four firms are undertaken by the ICAA, as there are no registered company auditors in the big four firms that have a public certificate with CPA Australia. The NIA has only a small number of members who audit listed entities.

All the professional accounting bodies have amended, or are in the process of amending, their quality review programmes and manuals, to reflect the new independence requirements instituted by CLERP 9. CPA Australia is reviewing its policy by which the auditor can select the reviewer.

- The FRC has advised the bodies to continue to allocate priority to these efforts.
- The FRC will be monitoring in 2005-06 the amount of resources allocated to the quality review programmes to ensure a comprehensive review is conducted at the audit firms.

The professional accounting bodies have revised and updated their codes of conduct dealing with professional independence (F1 in the case of ICAA and CPA Australia) with the aim of making them compatible with the independence requirements of the Corporations Act.

- The FRC has encouraged the professional bodies to maintain an active dialogue with ASIC to ensure this objective is met.

The ICAA and CPA Australia are also considering the establishment of a joint ethical standards board to advise on professional ethical standards, with all three professional accounting bodies currently reviewing their own code of ethics.

The professional accounting bodies have also undertaken a number of initiatives to provide guidance to their members in meeting their audit independence requirements.

As a result of the initiative by the major firms to form AQEM, the ICAA decided to suspend its review programme for the four major accounting firms. As it turned out, discussions with ASIC and other parties with an interest in the possible establishment of AQEM took longer than anticipated by ICAA and this resulted in none of the big four firms being reviewed since the introduction of CLERP 9. In fact, due to the earlier frequency of reviews, none of the existing big four firms were actually reviewed by the ICAA since 2002.

- The FRC advised ICAA on the desirability of a prompt resumption of these reviews.
- On 26 April 2005, the ICAA advised the FRC of its decision to resume the review programme for the big four accounting firms. The FRC welcomes this decision and will be reviewing the extent and quality of these reviews as part of its 2005-06 work programme.

### **Disciplinary processes**

The FRC reviewed at a high level the whole framework of disciplinary systems which deal with CLERP 9 and auditor independence. There are many entities potentially involved, including the accounting bodies, ASIC and the CALDB, but because they have all acted independently there are situations of potential overlap and underlap. The FRC is uncomfortable with the present framework and it is the FRC's opinion that there is significant room for improvement and strengthening of disciplinary procedures. The FRC believe it could be premature to make comments or recommendations at this stage and will be reviewing this area in detail in 2005-06. The FRC would appreciate dialogue and cooperation from all parties so that present uncoordinated efforts can be optimised

All of the various bodies are in the process of strengthening their disciplinary systems. The ICAA and CPA Australia advised the FRC of a number of initiatives that are being considered to strengthen their disciplinary procedures, with this approach being welcomed by the FRC:

- CPA Australia has changed its policy to allow the suspension of a member that is being subject to an investigation process;
- ICAA is considering a change to their disciplinary processes by which it could notify the public when a member's professional conduct is being investigated.

The FRC also discussed with professional accounting bodies whether in some instances the reasons for resignation from a professional body should be made public. The bodies would like in some instances to make the reasons public but are concerned about the legal ramifications<sup>1</sup>. It was noted that in Canada there is protection via a tribunal.

- The FRC has concluded that there is merit in investigating further this option in 2005-06.

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1 The ICAA has informed the FRC that it does have the power to make public, in certain circumstances, the reasons for a member's resignation, particularly if it has followed the initiation by the Institute of disciplinary proceedings.



## Auditor Independence Report

A related area that needs to be considered further is the case of registered company auditors who are not a member of any of the three professional bodies and are therefore not subject to any of the professional development requirements, ethical requirements, or disciplinary procedures. The non-membership of a professional body by an auditor could present a potential for abuse.

- In the year to 30 June 2006 the FRC will attempt to establish in broad terms the quantum of auditors who are not members of an accounting body. ASIC also has noted a concern that the requirements of CLERP 9 do not apply to foreign auditors performing audits of overseas subsidiaries of Australian entities, a matter that needs to be addressed in the upcoming financial year.

The professional accounting bodies currently choose not to take action against auditors if there are legal proceedings outstanding against the auditor until the conclusion of those proceedings. There may also be circumstances, such as the existence of criminal proceedings, which could cause the CALDB to defer action against the auditor. In some cases the proceedings go back many years, and there is a danger that a person can continue to practice as an auditor even though they may have been party to an audit with serious deficiencies.

## Compliance with audit-related disclosure requirements

The FRC is required by paragraph 225(2B)(b) of the ASIC Act to monitor the overall compliance by companies, registered managed investment schemes and disclosing entities with the audit-related disclosure requirements of the *Corporations Act 2001* and the accounting standards. The principal audit-related disclosure requirements in the Corporations Act and accounting standards are:

- paragraph 298(1)(c) of the Corporations Act, which requires a company, registered managed investment scheme or disclosing entity to include in its directors report for each financial year a copy of the auditor's independence declaration under section 307C in relation to the audit for the financial year;
- subsection 306(2) of the Corporations Act, which provides that the directors' report of a disclosing entity must include a copy of the auditor's independence declaration under section 307C in relation to the audit or review for the half-year;
- paragraphs 5.3(a) and (b) of accounting standard AASB 1034 *Financial Report Presentation and Disclosures*, which require an entity or economic entity to disclose in its financial report the remuneration of the auditor, showing separately amounts for audit and other services; and



- paragraphs Aus 126.1 and Aus 126.2 of accounting standard AASB 101 *Presentation of Financial Statements*, which contain disclosure requirements equivalent to those in paragraphs 5.3(a) and (b) of AASB 1034 but greater detail in respect of non-audit services.

The requirements of section 307C of the Corporations Act apply to financial reports for financial years that start on or after 1 July 2004. The disclosure requirements in the current version of AASB 1034 apply to financial years ending on or after 30 June 2001, while the requirements in AASB 101 (which, in respect of audit-related disclosures, replaces AASB 1034) apply to financial years commencing on or after 1 January 2005.

The MOU that the FRC has entered into with ASIC provides for ASIC to give the FRC regular reports identifying matters arising from its financial reporting or auditor surveillance activities in relation to compliance by auditors and companies with the independence disclosure requirements in Part 2M.3 of the Corporations Act. MOUs with APRA and ASX also provide for those bodies and the FRC to exchange information.

During discussions with the MOU bodies, the FRC was advised by ASX that there are inconsistencies in the manner in which a significant number of companies have complied with the requirements of the Corporations Act in respect of the inclusion in the Directors' Report of a copy of the auditor independence declaration. However, the FRC is not aware of any material instances of auditors advising of non-compliance with the independence requirements.

The FRC will be undertaking a detailed examination of the audit-related disclosure requirements as part of its 2005-06 work programme.

## **Teaching of professional and business ethics**

Under paragraph 225(2B)(f) of the ASIC Act, the FRC is required to promote, and monitor the adequacy of, the teaching of professional and business ethics by, or on behalf of, the professional accounting bodies to the extent to which the teaching of those subject relates to auditor independence.

The three professional bodies have provided the FRC with detailed information about their courses on business and professional ethics. The FRC plans to undertake an in-depth examination of this information during 2005-06.

During the course of its meetings with accounting firms, the FRC was informed that the in-house courses conducted by the firms (for example, induction, promotion to manager and appointment as partner) all contain material about business and professional ethics. The FRC welcomes efforts by the firms to promote a high ethical culture among their partners and staff.

## **International developments in auditor independence**

Paragraph 225(2B)(e) of the ASIC Act provides that the FRC is to monitor international developments in auditor independence, assess the adequacy of the Australian auditor independence requirements provided for in the Corporations Act and the codes of professional conduct in light of those developments and give the Minister, and professional accounting bodies, reports and advice on any additional measures needed to enhance the independence of Australian auditors.

In 2004-05, the FRC monitored international developments through consideration of publicly-available inspection reports issued by overseas oversight bodies (for example, the US Public Company Accounting Oversight Board, the Canadian Public Accountability Board and the UK Professional Oversight Board for Accountancy), other material placed on the internet websites of these oversight bodies and associated regulatory agencies and general media reports about audit independence issues.

In addition, the FRC Chairman attended in September 2004 a meeting in Washington of heads of oversight bodies convened by the Financial Stability Forum and met with representatives of overseas oversight bodies during overseas visits in November 2004 and June 2005.

During the year, the FRC did not become aware of any international developments in the area of audit independence that suggest Australia's new requirements are in need of revision or further enhancement.

In 2005-06 the FRC intends to research Australia's requirements on auditor independence compared with those applicable in other major jurisdictions worldwide.

## **Other issues**

In the course of the performance of its auditor independence functions the FRC has become aware of a number of related topics that merit inclusion in this report as they have a potential impact on the effectiveness of auditor independence requirements in Australia. These other issues are covered in this section.

### **CLERP 9 implementation**

Reference was made earlier in this report to observations made by the major accounting firms about the implementation of the CLERP 9 requirements. ASIC, in its letter to the FRC dated 24 June 2005, also commented on this matter when it noted that, although the overall auditor independence framework under the Corporations Act appears to be working, a number of anomalies and issues have been identified in respect of the amendments made by CLERP 9.

- The FRC understands that ASIC and the Treasury are exploring options for the prompt resolution of this matter, a course of action that it supports.
- The FRC is also of the view that these issues highlight the risks of having a too prescriptive approach to regulation.

The FRC is aware that some of the accounting firms are concerned about the extent of ASIC's powers to review the firms and undertake inspection work. ASIC clearly has the power to inspect an audit of any reporting entity to test its compliance with the Corporations Act, but queries have been raised about its powers to inspect the firms' systems and processes. The FRC is of the opinion that ASIC's powers of inspection in relation to audit firms needs to be clarified, and in this regard, the FRC notes the recent release by the Commonwealth Treasury of a consultative paper containing proposals for law reform in relation to ASIC's powers for gathering information about how audit firms carry out the audit function. A key policy objective of the Treasury paper has been to avoid unnecessary duplication between Australian and overseas audit regulation systems, such as that administered by the US PCAOB, thus minimising the need for the overseas bodies to undertake their own inspections in Australia. The Treasury paper also includes proposals for changes to ASIC's inspection powers with the aim of reducing the regulatory burden for firms subject to inspections in purely domestic situations.

- In the 2005-06 Commonwealth Budget, the Government announced its decision to support the expansion and upgrade of ASIC's audit regulation programme in the context of facilitating cooperation between Australia's system of audit regulation and those of other jurisdictions.

### **Corporations Act disciplinary matters**

ASIC and APRA are the only parties who have the power to refer registered company auditors for breaches of CLERP 9 to the CALDB. Our inquiries revealed that no referral to the CALDB had ever been made by APRA.

- The FRC noted that in the event that APRA refuses to accept an auditor continuing as auditor to one of their registered bodies, it is important that the person be referred to ASIC or the CALDB. Otherwise, an auditor that is not considered to be fit and proper in an industry may continue to practise in other industries.

With the introduction of CLERP 9 the CALDB may face increased requirements in respect of auditor independence.

- The FRC recommends that sufficient funding be allocated to CALDB to enable it to perform its functions.

### **Action against the accounting firm as opposed to the individual**

In Australia, any action for a breach of auditor independence is taken against the individual as opposed to the firm. In the United States, action is taken against both. In Australia, the legal system does not allow action against the firm. The FRC has not come to a conclusion as to whether any action could be extended against a firm and will investigate this area in more detail in 2005-06.

### **Self managed superannuation funds**

Whilst self managed superannuation funds are not within the prime ambit of the FRC's responsibility, we understand that there are instances of accountants providing both audit and book-keeping services and in extreme cases the same person acting as a director and auditor of a self managed fund. The accounting bodies, especially the NIA, have provided advice to their members but it is our impression that the level of knowledge regarding this issue in the accounting community is low.

- The FRC will be looking at this area in more detail in 2005-06 and will be seeking input from all relevant stakeholders.

### **OVERALL CONCLUSION**

During the first year of operation of CLERP 9, the FRC focused on gaining an understanding of all of the various stakeholders' attitudes and monitoring systems in relation to independence and quality control as it relates to CLERP 9. It is recognised that with the quick introduction of CLERP 9, most parties took several months to put arrangements in place. A number of issues have been identified that warrant attention in the upcoming year, but no systemic deficiencies have been identified. The FRC has seen evidence this year that:

- There is an open approach to the significant changes required by CLERP 9 by all of the MOU bodies and the major accounting firms. The 'tone at the top' regarding independence at all these bodies is positive.
- The major accounting firms have significantly upgraded their systems, quality control, training and disciplinary processes. These firms have different approaches to some of these issues but all comply with the level required by CLERP 9.
- The regulators have updated their processes to monitor compliance with CLERP 9 and in the case of ASIC have completed their first round of visits to the major accounting firms.

- The ICAA has reviewed its monitoring of the major accounting firms and whilst not performing any reviews of the major continuing accounting firms since 2002, will now ensure the reviews are done in 2005-06. The professional bodies are upgrading their quality control, independence monitoring, and disciplinary procedures and the FRC will be paying special attention to the upgrades in 2006.

The FRC would also like to register a few general observations with respect to the auditor independence framework in Australia:

- As noted earlier in this report, we consider that there are risks of having a too prescriptive approach to regulation and welcome the actions that are being taken to address some unintended consequences of the legislation.
- The need for the auditing profession to have a clear public interest focus in their activities should be reinforced. Public trust in the profession is heavily influenced by perception of its actions, which needs to be taken into account by the profession in its conduct. This is a key component of the strategic direction that the FRC has given to the AUASB with respect to its auditing standard setting activities and is an area that we will continue to monitor closely.
- Finally, audit firms need to ensure that the appropriate 'tone at the top' is reflected in a strong message conveyed to staff on the importance of adherence to their own systems and processes, including attendance at training on audit independence requirements.

The work conducted by the FRC in 2004-05 was focussed on its core functions dealing with the monitoring of the systems and processes used by Australian auditors and by the professional accounting bodies to ensure compliance with the auditor independence requirements in Australia. In 2005-06, while continuing to address these functions, an increased emphasis will be placed on the monitoring of the teaching of ethics, the compliance by companies with the audit-related disclosure requirements and the research into best practice worldwide with respect to auditor independence requirements.