



**Australian Government**

**Australian Accounting  
Standards Board**

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28 October 2019

Parliamentary Joint Committee on Corporations  
and Financial Services  
PO Box 6100  
Parliament House  
Canberra ACT 2600  
(submitted online)

Dear Committee,

### **Inquiry into Regulation of Auditing**

The Australian Accounting Standards Board (AASB) appreciates the opportunity to provide comments to the Parliamentary Joint Committee in relation to the Inquiry into the Regulation of Auditing. Although the Australian Accounting Standards (AAS) are not the focus of the Inquiry, auditing work is generally directed to the audit of financial statements that are prepared on the basis of the AAS. The AASB recognises the AAS, which incorporate the IFRS Standards issued by the International Accounting Standards Board (IASB) pursuant to a strategic direction of the Financial Reporting Council (FRC), are a contributing element of audit quality.

The AASB is an independent, non-corporate Australian Government entity. Its purpose and vision is to contribute to stakeholder confidence in the Australian economy, including its capital market, and trust in external reporting. Under this, its mission is to develop, issue and maintain high-quality, principles-based Australian accounting and external reporting standards that meet user needs and enhance external reporting consistency and quality.

The mission of the AASB also includes contributing to the development of a single set of accounting and external reporting standards for world-wide use. In support of this, the AAS promulgated by the AASB incorporate the IFRS Standards issued by the independent IASB. The AASB develops one set of AAS to cover all sectors, although modifications are made for the not-for-profit private sector and the public sector when warranted. Additional disclosure requirements may be added for the for-profit private sector to respond to particular Australian circumstances (such as the disclosure of audit fees).

The Australian Securities and Investments Commission (ASIC) has responsibility for enforcing accounting and auditing standards. The AASB regularly receives updates from ASIC on issues arising from its financial reporting and auditing surveillance programs. As a result, the AASB has identified that three main accounting standards feature repeatedly in both surveillance program results as areas of restatement or non-compliance. These relate to revenue, financial instruments and impairment. The IASB and the AASB issued revised standards,<sup>1</sup> now being implemented, that are expected to improve financial reporting of revenue and financial instruments. The IASB is currently undertaking a limited review of the

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1 IFRS 9/AASB 9 *Financial Instruments* and IFRS 15/AASB 15 *Revenue from Contracts with Customers*. All AAS are available on the AASB website ([www.aasb.gov.au](http://www.aasb.gov.au)).

impairment standard,<sup>2</sup> but the AASB is pressing for a more fundamental review. Improvements to accounting standards are expected to support improvements in audit quality as financial reporting issues are clarified and addressed.

It is in this context that the AASB contributes its views and recommendations to the Parliamentary Joint Committee on several terms of reference, as highlighted below.

#### **TOR 4 – Audit quality, including valuations of intangible assets**

The AASB acknowledges that the application of AAS requires significant judgement in many areas in estimating amounts for inclusion in the financial statements. This includes the measurement (valuation) of assets such as intangible assets, including estimating the impairment of assets.

The AASB (and the IASB) keep Standards under review, both formally and informally. Of particular relevance in this context, the AASB commissioned research into the impairment of assets and is pushing the IASB to develop a new version of the standard on impairment, rather than merely incorporating a number of improvements.

AAS require general purpose financial statements (Tier 1) to disclose fees paid to the auditor or reviewer for the audit/review of the financial statements and for all other services performed during the reporting period. In the public interest, the AASB is currently proposing to add the audit fee disclosures to the Tier 2 requirements (general purpose financial statements with reduced disclosures). The AASB will also work with the Auditing and Assurance Standards Board (AUASB), regulators and other stakeholders, including users of financial statements, to amend the disclosure requirements, if appropriate.

#### AASB recommendations

- (1) The Parliamentary Joint Committee to support the work of the AASB in relation to asset measurement requirements in AAS.
- (2) The Parliamentary Joint Committee to consider whether changes to the audit fee disclosures would be desirable and to support the AASB in applying its due process to address any potential amendments.

#### **TOR 6 – Changes in the role of audit and the scope of audit products**

The remit of the AASB includes developing external reporting standards that address reports related to the financial statements. For example, the AASB is undertaking projects relating to remuneration reporting and management commentary accompanying the financial statements.

The AASB is keen to support the AUASB's work on extended external reporting projects, which extend the scope of audit work beyond financial statements, to the extent that its remit allows. Recently, the AASB and the AUASB have jointly published a bulletin on climate-related and other emerging risk disclosures in the financial statements, which has received international recognition.

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2 IAS 36/AASB 136 *Impairment of Assets*.

AASB recommendation

- (3) The Parliamentary Joint Committee to support the FRC, AASB and AUASB in continuing to obtain evidence regarding the need for mandatory accounting and assurance requirements relating to extended external reporting.

**TOR 8 – Effectiveness and appropriateness of legislation, regulation and licensing**

The AASB is undertaking a major Australian Financial Reporting Framework project, in conjunction with regulators and with the support of the AUASB, to potentially reshape the financial reporting requirements across all sectors of the Australian economy. The AASB has catalogued financial reporting requirements in legislation throughout Australia, and has identified that many of the requirements are unclear, inadequate or currently result in disproportionate financial reporting outcomes, as well as auditing issues. This project will assist regulators and the AASB to clarify and improve financial reporting requirements, including assurance requirements, which should also support improvements in audit quality.

AASB recommendation

- (4) The Parliamentary Joint Committee to support the work of the FRC, AASB and AUASB with other regulators in addressing and improving the financial reporting framework in Australia.

**TOR 10 – Adequacy and performance of regulatory, standards and other bodies**

The AASB works with regulators in all sectors of the economy when developing accounting and external reporting standards, as it is the regulators that determine the external reporting requirements for entities that they regulate, including whether and, if so, the extent to which the standards are required to be applied.

The AASB supports the adoption of global, principles-based Standards as the basis for Australian Standards, requiring financial statement preparers to use their judgement in applying the Standards, and auditors to use their professional judgement in auditing the financial statements. For example, AAS incorporate the principles-based IFRS Standards developed by the IASB. Both the AASB and the IASB are independent standard-setters.

The AASB has adopted an evidence-informed approach to standard setting. Accordingly, the AASB strongly advocates digital financial reporting, to assist standard-setters (such as the AASB) to assess the scope of an issue and the potential impact of proposed changes to standards. Digital financial reports lodged on the public record should be freely available to standard-setters and regulators, as it would enable them to better perform their functions through better targeted analysis, regulation and enforcement. Digital reporting would also make financial reports more accessible to the users.

AASB recommendations

- (5) The Parliamentary Joint Committee to support the continued adoption of global, principles-based standards by the AASB and the AUASB.

- (6) The Parliamentary Joint Committee to support mandatory lodgement of financial statements with ASIC in digital format, with free access to standard-setters and regulators.

These comments and recommendations are amplified in the attached Appendix. If required, the AASB would be pleased to provide additional information to the Parliamentary Joint Committee or to appear before it.

If you have any questions regarding this submission, please contact Clark Anstis, Technical Principal ([canstis@aab.gov.au](mailto:canstis@aab.gov.au)), Justin Williams, Managing Director ([jwilliams@aab.gov.au](mailto:jwilliams@aab.gov.au)), or me ([kpeach@aab.gov.au](mailto:kpeach@aab.gov.au)).

Yours faithfully,



Kris Peach  
AASB Chair

## APPENDIX

### Terms of Reference 4 – Audit quality, including valuations of intangible assets

#### *Measurement of assets*

The AASB acknowledges that the application of Australian Accounting Standards (AAS) requires significant judgement in many areas in estimating amounts for inclusion in the financial statements. This includes the measurement (valuation) of assets such as intangible assets, both when first acquired by an entity, and at subsequent financial reporting dates, when the recorded amount for an asset might be remeasured in accordance with specific AAS.

Measurement at acquisition typically requires the determination of the purchase cost, including an allocation of the total cost when more than one asset is acquired at the same time. Subsequent measurement requires numerous estimates, such as the useful life of the asset and any residual value (for estimating depreciation expenses). Some AAS permit entities to revalue certain assets at subsequent reporting dates. Revaluations generally would require the fair value of the assets to be estimated, although some AAS specify other valuation bases.

Subsequent measurement also involves estimating the impairment of assets. An asset is impaired if the carrying amount of the asset included in the statement of financial position exceeds the recoverable amount (as defined in IAS 36/AASB 136 *Impairment of Assets*). If impaired, an asset has to be written down to the recoverable amount, resulting in the recording of an expense.

The valuation of a class of intangible assets in accordance with Accounting Standards IAS 38/AASB 138 *Intangible Assets* (paragraph 72) requires considerable judgement. An entity applying AASB 138 elects whether to use the revaluation model for a class of intangible assets that have been recognised in the financial statements. Revaluation is not a mandatory requirement. If an entity elects to revalue a class of intangible assets, AASB 138 (paragraph 75) requires the assets to be measured at fair value, which is measured by reference to an active market. This limits the ability of entities to revalue their intangible assets, since many do not have active markets. The carrying amount of assets must be reduced for subsequent amortisation (depreciation) and impairment losses.

To assist preparers, auditors and users of the financial statements, the meaning of “fair value” and methods to estimate fair value generally are set out in IFRS 13/AASB 13 *Fair Value Measurement*. Nevertheless, considerable judgement can be required of financial statement preparers, when quoted market prices are not available, in estimating fair value and asset impairment. Auditors then apply their judgement in auditing the judgements made by the preparers. There is considerable scope for differences of opinion.

Improvements in the Standards simplify or clarify the requirements, and this can assist ultimately in improving audit quality as the quality of the draft financial statements improve. To improve the application of the Standards generally, the AASB engages with stakeholders in Australia and raises matters for the consideration of the IASB when appropriate.

For example, the AASB discussed issues raised in respect of IAS 36/AASB 136 *Impairment of Assets*, and supported the publication of AASB Research Report 9 *Perspectives on IAS 36: A*

*Case for Standard Setting Activity* (March 2019).<sup>3</sup> This report suggests a range of improvements to IAS 36, but also encourages the IASB to develop a new version of IAS 36 based on principles that would enable users, preparers, auditors and regulators to develop a common understanding of the practical aspects of ensuring that assets are recognised in the financial statements at amounts that do not exceed their recoverable amount.

In addition, the AASB has, at a recent meeting of the IASB's Accounting Standards Advisory Forum (ASAF),<sup>4</sup> reminded the IASB of the importance of working with the International Auditing and Assurance Standards Board (IAASB) to ensure any audit quality concerns emanating from the accounting standards are addressed. The AASB presented to ASAF on its own review of the current impairment standard and on the importance of our recommendation to do a complete review of the requirements of the impairment standard, given that the IASB is currently undertaking only a limited scope review. The AASB will continue to seek a more fundamental review.

AASB recommendation (1) – The Parliamentary Joint Committee to support the work of the AASB in relation to asset measurement requirements in AAS.

#### *Audit fee disclosure*

Some assessments of audit quality might take into account the fees paid to auditors for the financial statements or for other work. For example, members of the AASB's User Advisory Committee (UAC) regard comparisons of audit fees across entities as relevant to assessments of financial reporting quality and audit quality. Comparatively higher audit fees could indicate financial reporting problems or issues with the audit process. Comparatively lower audit fees may indicate that a lower quality audit has been performed.

Accounting Standard AASB 1054 *Australian Additional Disclosures* (paragraph 10) requires the disclosure of fees paid to the auditor or reviewer for the audit/review of the financial statements and for all other services performed during the reporting period. Paragraph 11 requires a description of the nature of the other services. Currently, these requirements apply only to Tier 1 general purpose financial statements, which are required to be prepared by for-profit private sector entities that have public accountability,<sup>5</sup> as well as Australian governments. However, in the public interest, the AASB is proposing to extend these disclosure requirements to financial statements prepared under Tier 2 (general purpose financial statements with reduced disclosures) – see AASB Exposure Draft [ED 295](#) *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* (August 2019).

These audit fee disclosure requirements have been retained in Australian Accounting Standards since detailed accounting and disclosure requirements were moved to the Standards many years ago from Schedule 7 to the Companies Act. As the requirements are additional to those

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3 Research reports are published on the AASB [website](#).

4 ASAF is the IASB's premier forum for technical discussions between IASB Board members and representatives of national standard-setters and their regional organisations. The twelve representatives are appointed by the IASB for terms of up to three years.

5 Public accountability is defined in AASB 1053 *Application of Tiers of Australian Accounting Standards*, essentially covering disclosing entities and listed entities. The IASB has a current project to reconsider the definition.

specified in IFRS Standards, the AASB is able to modify or extend these requirements in response to changes in the Australian reporting environment.

The AASB has been advised informally by the AUASB that various stakeholders are considering whether further detail should be presented in financial statements in respect of non-audit fees and services. Any proposals to modify or extend the current disclosure requirements would be developed with input from the UAC and the AUASB. The AASB would also carry out its regular due process if formal proposals to amend the requirements of AASB 1054 were raised. This would provide all stakeholders, including users of financial statements, with the opportunity to comment on the proposals.

AASB recommendation (2) – The Parliamentary Joint Committee to consider whether changes to the audit fee disclosures would be desirable and to support the AASB in applying its due process to address any potential amendments.

### **Terms of Reference 6 – Changes in the role of audit and the scope of audit products**

The remit of the AASB includes developing external reporting standards that address reports related to financial statements. For example, the AASB is undertaking projects relating to remuneration reporting and management commentary accompanying the financial statements.

The *Corporations Act 2001* (s. 300A) requires listed companies to provide information about the remuneration of directors in the Directors' Report. The Directors' Report generally is not part of the financial statements, and thus is not subject to audit. However, the remuneration report is subject to audit. The AASB has commissioned a review of remuneration reporting, to see whether there is a need for a reporting standard to address any issues across the three sectors.

The IASB issued the non-mandatory IFRS Practice Statement 1 *Management Commentary* in December 2010. It provides a broad framework for the presentation of narrative reporting to accompany financial statements. The AASB did not issue this Statement in Australia due to the existence of guidance on narrative reporting from a range of bodies, such as ASIC and the Australian Stock Exchange. The IASB is currently undertaking a project to update its Practice Statement – the Chair of the AASB is a member of the IASB's consultative group for this project. The AASB is likely to consult on the possibility of issuing a revised IFRS Practice Statement 1 in Australia as a reporting standard, which could prompt consideration led by the AUASB of establishing assurance requirements for such narrative reporting.

The AASB is keen to support the AUASB's work on extended external reporting projects, which extend the scope of audit work beyond financial statements, to the extent that its remit allows. Recently, the AASB and the AUASB have updated their joint bulletin on the impact of climate change on the financial statements, titled *Climate-related and Other Emerging Risks Disclosures: Assessing Financial Statement Materiality Using AASB/IASB Practice Statement 2* (April 2019).<sup>6</sup> This bulletin has received international recognition through acknowledgement by the Chair of the IASB of its contribution to the debate on improvements to disclosure requirements. The bulletin applies the principles in Practice Statement 2 *Making Materiality Judgements* (December 2017).<sup>7</sup>

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6 Published on the AASB website under [Hot Topics](#). Bulletin first published December 2018.

7 Practice Statements are published on the AASB [website](#).

AASB recommendation (3) – The Parliamentary Joint Committee to support the FRC, AASB and AUASB in continuing to obtain evidence regarding the need for mandatory accounting and assurance requirements relating to extended external reporting.

### **Terms of Reference 8 – The effectiveness and appropriateness of legislation, regulation and licensing**

The AASB is undertaking a major Australian Financial Reporting Framework project, in conjunction with regulators and with the support of the AUASB, to potentially reshape the financial reporting requirements across all sectors of the Australian economy: the for-profit private sector, the not-for-profit private sector and the public sector. The aim is to develop objective criteria as the basis for the regulators determining which entities should prepare financial and other external reports and the nature and extent of assurance required for those reports. The AASB's role is to establish the requirements for the contents of financial statements and related reports, not to determine who should prepare those reports or the level of assurance (if any).

To support this work, the AASB has catalogued financial reporting requirements in legislation throughout Australia,<sup>8</sup> identifying many requirements that are unclear, inadequate or currently result in disproportionate financial reporting outcomes, which can also result in audit quality issues as auditors struggle to understand the requirements or to audit poorly prepared financial statements. The Financial Reporting Framework project will assist regulators and the AASB to clarify and improve financial reporting requirements, including assurance requirements, which should also support improvements in audit quality.

Detailed analysis of the financial reporting requirements in the various sectors has been published in the following AASB Research Reports and Staff Papers:

- Research Report 5 *Financial Reporting Requirements Applicable to Charities* (October 2017)
- Research Report 6 *Financial Reporting Requirements Applicable to Australian Public Sector Entities* (May 2018)
- Research Report 7 *Financial Reporting Requirements Applicable to For-Profit Private Sector Companies* (May 2018)
- Discussion Paper *Improving Financial Reporting for Australian Charities* (November 2017)
- Discussion Paper *Improving Financial Reporting for Australian Public Sector* (June 2018).<sup>9</sup>

The research has identified significant financial reporting issues, such as potentially disproportionate public financial reporting requirements between for-profit private sector entities on one hand and not-for-profit private sector entities on the other. This has been emphasised by the recent changes to the Corporations Act that doubled the thresholds for distinguishing large proprietary companies, which have public financial reporting obligations, from small proprietary companies, which generally do not. The current three-tiered reporting requirements for charities established under the *Australian Charities and Not-for-profits Commission Act 2012*, for

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8 See AASB Research Report 10 *Legislative and Regulatory Financial Reporting Requirements* (September 2019).

9 The Discussion Papers are published on the AASB website as [AASB Staff Papers](#).

example, results in public lodgement of financial statements for charities that are very small in comparison with small proprietary companies.

In respect of public sector entities, most jurisdictions in Australia require all their public sector entities to prepare general purpose financial statements, which represents a considerable cost that is likely to outweigh the benefits of the reporting.

The AASB's research has identified that there is considerable scope to streamline and simplify the financial reporting requirements in the various sectors, which might also have an impact on assurance requirements.

### *Special purpose financial statements*

The formal strategy of the AASB includes ensuring that the accounting and reporting standards are capable of being assured and enforced. The AASB understands the significance of having accounting standards that result in auditable financial reports and are enforceable, as well as providing useful and comparable information to the users of the financial statements and other external reports for decision-making purposes, such as the allocation of scarce resources through investment and other decisions.

For example, the AASB is progressing its work to limit the ability of entities to self-assess that they are not a "reporting entity" and therefore elect to prepare special purpose financial statements (SPFS) – that purport to comply with the accounting standards – instead of general purpose financial statements (GPFS). The basis of preparation of SPFS varies significantly, compromising their quality and comparability.

This work is being undertaken in conjunction with adoption of the IASB's revised *Conceptual Framework for Financial Reporting*, which includes a concept of the reporting entity that is different to, and conflicts with, the existing Australian concept. The first phase was completed in May 2019, with amendments to AAS to support the revised Conceptual Framework in relation to publicly accountable for-profit private sector entities. Such entities are not able to classify themselves as "non-reporting entities" under the Australian concept, and were already required to prepare GPFS under Tier 1 requirements.

Further proposals to improve the auditability and enforceability of public financial reporting by for-profit entities are currently under consideration – see AASB Exposure Draft [ED 297](#) *Removal of Special Purpose Financial Statements for Certain For-Profit Private Sector Entities* (August 2019). ASIC developed Regulatory Guide 85 *Reporting requirements for non-reporting entities* (July 2005) to give its view of the minimum requirements for SPFS. However, research commissioned by the AASB has shown that RG 85 is clearly complied with by only 76% of the estimated 9,129 for-profit entities lodging SPFS with ASIC for 2017/18.<sup>10</sup> The research also shows that the quality of SPFS varies considerably, with the basis of preparation either unclear or inconsistent with AAS in 24% of the lodged SPFS, a significant minority.<sup>11</sup>

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10 See AASB Research Report 12 *Financial Reporting Practices of For-Profit Entities Lodging Special Purpose Financial Statements* (August 2019).

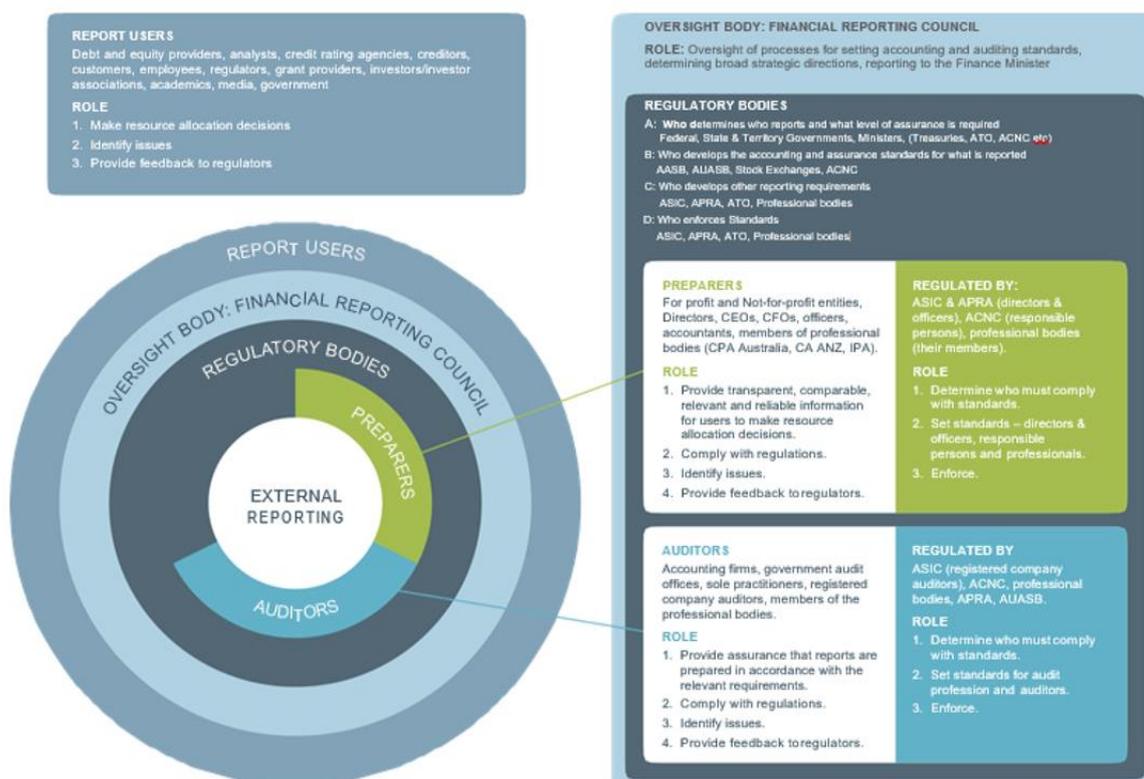
11 The Introduction in [ED 297](#) gives an overview of the issues with special purpose financial statements. See also AASB Research Reports 11 *Review of Special Purpose Financial Statements: Large and Medium-Sized Australian Charities* (August 2019) and 12.

AASB recommendation (4) – The Parliamentary Joint Committee to support the work of the FRC, AASB and AUASB with other regulators in addressing and improving the financial reporting framework in Australia.

**Terms of Reference 10 – The adequacy and performance of regulatory, standards, disciplinary and other bodies**

The 2019-2020 (joint) [Corporate Plan](#) of the AASB and the AUASB presents the following diagram of our key stakeholders and their roles and responsibilities. This diagram identifies the principal regulatory, standards, disciplinary and other bodies active in the financial reporting process in Australia.

The AASB works with regulators in all sectors of the economy when developing accounting and external reporting standards, as it is the regulators that determine the external reporting requirements for entities that they regulate, including whether and, if so, the extent to which the standards are required to be applied.



*Global and principle-based standards*

Since 2005, Australian Accounting Standards have incorporated the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB), following a broad strategic direction issued by the Financial Reporting Council.<sup>12</sup> The IASB’s IFRS

12 Similarly, the AUASB’s Australian Auditing Standards are based on the International Standards for Auditing issued by the International Auditing and Assurance Standards Board, following an FRC strategic direction.

Standards have been adopted in many jurisdictions around the world, supporting comparable financial reporting across borders. This assists entities operating internationally to more efficiently prepare financial statements when national standards are consistent with IFRS Standards, as well as assisting auditors of the entities in auditing financial statements in different jurisdictions based on the same accounting standards.

Compliance with Australian Accounting Standards (Tier 1) by publicly accountable for-profit private sector entities automatically means compliance with IFRS Standards. To provide further clarity for international investors, for-profit entities are required by AASB 101 *Presentation of Financial Statements* to make an explicit and unreserved statement of compliance with IFRS Standards in the notes, in addition to the statement of compliance with Australian Accounting Standards required by AASB 1054. Both statements are reported on in the auditor's report on the financial statements.

#### *The need for judgement*

The great variety and complexity of economic activity today means that all circumstances cannot be covered explicitly in more detailed and prescriptive accounting, auditing or other standards. The increasing complexity is reflected in the application of AAS to non-traditional assets and liabilities that are being recognised, measured and managed by entities today, such as derivative financial instruments, hedging strategies and intangible assets.

The AASB and the IASB consider that it is important to have principle-based standards to permit the application of judgement by both preparers and auditors. The need for judgement in applying standards means that there will be differences of opinion as to how the standards should be applied in some cases. Accounting Standards IAS 1/AASB 101 *Presentation of Financial Statements* require disclosure in the financial statements of the judgements that have had the most significant effect on the amounts recognised in the financial statements. Differing judgements by auditors may be disclosed in the audit report, depending on their significance to the auditor's opinion on the financial statements, providing users of the financial statements further information about the circumstances, to which they then apply their own judgement.

Regulators too might apply their judgement as well, if the circumstances come to their attention and are sufficiently significant. For example, ASIC has a financial reporting surveillance program through which it might develop its own view of the exercise of judgement by the preparer of financial statements and the auditor.

Nevertheless, the AASB has not heard of concerns from users of financial statements regarding the need for judgement in general in applying the principles in Australian Accounting Standards, and is not aware of research findings suggesting otherwise.

The AASB has identified from ASIC's surveillance programs that three main accounting standards feature repeatedly in the ASIC surveillance outcomes as areas of restatement or non-compliance: the standards dealing with revenue, financial instruments and impairment of assets. Revised standards on the first two are now being implemented and should result in improvements in the financial reporting. The impairment standard is subject to review by the IASB at present, with the AASB contributing recommendations based on its own review of the standard and proposing a fundamental review (as noted in our comments above on Terms of Reference 4).

The AASB has heard concerns specifically in relation to the judgements required in considering whether an entity is a “reporting entity”, as defined in the AASB’s Statement of Accounting Concepts SAC 1 *Definition of the Reporting Entity*.<sup>13</sup> As noted above in relation to special purpose financial statements, the AASB is working to address these concerns. (This reporting entity concept and application issue is unique to Australia.)

#### *Independent standard-setters*

Both the AASB and the IASB are independent standard-setters. This ensures that any particular interests are unable to determine the outcome of the standard-setting processes and should result in the most appropriate requirements, taking all interests and views into account.

The AASB and the IASB both comprise a broad, representative range of Board members, appointed in their personal capacity, ensuring that no particular interests can dominate the standard-setting agenda or outcomes. The Boards’ funding comes predominantly from sources that support their independence. An overview of the membership and the funding sources is set out in the addendum to this Appendix.

The Boards also have governance structures that protect their independence.<sup>14</sup> The AASB’s oversight body, the Financial Reporting Council (FRC), appoints the members of the AASB except for the Chair, who is appointed by the responsible Minister. The FRC does not have the power to direct the AASB in relation to the development or making of a particular Standard, or to veto a Standard made by the AASB.<sup>15</sup>

The IASB is the independent standard-setting body of the IFRS Foundation. The IASB is governed and overseen by Trustees from around the world (the IFRS Foundation Trustees), who in turn are accountable to the IFRS Monitoring Board. The Monitoring Board is a group of eight public capital market authority representatives, which enhances the public accountability of the IFRS Foundation.

AASB recommendation (5) – The Parliamentary Joint Committee to support the continued adoption of global, principles-based standards by the AASB and the AUASB.

#### *Digital financial reporting*

With an evidence-informed approach to standard setting,<sup>16</sup> the AASB strongly advocates that financial reports should be required to be lodged with ASIC pursuant to s. 319-322 of the *Corporations Act 2001* in digital form. A register of digitised financial reports would make it easier for users to access the information they want in their preferred manner, and would also assist standard-setters, ASIC and other regulators to better perform their functions by enabling better targeted analysis, regulation and enforcement.

Companies and other entities are currently able to lodge digital financial reports with ASIC to satisfy legislative requirements, however the AASB understands that no entities do so, in the absence of mandated digital reporting. ASIC updates annually a taxonomy for digital reporting,

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13 Statements of Accounting Concepts are published on the AASB [website](#).

14 The governance structures of the AASB and the AUASB are the same, as both are overseen by the FRC.

15 *Australian Securities and Investments Commission Act 2001*, ss. 225(5) and (6).

16 See the *AASB Evidence-Informed Standard-Setting Framework* (September 2019), which is published on the AASB [website](#).

based on the IASB's XBRL taxonomy for IFRS Standards, so the basis required for consistent digital financial reporting by entities in Australia is already in place.

A register of digital financial reports would be very useful to the AASB in developing Australian Accounting Standards. The AASB would be able to use the digital financial reports to assess both the scope of an issue and the potential impact of proposed changes to the Standards on entities preparing financial statements, enabling more effective standard setting. We note that national accounting standard-setters in the UK, Europe and USA have access to digital financial report information, enabling them to have a more complete and accurate understanding of the impact of new proposals, and therefore a more reliable understanding of the costs and benefits of the proposals.

At present, it is very difficult to obtain accurate information on how many entities in Australia might be applying particular accounting policies and their significance, or the type of financial statements prepared. The financial reports lodged with ASIC are typically in PDF format, which means that there is no easy way to access their content. The AASB has obtained summary information from data aggregators, who digitise the contents of financial reports once they have purchased the reports from ASIC. Considerable effort from the AASB and the data aggregators (at the expense of the AASB) is required to obtain the information that the AASB needs from the financial reports, since the data aggregators use the information for different purposes.

AASB recommendation (6) – The Parliamentary Joint Committee to support mandatory lodgement of financial statements with ASIC in digital format, with free access to standard-setters and regulators.

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**ADDENDUM****The AASB and the IASB – Independent standard-setters***Board membership*

<b>AASB – by background</b>		<b>IASB – by background</b>		<b>IASB – by region</b>	
Accounting profession (including the Chair)	3	Accounting profession	3	Africa	1
Academia	1	Academia	3	Americas	4
Investment	1	Investment	2	Asia-Oceania	4
Private sector	1	Preparer	3	Europe	4
Public sector	2	Regulator/standard-setter	3	“At large”	1
Not-for-profit sector	2				
<i>Ex officio</i> (NZASB)	1				
Total membership	11	Total membership	14	Total membership	14

The AASB Chair may hold either a full-time or a part-time appointment. All other AASB Board members hold part-time appointments, retaining their current links with employers or organisations. Members are appointed in their personal capacity, not as representatives of employers or organisations. The member background categories presented in the table reflect the work of the AASB across all sectors of the economy and the Trans-Tasman links with the New Zealand Accounting Standards Board – the Chairs of the AASB and the NZASB are each members of the other Board. Members’ affiliations are disclosed in the AASB annual reports,<sup>17</sup> with more details given on the AASB website.<sup>18</sup>

IASB Board members are all full-time appointments, with members required to sever their links with previous employers or organisations. The member background categories are identified in the IFRS Foundation’s Annual Report 2018,<sup>19</sup> without attributing the members to those categories. The classification of the background of IASB members shown in the table is judgemental, since some of the members have quite varied backgrounds. The regional classification is specified in the Annual Report.

*Board funding*

Board funding information is based on details in the Boards’ latest annual reports.

<b>AASB – 2018/19 income</b>		<b>IFRS Foundation – 2018 income</b>	
Australian Government appropriations	71%	Contributions – jurisdictions	54%
State and Territory Governments	10%	Contributions – international firms (7)	17%
AUASB management fee	15%	Publications and licensing	29%
Resources received free of charge	4%		

17 AASB Annual Reports are published on the AASB [website](#).

18 See the Current Board members [page](#).

19 IFRS Foundation Annual Reports are published on the IFRS Foundation [website](#).

The AASB is a non-corporate entity in the Australian Government's Treasury portfolio. The Australian, State and Territory Governments make their own decisions as to whether to adopt the Australian Accounting Standards made by the AASB. (They all do.) The AASB provides all administrative services for the AUASB, resulting in the management fee charged to the AUASB. The resources received free of charge represent the time spent by Board members in addressing Board matters that is not covered by sitting fees.

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