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Institutional arrangements for setting accounting standards in Australia

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The development of institutional arrangements for standard setting in Australia

LEARNING OBJECTIVES

After studying this chapter you should be able to:

- 1 identify the main sources of regulation of financial reporting;
- 2 identify the major developments in the institutional arrangements for accounting standard setting;
- 3 explain the present accounting standard-setting arrangements;
- 4 explain the process of developing accounting standards and concepts statements in Australia;
- 5 explain the process of developing interpretations; and
- 6 explain the process of enforcing accounting standards and interpretations.

1.1 Introduction

In this book, we consider some of the controversial issues in financial accounting that have been debated over time by the preparers, users, auditors and regulators of general purpose financial statements (GPFS). The preparation of GPFS requires accountants to make decisions as to which accounting policies are the ‘best’ for any given entity and situation. For example, should a company use a straight-line or an accelerated method of depreciating its property, plant and equipment? Accountants must exercise professional judgement in making a choice, because determining the most appropriate accounting policy is often not simple. For instance, when choosing the accounting policy for depreciating machinery, an accountant needs to estimate both the useful life of that machinery and the pattern of future economic benefits that is likely to be generated by it. As both of these characteristics are unknown at the start of the life of the machinery, the accountant can only make an educated but uncertain judgement about how to depreciate the machinery.

Accountants are not free to make any accounting policy choice they like, because their behaviour is governed by some form of regulation, including government and non-government regulation, accounting concepts and standards, and professional ethics. The three main sources of regulation governing accounting policies and financial reporting practices are: government legislation, the Australian Securities Exchange Ltd (ASX) Listing Rules, and accounting standards and other pronouncements issued by the Australian Accounting Standards Board (AASB). This chapter also outlines the processes by which these sources of regulation are developed and how they are enforced. The accounting conceptual framework is explored in Chapters 2 and 3, and professional ethics is discussed in Chapter 26.

1.1.1 Government legislation

In the private sector, the most important legislation specifying financial reporting requirements is the *Corporations Act 2001*, which replaced the *Corporations Act 1989*. This legislation may be found at www.legislation.gov.au. The Corporate Law Economic Reform Program (CLERP) was commenced in 1998 as part of the Commonwealth Government’s ongoing program to modernise business regulation in Australia. As part of this program, the Corporations Act was simplified through substantial amendments made in 1998, some of which affected financial reporting. Section 292 of the Corporations Act requires the preparation of financial statements for each financial year by all disclosing entities, all public companies, all large proprietary companies and all registered schemes.¹ Broadly speaking, the financial reporting and audit provisions of the Corporations Act require that:

- 1 proper financial records are kept;
- 2 a financial report is prepared each half-year (for disclosing entities only) and at the end of the financial year;
- 3 the financial report consists of:
 - (a) the financial statements, comprising a statement of comprehensive income, a statement of financial position, a statement of changes in equity and a statement of cash flows;
 - (b) the notes to the financial statements; and
 - (c) the directors’ declaration about the financial statements and notes;

LEARNING OBJECTIVE

Identify the main sources of regulation of financial reporting.

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- 4 the financial statements give a 'true and fair view' of the financial position and performance of the entity;
- 5 the financial statements comply with accounting standards;
- 6 if the financial statements and notes prepared in compliance with accounting standards would not give a true and fair view, then additional information necessary to give a true and fair view is included in the notes to the financial statements. This means that entities must comply with accounting standards in the preparation of their financial statements even if, in the opinion of the governing board, this does not result in a true and fair view; and
- 7 the financial statements include an auditor's report. Auditors have to report, *inter alia*, whether in their opinion the financial statements are prepared in compliance with accounting standards and provide a true and fair view. If not of that opinion, the auditor's report must state why. In those cases where there has not been compliance with an accounting standard, the auditors also have to provide an opinion on the quantified effect of non-compliance on the financial statements.

The Corporations Act, therefore, specifies general requirements that the financial statements comply with accounting standards and present a true and fair view. The form and content of the statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows are considered in accounting standards discussed later in this book.

As noted previously, the financial statements of entities reporting under the Corporations Act must comply with accounting standards issued by the AASB. Section 226 of the *Australian Securities and Investments Commission Act 2001* provides for the establishment of the AASB, and accounting standards issued by the Board are deemed to be part of the Corporations Act. This aspect of the legislation is considered in section 1.2.1.

The Corporations Act applies to companies and other types of entities, such as listed trusts, that are identified in the legislation. Financial reporting by most entities in the public sector is regulated by other legislation. For example, legislation such as the *Financial Management Amendment Act 1994* in Victoria, the *Financial Accountability Act 2009* in Queensland and the *Public Finance and Audit Act 1987* in South Australia establishes the financial reporting obligations of state public sector bodies. These Acts are commonly supplemented with regulations entitled 'Treasurer's Instructions', which are designed to ensure uniform and detailed financial reporting. The legislation generally requires the financial statements to be prepared in accordance with accounting standards and interpretations issued by the AASB.

1.1.2 Australian Securities Exchange Ltd Listing Rules

The second source of regulation governing financial reporting is the listing rules of the ASX. These rules apply only to entities whose securities are listed on the ASX and are designed to ensure that capital markets receive timely and relevant information. The disclosure requirements of the ASX are contained in Chapter 3 (continuous disclosure), Chapter 4 (periodic disclosure) and Chapter 5 (additional reporting on mining and exploration activities) of the listing rules. The listing rules specify the detailed disclosure of financial information and require the disclosure of some information not required by the Corporations Act. For example, the ASX requires listed entities to disclose, in returns filed with it, the names of the 20 largest holders of each class of quoted equity securities, the number of equity securities each holds and the percentage of capital this represents (see ASX Listing Rule 4.10.9). If a listed company does not comply with the ASX Listing Rules, it may be delisted. In addition to the listing rules, which are mandatory, on 27 March 2014 the ASX

Corporate Governance Council released the document *Corporate Governance Principles and Recommendations*. The aim of these corporate governance guidelines is to promote investor confidence and to assist companies in meeting investors' expectations. This is the third edition of the *Corporate Governance Principles and Recommendations* since 2003 and provides evidence for the view expressed in 2003 by the ASX Corporate Governance Council that it is 'committed to a continuing review of these principles and best practice recommendations to ensure that they remain relevant, take account of local and international developments, and continue to reflect international best practice' (p. 7). The following text from *Corporate Governance Principles and Recommendations* provides an overview of the eight principles to which 29 recommendations are attached. For example, one of the recommendations for principle 1, 'Lay solid foundations for management and oversight', is for a listed entity to 'disclose the respective roles and responsibilities of its board and management'.

CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS (2014, 3RD EDITION)

Principle 1: Lay solid foundations for management and oversight

A listed entity should establish and disclose the respective roles and responsibilities of its board and management and how their performance is monitored and evaluated.

Recommendation 1.1: A listed entity should disclose:

- (a) the respective roles and responsibilities of its board and management; and
- (b) those matters expressly reserved to the board and those delegated to management.

Recommendation 1.2: A listed entity should:

- (a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and
- (b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

Recommendation 1.3: A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.

Recommendation 1.4: The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

Recommendation 1.5: A listed entity should:

- (a) have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;
- (b) disclose that policy or a summary of it; and
- (c) disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them and either:
 - 1 the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined 'senior executive' for these purposes); or
 - 2 if the entity is a 'relevant employer' under the *Workplace Gender Equality Act 2012*, the entity's most recent 'Gender Equality Indicators', as defined in and published under the Act.

(Continued)

Recommendation 1.6: A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

Recommendation 1.7: A listed entity should:

- (a) have and disclose a process for periodically evaluating the performance of its senior executives; and
- (b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

Principle 2: Structure the board to add value

A listed entity should have a board of an appropriate size, composition, skills and commitment to enable it to discharge its duties effectively.

Recommendation 2.1: The board of a listed entity should:

- (a) have a nomination committee which:
 - 1 has at least three members, a majority of whom are independent directors; and
 - 2 is chaired by an independent director; and disclose
 - 3 the charter of the committee;
 - 4 the members of the committee; and
 - 5 as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

Recommendation 2.2: A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

Recommendation 2.3: A listed entity should disclose:

- (a) the names of the directors considered by the board to be independent directors;
- (b) if a director has an interest, position, association or relationship of the type [that would suggest the director is not independent] but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and
- (c) the length of service of each director.

Recommendation 2.4: A majority of the board of a listed entity should be independent directors.

Recommendation 2.5: The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the chief executive officer (CEO) of the entity.

Recommendation 2.6: A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

Principle 3: Act ethically and responsibly

A listed entity should act ethically and responsibly.

Recommendation 3.1: A listed entity should:

- (a) have a code of conduct for its directors, senior executives and employees; and
- (b) disclose that code or a summary of it.

Principle 4: Safeguard integrity in corporate reporting

A listed entity should have formal and rigorous processes that independently verify and safeguard the integrity of its corporate reporting.

Recommendation 4.1: The board of a listed entity should:

- (a) have an audit committee which:
 - 1 has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and
 - 2 is chaired by an independent director, who is not the chair of the board; and disclose
 - 3 the charter of the committee;
 - 4 the relevant qualifications and experience of the members of the committee; and
 - 5 in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

Recommendation 4.2: The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its CEO and chief financial officer (CFO) a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Recommendation 4.3: A listed entity that has an annual general meeting (AGM) should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

Principle 5: Make timely and balanced disclosure

A listed entity should make timely and balanced disclosure of all matters concerning it that a reasonable person would expect to have a material effect on the price or value of its securities.

Recommendation 5.1: A listed entity should:

- (a) have a written policy for complying with its continuous disclosure obligations under the listing rules; and
- (b) disclose that policy or a summary of it.

Principle 6: Respect the rights of security holders

A listed entity should respect the rights of its security holders by providing them with appropriate information and facilities to allow them to exercise those rights effectively.

Recommendation 6.1: A listed entity should provide information about itself and its governance to investors via its website.

Recommendation 6.2: A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors.

Recommendation 6.3: A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders.

Recommendation 6.4: A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

Principle 7: Recognise and manage risk

A listed entity should establish a sound risk management framework and periodically review the effectiveness of that framework.

Recommendation 7.1: The board of a listed entity should:

- (a) have a committee or committees to oversee risk, each of which:
 - 1 has at least three members, a majority of whom are independent directors; and
 - 2 is chaired by an independent director; and disclose:

(Continued)

- 3 the charter of the committee;
 - 4 the members of the committee; and
 - 5 as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework.

Recommendation 7.2: The board, or a committee of the board, should:

- (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and
- (b) disclose, in relation to each reporting period, whether such a review has taken place.

Recommendation 7.3: A listed entity should disclose:

- (a) if it has an internal audit function, how the function is structured and what role it performs; or
- (b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

Recommendation 7.4: A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages, or intends to manage, those risks.

Principle 8: Remunerate fairly and responsibly

A listed entity should pay director remuneration sufficient to attract and retain high-quality directors and design its executive remuneration to attract, retain and motivate high-quality senior executives and to align their interests with the creation of value for security holders.

Recommendation 8.1: The board of a listed entity should:

- (a) have a remuneration committee which:
 - 1 has at least three members, a majority of whom are independent directors; and
 - 2 is chaired by an independent director; and disclose:
 - 3 the charter of the committee;
 - 4 the members of the committee; and
 - 5 as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
- (b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

Recommendation 8.2: A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

Recommendation 8.3: A listed entity which has an equity-based remuneration scheme should:

- (a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and
- (b) disclose that policy or a summary of it.

Source: ASX Corporate Governance Council, *Corporate Governance Principles and Recommendations*, 3rd edition, Australian Securities Exchange, Sydney, 2014, pp. 8–34. © Copyright 2016 ASX Corporate Governance Council.

The principles and associated recommendations are not mandatory, although listed entities that do not adopt an ASX Corporate Governance Council recommendation must explain why they have not done so (the 'if not, why not?' approach). However, the ASX Listing Rules include two mandatory requirements relating to the Corporate Governance Principles. First, ASX Listing Rule

4.10.3 requires listed entities to disclose in their annual reports the extent to which they have followed the guidelines during the reporting period. Second, ASX Listing Rule 12.7 requires that companies included in the Standard & Poor's (S&P) All Ordinaries Index have an audit committee, and that companies included in the S&P/ASX 300 Index comply with the corporate governance guidelines in relation to composition, operation and responsibility of the audit committee.

At the time of writing, we are unaware of any research studies that have explored the impact of the third edition of the Corporate Governance Principles. However, there is some evidence available for previous editions. A study by Brown and Gorgens investigated, *inter alia*, compliance by the top 300 Australian listed companies with the ASX Corporate Governance Council's *principles* over the period 2004 to 2006.² Table 1.1 provides an overview of the main compliance results. From the table, there is evidence that for each of the three years, on average, ASX 300 companies were compliant with more than eight of the then 10 principles. Principles two, four and nine were the least complied with by companies during this period.³

TABLE 1.1 Compliance of the top 300 Australian companies listed on the ASX with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations between 2004 and 2006

	2004	2005	2006
Principle 1	99%	99.7%	99.7%
Principle 2	40%	45%	46%
Principle 3	90%	93%	93%
Principle 4	69%	78%	83%
Principle 5	93%	95%	96%
Principle 6	93%	94%	95%
Principle 7	89%	92%	92%
Principle 8	89%	92%	92%
Principle 9	72%	76%	77%
Principle 10	92%	95%	95%
Number of companies fully compliant with 10 principles	92	108	113
Average compliance with 10 principles	8.28	8.61	8.7
Minimum number of principles complied with by any company	0	1	1
Maximum number of principles complied with by any company	10	10	10
Standard deviation	1.93	1.68	1.61
Number of companies	304	304	304

Source: R. Brown and T. Gorgens, 'Corporate Governance and Financial Performance in an Australian Context', *Treasury Working Paper, 2009-02*, Table 4.2, Australian Treasury, Canberra, March 2009, p. 17. © Commonwealth of Australia, reproduced by permission.

Other more recent studies have explored whether the introduction of the Corporate Governance Principles has more generally improved the level of corporate governance practices. Matolcsy, Tyler and Wells (2011), Psaros and Seamer (2015), and Beekes, Brown and Zhang (2015) all provide evidence that, relative to the years immediately before the introduction of the Corporate Governance Principles in 2003, corporate governance in Australia's listed companies had improved by 2012 with higher levels of disclosures, greater independence of corporate boards and increased use of independent board sub-committees such as remuneration committees and audit committees. The findings of the study by Matolcsy, Tyler and Wells (2011) suggest that the

improvements in corporate governance have been greatest among smaller listed companies – that is, those outside the ASX 300.

1.1.3 Accounting standards and interpretations

The third source of regulation governing financial reporting is accounting standards and interpretations prepared by the AASB. Accounting standards and interpretations are concerned with accounting definition, recognition, measurement and disclosure.

As noted in section 1.1.1, authority is provided to AASB accounting standards by the Corporations Act. The Accounting Professional and Ethical Standards Board (APESB) <www.apesb.org.au>, formed in 2006, provides similar authority for Australian accounting standards – that is, AASB accounting standards. Specifically, paragraph 5.1 of *APES 205* 'Conformity with Accounting Standards' states that:

Members shall take all reasonable steps to apply Australian Accounting Standards when they prepare and/or present General Purpose Financial Statements that purport to comply with the Australian Financial Reporting Framework.

Members are defined as 'a member of a professional body that has adopted this Standard as applicable to their membership as defined by a professional body' (*APES 205*, para. 2), and the Australian Financial Reporting Framework comprises accounting standards, concepts and interpretations. To date, professional bodies adopting *APES 205* include CPA Australia (CPAA), Chartered Accountants Australia and New Zealand (CAANZ) and the Institute of Public Accountants (IPA). More detail on the APESB is provided in section 1.3.3.

In addition to preparing accounting standards and interpretations, the AASB has been developing a conceptual framework for general purpose financial reporting. The conceptual framework is used by the AASB in the development (and revision) of accounting standards and interpretations. It is also used by preparers, auditors and regulators of financial statements to assist them in resolving financial reporting problems that are not covered by an accounting standard.

The institutional framework for accounting standard setting in Australia, and the preparation and enforcement of accounting standards and interpretations, are discussed next, in sections 1.2 and 1.3. The concepts statements and other conceptual framework documents are discussed in Chapters 2 and 3.

1.2 Accounting standard setting in Australia

LEARNING OBJECTIVE

2

Identify the major developments in the institutional arrangements for accounting standard setting.

An overview of the early developments in institutional arrangements for setting accounting standards in Australia is provided in Appendix 1.1. The current standard-setting arrangements are outlined in section 1.2.1.

1.2.1 Present standard-setting arrangements

The passage of the Corporate Law Economic Reform Program in October 1999 introduced fundamental changes to the structure and arrangements for accounting standard setting. The *Australian Securities and Investments Commission Act 2001* was amended, replacing the previous Part 12 with a new Part 12. The amendments established the Financial Reporting Council (FRC) and provided for the establishment of a reconstituted AASB. Each of these bodies is discussed in turn. Figure 1.1 provides an overview of the standard-setting organisational structure in Australia.

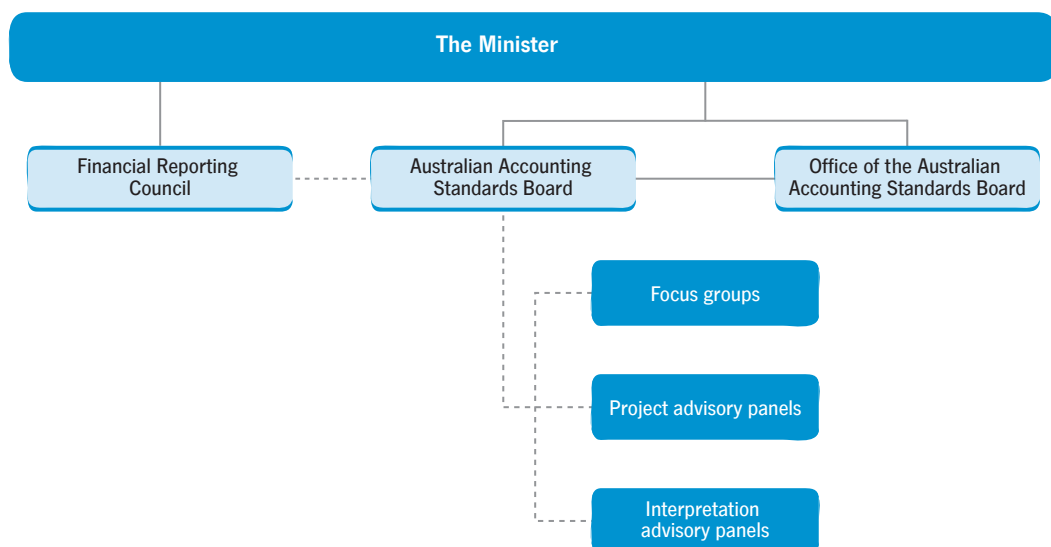


FIGURE 1.1 AASB organisational structure

Source: AASB, *Annual Report 2014–2015*, p. 22. © Australian Accounting Standards Board, 2016.

THE FINANCIAL REPORTING COUNCIL

The FRC is a statutory body under the *Australian Securities and Investments Commission Act 2001*. Its current structure came into place with the CLERP reforms (*Audit Reform and Corporate Disclosure Act 2004*). Figure 1.1 shows its role as the peak body responsible for the broad oversight of the accounting and auditing standard-setting process in Australia.

In general, the FRC has responsibility for oversight of the AASB and for presenting reports and advice on the Australian accounting standard-setting process to the Commonwealth Government via the relevant Minister at the time. The role of the FRC includes:

- appointment of the members of the AASB (except for the full-time Chair, who is appointed by the Minister);
- approving and monitoring the AASB's priorities, business plan, budget and staffing arrangements;
- determining the AASB's broad strategic direction;
- giving the AASB directions, advice or feedback on matters of general policy and the AASB's procedures; and
- monitoring the development of international accounting and auditing standards, working to further the development of a single set of accounting and auditing standards for worldwide use and promoting the adoption of these standards.

Although the FRC has wide-ranging powers, the Australian Securities and Investments Commission Act expressly limits the FRC's ability to become involved in the technical deliberations of the AASB. For example, the FRC does not have the power to veto a standard formulated or recommended by the AASB, nor to direct the AASB in relation to the development or making of a particular standard. However, the FRC has in the past made two 'directives' to the AASB that have influenced the technical agenda of the AASB. The first of these was in 2002 when the FRC required the adoption in Australia of international financial reporting standards (IFRSs) with effect

LEARNING OBJECTIVE

3

Explain the present accounting standard-setting arrangements.

from 1 January 2005. This directive required the AASB to replace Australian accounting standards with their international equivalents and effectively ended the ability of the AASB to set its own standards for entities in the private sector. In the same year, the FRC issued a second directive to the AASB that had an impact on public sector accounting in Australia. Essentially, the directive required the AASB to combine two types of accounting systems – generally accepted accounting principles (GAAP) reporting with Government Finance Statistics (GFS) reporting, which is a form of reporting rules used by governments around the world. As a result of this directive, the AASB had to add a special and resource-intensive project to its technical agenda, which in October 2007 resulted in the release of *AASB 1049* ‘Whole of Government and General Government Sector Financial Reporting’.

The FRC is also responsible for monitoring the effectiveness of auditor independence requirements in Australia and has an oversight function of the Auditing and Assurance Standards Board (AuASB).⁴

Under section 235A of the *Australian Securities and Investments Commission Act 2001*, members of the FRC are appointed by the Minister and hold office on terms and conditions determined by the Minister. Members of the FRC include the Chair, appointees of the Commonwealth and members drawn from the business community, the professional accounting bodies, the investing community, governments and regulatory agencies. For example, in 2016, FRC members included the chairs of the AASB and the AuASB, the Chair of the External Reporting Board of New Zealand, a representative of CAANZ and the Chief Compliance Officer of the ASX. Information on the FRC may be found at www.frc.gov.au.

THE AUSTRALIAN ACCOUNTING STANDARDS BOARD

The AASB was established under section 226(1) of the *Australian Securities and Investments Commission Act 1989* and presently operates under section 261 of the *Australian Securities and Investments Commission Act 2001*. The AASB began operations in 1991, replacing the Australian Accounting Standards Review Board (ASRB). At that time, the ASRB was Australia’s sole standard-setting body for the private sector and its activities were complemented by the Public Sector Accounting Standards Board (PSASB), which developed accounting standards applicable to all other reporting entities.⁵ The passage of CLERP in October 1999 resulted in the activities of the PSASB being merged with those of the AASB.

The reconstituted AASB is an Australian government agency under the Australian Securities and Investments Commission Act. It has responsibility for making accounting standards applicable not only to entities coming under the jurisdiction of the Corporations Act but also to entities in the public sector and the non-corporate sector.

The AASB has issued two interrelated packages of standards.

- 1 Australian accounting standards not derived from international pronouncements. They are organised as follows:
 - *AASB 1000+ series*, which covers former Australian standards revised and retained pending finalisation of International Accounting Standards Board (IASB) projects, issues specific to not-for-profit entities and Australian-specific issues; and
 - *Omnibus series (AASB 2010–7 to AASB 2015–10)*, which covers amendments to Australian accounting standards numbered in a series using the year of issue.

- 2 Australian accounting standards derived from international pronouncements. They are organised as follows:
 - *AASB 1+ series*, which covers standards that the IASB has titled 'IFRS'. This series is expected to grow over time as the IASB continues to issue International Financial Reporting Standards; and
 - *AASB 101–AASB 141 series*, which covers standards that the IASB has titled 'IAS'. The IASB is not expected to expand this series.

The AASB's major functions are specified in section 227(1) of the Australian Securities and Investments Commission Act as follows:

- 1 to develop a conceptual framework, not having the force of an accounting standard, for the purpose of evaluating proposed accounting standards;
- 2 to make accounting standards under section 334 of the *Corporations Act 2001*;
- 3 to formulate accounting standards for other purposes;
- 4 to participate in, and contribute to, the development of a single set of accounting standards for worldwide use; and
- 5 to advance and promote the main objectives of Part 12 of the Act as set down in section 224, which include reducing the cost of capital, enabling Australian entities to compete effectively overseas and maintaining investor confidence in the Australian economy.

The relationship of the AASB to other bodies involved in standard setting is shown in Figure 1.1. The Minister appoints the Chair of the AASB, and the Chair is ultimately responsible to the Minister for the operations of the AASB. The AASB comprises 13 part-time members plus the full-time Chair. Member appointments to the AASB are made by the FRC from nominations received from a number of bodies including CPAA, CAANZ, the Business Council of Australia and the ASX. For 2016, AASB members were drawn from the Big 4 public accounting firms, State Treasury Departments, the Commonwealth Department of Finance, the banking and private sectors, academia and the Chair of the New Zealand Accounting Standards Board. In addition, the AASB presently has one observer – a member of the IFRS Interpretations Committee. Meetings of the AASB are open to the public. Further information on the AASB may be found at www.aasb.gov.au.

The Governance Review Implementation (AASB and AuASB) Bill 2008 was passed by Parliament in June 2008. *Inter alia*, the Bill established the Office of the AASB to support the operations of the AASB through the provision of technical and administrative services, information and advice. Its CEO is the Chair of the AASB, who is also responsible to the Minister for the financial management of the Office.

The AASB has four formal avenues for constituent entities and organisations to have input into the standard-setting process: Focus Groups, Project Advisory Panels, Interpretation Advisory Panels and an Academic Advisory Panel. There are currently two *Focus Groups* – the User Focus Group and the Not-for-Profit Focus Group. In general, these groups serve as a resource to the AASB in formulating standard-setting priorities, advising on specific agenda projects and providing feedback to assist in developing standards. The User Focus Group generally comprises eight to 10 investment and credit professionals, and the Not-for-Profit Focus Group comprises eight to 10 professionals with expertise and involvement in charitable and related organisations.

Input is also received from *Project Advisory Panels* that work with the AASB staff to develop agenda material relating to specific standard-setting projects for consideration by the Board. Invitations are issued to experts in a particular field or topic area to join a Project Advisory Panel.

The AASB has assumed direct responsibility for developing interpretations since the Urgent Issues Group was disbanded in 2006. AASB Interpretations are discussed further in section 1.3. One aspect of the process of issuing interpretations is that the AASB decides, on a topic-by-topic basis, whether to appoint an *Interpretation Advisory Panel*. The role of the Advisory Panel is limited to preparing alternative views on a specific issue and, where relevant, recommendations for consideration by the AASB. An Interpretation Advisory Panel normally has between four and eight members. These members include the AASB Chair, at least one other AASB member and other members appointed on the basis of their professional competence and practical experience in the topic area. Members are typically drawn from a register of potential Interpretation Advisory Panel members maintained by the AASB.

In 2015 the AASB established an *Academic Advisory Panel*, which, at the time of writing, was chaired by the academic member of the AASB and consisted of six other academics from around Australia. One aim of the Academic Advisory Panel is to increase the level of communication between the AASB and the research community. Standard setters around the world are increasingly seeking objective evidence to inform their deliberations, and the Academic Advisory Panel assists the AASB by bringing relevant research findings to its attention and encouraging researchers to explore topics of mutual interest with the AASB.

1.3 The preparation and enforcement of AASB Accounting Standards and AASB Interpretations

The same due process is applied in the preparation of accounting standards and conceptual framework documents issued by the AASB. This due process is outlined in section 1.3.1. The process for developing AASB Interpretations is somewhat different. This topic is considered in section 1.3.2. The authority and enforcement of standards and interpretations is discussed in section 1.3.3.

1.3.1 The development of accounting standards and concepts statements

Each accounting standard and concepts statement is the result of a long and extensive due process. An overview of the process is provided in Figure 1.2, which shows that *identification of a technical issue* to be added to the AASB's work program is the starting point. This can happen in one of three ways. First, after the FRC's first directive to the AASB, Australia adopted Australian equivalents of IFRSs from 1 January 2005. Thus, issues on the IASB's and the International Financial Reporting Interpretations Committee's (IFRIC) work programs are also included in the AASB's work program. Second, the AASB closely monitors the International Public Sector Accounting Standards Board's (IPSASB) work program to identify issues for inclusion in its own work program. Third, AASB Board members and staff, as well as Australian organisations and individuals, can identify issues that require consideration. In this situation, issues relating to for-profit entities are normally referred to the IASB or IFRIC for consideration, while issues relating to not-for-profit entities are referred to the IPSASB or addressed domestically.

The next step in the process is the development of a *project proposal* by the AASB. This proposal contains an assessment of the potential benefits of the project, the potential costs of not undertaking

LEARNING OBJECTIVE

4

Explain the process of developing accounting standards and concepts statements in Australia.

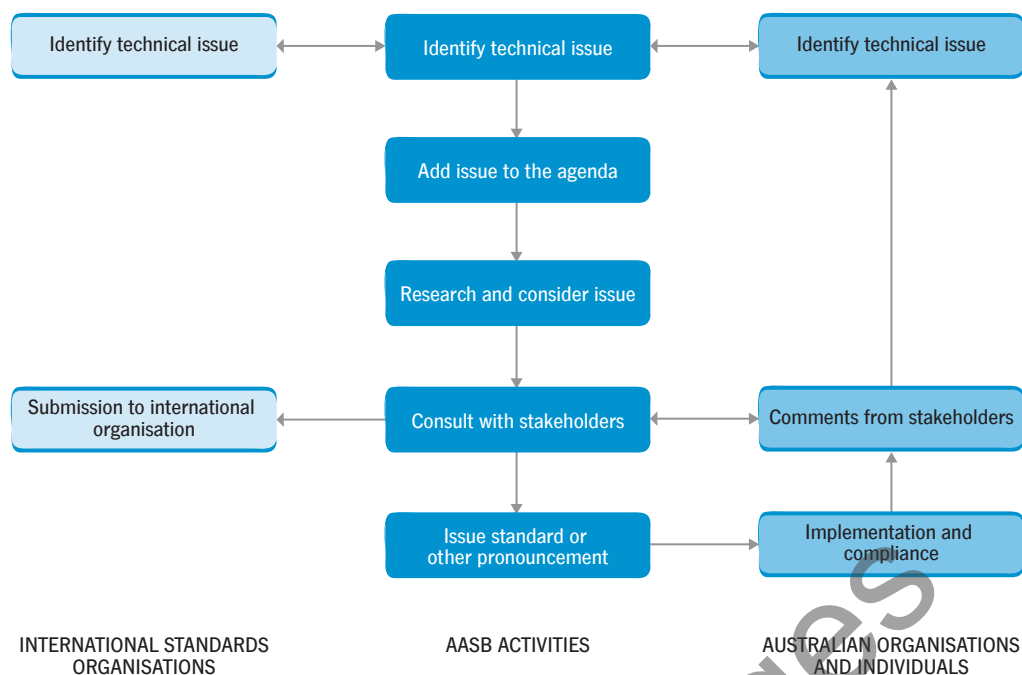


FIGURE 1.2 AASB standard-setting process

Source: AASB, *The Standard-Setting Process*, <www.aasb.gov.au/About-the-AASB/The-standard-setting-process.aspx>. © Australian Accounting Standards Board, 2016.

it, resource availability and timing. After reviewing the proposal, the AASB makes a decision on whether to place the project on its agenda. The work program can be viewed at <www.aasb.gov.au>. At the start of 2016, the program contained 31 active projects, which included domestic not-for-profit sector issues such as the use of depreciated replacement cost as a measure of value-in-use and IFRS-based issues such as revisions to the conceptual framework, leases and insurance contracts.

The inclusion of an issue on the AASB's agenda leads to the development of *agenda papers* by AASB staff. Agenda papers consider the scope of issues, alternative approaches and the timing of outputs. They are prepared using material drawn from the IASB, the IPSASB, the New Zealand Accounting Standards Board and other such organisations. Once this research has been finalised, the AASB discusses the agenda papers and exposes a document for *public comment and discussion with stakeholders* which may take the form of:

- a discussion paper outlining a wide range of possible accounting policies on a particular topic;
- an exposure draft of a proposed standard or amendment to a standard;
- an invitation to comment seeking feedback on broad proposals; or
- a draft interpretation of a standard.

Feedback from the public and stakeholders may be obtained through the channels outlined in section 1.2.1, including round-table discussions with stakeholders, Focus Groups, Project Advisory Panels, Interpretation Advisory Panels and the Academic Advisory Panel.

After completion of consultation with stakeholders, the Board discusses the results of the feedback received on an agenda item. One possible outcome is that a standard or other pronouncement is not issued. In this situation, the Board notes its view in the minutes of a meeting or in a formal Board agenda decision. A second possible outcome of this discussion is

the *issuance of a pronouncement* such as an accounting standard, an interpretation or a conceptual framework document. Note that, when preparing or amending an AASB accounting standard, the AASB is required to prepare a Regulation Impact Statement (RIS) and to liaise with the Office of Regulation Review on the acceptability of the RIS. The objective of the RIS is to ensure that options to address a perceived regulatory problem are canvassed in a systematic, objective and transparent manner. The RIS includes a cost–benefit analysis of each option and a recommendation on the most effective and efficient option for regulation (see www.aasb.gov.au/Pronouncements/specific-document-results/RIS-preamble.aspx).

The impact of the FRC’s directive that resulted in the policy of adopting Australian equivalents of IFRSs from 1 January 2005 is discussed in more detail in Chapter 23. In practice, the adoption of this policy results in the AASB putting a cover around proposed international standards to which it has added material detailing the scope and applicability of the standards in Australia, as well as material to broaden the content of international standards to cover the not-for-profit sector and Australian regulatory or other issues. This is typically issued as an exposure draft for comment. After considering the responses to the exposure draft, the AASB issues an Australian accounting standard, equivalent to the IASB accounting standard. This process is now the principal way in which Australian accounting standards are developed for entities in the for-profit sector.

1.3.2 The development of AASB Interpretations

Interpretations, as their name implies, are not new standards; rather they provide guidance on how the requirements of existing standards are to be interpreted in a particular set of circumstances. For example, *AASB Interpretation 2 ‘Members’ Shares in Co-operative Entities and Similar Instruments’* deals with how to classify so-called members’ shares in cooperative entities (e.g. credit unions). Although these instruments might initially seem to be of the nature of equity (they are called ‘shares’), their terms and conditions might in fact mean that they meet the definition of a liability (e.g. such members’ shares often have a requirement that a member’s initial capital contribution must be returned to the member when the member leaves the cooperative). *Interpretation 2* provides guidance on how such members’ shares must be classified based on the definitions of liabilities and equity.

The present arrangement in Australia is that the AASB has direct responsibility for developing and approving interpretations. This arrangement came into place on 1 July 2006, when the AASB took over the role of the Urgent Issues Group (UIG).⁶ One reason for taking over this responsibility is that the AASB has more scope to consider issues of interpretation of accounting standards in a timely fashion now that most of the development of accounting standards is conducted by the IASB. The UIG was operative between 1995 and 2006, issuing UIG Abstracts, which fulfilled a similar role to AASB Interpretations. Prior to its disbandment, the UIG undertook a revision of existing UIG Abstracts to ensure consistency with IFRSs from 1 January 2005. We refer to the revised material as ‘UIG Interpretations’.

After assuming responsibility for developing and approving interpretations, the AASB sought stakeholder input on its proposed interpretations model. Ultimately, the interpretations model was finalised and has been effective since 1 January 2008. Its major features are as follows.

- 1 Interpretation Advisory Panels may be formed, as required, on a topic-by-topic basis. The role of a panel is to prepare alternative views on the issue and, where appropriate, make recommendations to the AASB. The composition of the panels is discussed in section 1.2.1.
- 2 A public register of potential Interpretation Advisory Panel members is maintained on the AASB website, and it is from this register that panel members are drawn.

LEARNING OBJECTIVE

5

Explain the process of developing interpretations.

- 3 Interpretations of IASB accounting standards are made by the IFRIC. Since AASB accounting standards are equivalent to IASB accounting standards, the IFRIC Interpretations are relevant in Australia. Additionally, if an issue arises that relates to the interpretation of an AASB accounting standard that is equivalent to an IASB accounting standard, it will be forwarded to the IFRIC for consideration and possible inclusion in its work program. However, if an issue arises in relation to an AASB accounting standard that does not have an IASB equivalent, the issue will be resolved by the AASB.
- 4 The due process will include publishing the composition of each panel and its recommendation on the AASB's website for an appropriate period. Where the AASB proposes to issue an interpretation, the proposed interpretation will be further exposed on the AASB's website for an appropriate period before the AASB considers it for formal adoption.
- 5 Entities must apply relevant interpretations within the scope of the standard.

With the adoption of IFRSs as the basis for Australian accounting standards, the AASB has to be careful to ensure that Australian interpretations are consistent with the requirements of IFRSs.

THE ROLE OF AASB 1048 'INTERPRETATION OF STANDARDS'

In July 2004 the AASB issued *AASB 1048* 'Interpretation of Standards' to bring Australian Interpretations (i.e. AASB and UIG Interpretations) into the Australian Accounting Standards framework by giving them the same authority under the *Corporations Act 2001* as the standards. *AASB 1048* is described as a 'service standard'. The service standard approach involves issuing a standard, *AASB 1048*, that lists Australian Interpretations, and referring to that standard in every other standard where it is necessary to refer to an interpretation. This enables references to the interpretations in all other standards to be updated by simply reissuing the service standard. *AASB 1048* notes that 'all Australian Interpretations have the same authoritative status. Those that incorporate the IASB Interpretations must be applied to achieve compliance with International Financial Reporting Standards (IFRSs)' (p. 5). In other words, because the IFRSs include IASB Interpretations, it is necessary for an entity to comply with those Australian Interpretations that correspond to IASB Interpretations in order for it 'to be able to make an explicit and unreserved statement of compliance with IFRSs' (*AASB 1048*, p. 4). *AASB 1048*, therefore, classifies Australian Interpretations into two groups: those that correspond to each IASB Interpretation (Table 1, para. 6) and those that do not (Table 2, para. 8). Of course, an entity must apply each relevant Australian Interpretation irrespective of whether it is listed in Table 1 or Table 2. The AASB keeps the tables up to date and reissues *AASB 1048* when necessary. At the time of writing, the latest reissue was in August 2015.

THE ROLE OF AASB 1057 'APPLICATION OF AUSTRALIAN ACCOUNTING STANDARDS'

In December 2015, the AASB issued *AASB 1057* 'Application of Australian Accounting Standards' which is applicable for reporting periods beginning on or after 1 January 2016. Paragraph 1 of that standard notes that its objective is to specify the types of entities and financial statements to which Australian Accounting Standards and Interpretations apply. The contents of this standard take the application paragraphs that were previously found within each individual Australian Accounting Standard and Interpretation and have put them all within the one place, namely *AASB 1057*.

1.3.3 Authority and enforcement of AASB Accounting Standards and Interpretations

Three groups are responsible for enforcing the AASB Accounting Standards and AASB Interpretations: the accounting bodies (CAANZ, CPAA and IPA), the Australian Securities and Investments Commission (ASIC) and governments.

ACCOUNTING BODIES

The accounting profession's attitude towards accounting standards has changed from regarding them simply as recommendations during the 1960s to making them mandatory by the 1990s. In February 2006, the APESB was established as an initiative of CPAA and the then Institute of Chartered Accountants in Australia (ICAA) primarily to develop and issue appropriate professional and ethical standards for their membership. The IPA subsequently became a member of the APESB. The initial focus of the APESB's activities was, *inter alia*, the review of existing professional and ethical standards such as the old Code of Professional Conduct and Miscellaneous Professional Statements (APS series) and guidance notes (GN series). The subsequent APES series of ethical and professional standards approved by the APESB is mandatory for accountants who are members of CPAA, CAANZ and the IPA. Broadly, these standards aim to regulate members' ethical conduct and the performance of professional services across various types of professional engagements. The professional and ethical standard *APES 205* 'Conformity with Accounting Standards' requires members to comply with accounting standards as follows:

- 4.3 Members who are involved in, or are responsible for, the preparation and/or presentation of Financial Statements of a Reporting Entity shall take all reasonable steps to ensure that the Reporting Entity prepares General Purpose Financial Statements.
- 5.1 Members shall take all reasonable steps to apply Australian Accounting Standards when they prepare and/or present General Purpose Financial Statements that purport to comply with the Australian Financial Reporting Framework.
- 5.2 Where Members are unable to apply Australian Accounting Standards pursuant to paragraph 5.1, they shall take all reasonable steps to ensure that any departure from Australian Accounting Standards, the reasons for such departure, and its financial effects are properly disclosed and explained in the General Purpose Financial Statements.
- 5.5 Members in Public Practice shall take all reasonable steps to ensure that Clients have complied with Australian Accounting Standards when they perform an Audit or Review Engagement or a compilation Engagement of General Purpose Financial Statements which purport to comply with the Australian Financial Reporting Framework.

Compliance with *APES 205* is mandatory for members of the professional accounting bodies, and non-compliance represents a breach of the code of ethics issued by the APESB. Failure by members to comply with the requirements of *APES 205* may result in disciplinary proceedings being brought against them, which could result in the imposition of a fine or expulsion from the professional body. The potential negative reputational effects that would result from the publication of the disciplinary action against a member are a strong incentive for members

6

LEARNING OBJECTIVE

Explain the process of enforcing accounting standards and interpretations.

to comply with *APES 205*. However, in the absence of statutory registration of accountants, the threat of expulsion may be of limited value in ensuring compliance. Expulsion may have a limited effect on the earning capacity of the individual. The imposition of a fine may also be ineffective. If the fine is small, benefits from non-compliance with an accounting standard may exceed the fine.

AUSTRALIAN SECURITIES AND INVESTMENTS COMMISSION

ASIC was established under the *Australian Securities and Investments Commission Act 1989*. Its role is to administer and ensure compliance with the Corporations Act.

Accounting standards issued by the AASB are supported by the *Corporations Act 2001* and the *Legislative Instruments Act 2003*. An accounting standard is considered to be a 'legislative instrument' for the purposes of the Legislative Instruments Act, the effects of which are as follows.

- 1 The AASB votes to make a standard.
- 2 The making of a standard is to be notified in the Commonwealth of Australia *Gazette*.
- 3 Standards issued by the AASB will operate from the date of notification in the *Gazette*, or from another date specified by the AASB.
- 4 Standards are to be tabled in both the Commonwealth House of Representatives and the Senate for 15 sitting days, during which time notice for a motion to disallow the accounting standard could be moved by a member of either House. Support for the motion in either House would result in the disallowance of the accounting standard. Alternatively, if a motion to disallow is put and not withdrawn within the 15 sitting days, the standard is automatically disallowed. Note that 15 sitting days may take many weeks or even months to elapse.

This gives Parliament the final authority to approve accounting standards for application under the Corporations Act. Parliament may disallow all or part of an accounting standard. So far, there has been only one example of disallowance by Parliament, in February 2000, when the Senate disallowed two paragraphs in *AASB 1015* 'Acquisition of Assets'.

Under section 296 of the *Corporations Act 2001*, the governing board of a company is required to comply with AASB accounting standards in preparing financial statements. Failure to comply is an offence under the Corporations Act and could lead to an entity having to restate its financial statements or, ultimately, to prosecution by ASIC. ASIC regularly reviews the financial statements of companies and other entities to identify any inadequacies in the application of accounting standards, and it reports those findings publicly in media releases. The *Accounting in Focus* box on the following page provides an example of such a media release in which ASIC reports its findings of its review of the financial statements of 100 public and other listed entities for reporting periods ending 31 December 2014. The media release details seven areas of common concern across the financial statements it reviewed.

In 2006 the Australian Government established the Financial Reporting Panel (FRP) to resolve disputes between ASIC and companies over the application of accounting standards in their financial statements. The reason for establishing the FRP was to remove the need to initiate legal proceedings in court in order to resolve a financial reporting matter, thus providing an efficient and cost-effective way of dealing with disputes. However, the FRP only provided rulings on five cases from 2006 to 2011 and, as a result, it ceased operations on 1 October 2012.

ACCOUNTING IN FOCUS

ASIC Media release 15-169MR: Detailing inadequacies in published financial statements

1. Asset values and impairment testing

ASIC continues to identify concerns regarding assessments of the recoverability of the carrying values of assets, including goodwill, other intangibles, exploration and evaluation expenditure, and property, plant and equipment. The largest number of ASIC's enquiries at 30 June 2014 (sic.) relate to assets in the mining and renewable energy industries.

Findings include:

- (a) *Determining the carrying amount of cash generating units:* There are cases where entities:
- (i) appear to have identified cash generating units (CGUs) at too high a level despite cash inflows being largely independent, resulting in cash flows from one asset or part of the business being incorrectly used to support the carrying values of other assets;
 - (ii) did not include all assets that generate the cash inflows in the carrying amount of a CGU, such as inventories and trade receivables and tax balances; and
 - (iii) incorrectly deducted liabilities from the carrying amount of a CGU.
- (b) *Reasonableness of cash flows and assumptions:* There continue to be cases where the cash flows and assumptions used by entities in determining recoverable amounts are not reasonable or supportable having regard to matters such as historical cash flows, economic and market conditions, and funding costs.
- In particular, we found cases where:
- (i) cash flows for value in use calculations incorrectly included estimated future cash inflows or outflows expected to arise from future restructuring or development plans;
 - (ii) assumptions derived from external sources were not assessed for consistency and relevance; and
 - (iii) the entity's forecast cash flows did not appear reasonable and had exceeded actual cash flows for a number of reporting periods.
- (c) *Fair value assessments of recoverable amounts:* We still see entities using discounted cash flow techniques to determine fair value where the calculations are dependent on a large number of management inputs. Where it is not possible to reliably estimate the value that would be received to sell an asset in an orderly transaction between market participants, the entity may need to use the asset's value in use as its recoverable amount.
- (d) *Impairment indicators:* Some entities are not having sufficient regard to impairment indicators, such as significant adverse changes in market conditions, and reported net assets exceeding market capitalisation.
- (e) *Disclosures:* A number of entities are not making necessary disclosure of:
- (i) sensitivity analysis where there is limited excess of an asset's recoverable amount over the carrying amount and where a reasonably possible change in one or more assumptions could lead to impairment;
 - (ii) key assumptions, including discount rates and growth rates; and
 - (iii) for fair values, the valuation techniques and inputs used.

These disclosures are important to investors and other users of financial reports given the subjectivity of these calculations/assessments. They enable users to make their own assessments about the carrying

values of the entity's assets and risk of impairment given the estimation uncertainty associated with many asset valuations.

This item includes matters arising from the finalisation of impairment matters identified in our reviews of 30 June 2014 financial reports.

2. Off-balance sheet arrangements and business combinations

ASIC is making enquiries of three entities on the non-consolidation of entities and of two entities on the accounting for joint arrangements.

We have also made enquiries of three entities with respect to their accounting for business combinations. These enquiries relate to matters such as reverse acquisition accounting, and the recognition of goodwill rather than identifiable intangible assets.

3. Revenue recognition

ASIC is following up five matters concerning the recognition of revenue, including the treatment of deferred income and the timing of bringing the revenue to account.

This item includes comments regarding matters arising from revenue recognition matters identified in our reviews of 30 June 2014 financial reports.

4. Tax accounting

ASIC made enquiries of two entities concerning their accounting for income tax, and in particular, the substantiation of their tax expense positions. This included where there appeared to be unusual reconciling items between accounting profit and tax expense/benefit that resulted in either significant tax benefits or tax expenses.

We are also making enquiries of three entities as to whether it is probable that future taxable income will be sufficient to enable the recovery of deferred tax assets relating to tax losses.

5. Non-IFRS financial information

While generally our reviews show that entities are continuing to follow the guidance in ASIC Regulatory Guide 230 *Disclosing non-IFRS financial information*, we made enquiries of four entities regarding their use of non-IFRS financial information. In particular, entities should:

- (a) not disclose income or expense items as extraordinary items, including where the presentation is intended to achieve that result but the term 'extraordinary items' is not used; and
- (b) apply the guidelines in RG 230 in presenting non-IFRS information outside the financial report to help reduce the risk of that information being misleading.

6. Treatment of expenses

We are making enquiries of three entities in relation to the treatment of expenses. These enquiries relate to the treatment of stripping costs in the extractive industries, the pattern of amortisation of deferred acquisition costs in the insurance industry, and certain expenses taken to equity.

This item includes comments regarding matters arising from matters identified in our reviews of 30 June 2014 financial reports.

7. Estimates and accounting policy judgements

We observed instances where entities needed to improve the quality and completeness of disclosures in relation to estimation uncertainties, and significant judgements in applying accounting policies. The disclosure requirements are principle-based and should include all information necessary for investors and others to understand the judgements made and their impact. This may include key assumptions, reasons for judgements, alternative treatments, and appropriate quantification.

These disclosures are important to allow users of the financial report to assess the reported financial position and performance of an entity.

Following the approval of a new international auditing standard, auditors will be required to disclose information on key audit matters in future audit reports. Directors should ensure that relevant information is already disclosed in the financial report and in the Operating and Financial Review.

Source: ASIC, 15-169MR Media release, 2 July 2015, <www.asic.gov.au>. © Australian Securities and Investments Commission. Reproduced with permission.

GOVERNMENTS

A standard-setting board cannot issue accounting standards that are legally binding on governments. It is the responsibility of the relevant legislatures to require compliance with accounting standards. Various pieces of legislation require the use of accounting standards in the preparation of financial statements by reporting entities in the public sector. For example, Commonwealth statutory authorities and some Commonwealth departmental authorities are required to comply with accounting standards as a result of guidelines issued pursuant to the *Audit Act 1902*. Queensland government departments and statutory bodies are required to comply with accounting standards by Public Finance Standards issued pursuant to the *Financial Accountability Act 2009*. Tasmania's state authorities are required to comply with accounting standards pursuant to the *Financial Management Act 1990*.

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QUESTIONS

- 1 Outline the main sources of regulation governing accounting policies and financial reporting practices in Australia. **(LO1)**
- 2 What is the role of the ASX's Principles of Good Corporate Governance? Are they mandatory? Explain using examples from the *Corporate Governance Principles and Recommendations with 2010 Amendments*. **(LO1)**
- 3 Outline the contents of the professional and ethical standard APES 205 'Conformity with Accounting Standards'. Explain the relevance of APES 205 to professional accountants. **(LO1)**
- 4 Describe the present institutional arrangements for setting accounting standards in Australia. Your answer should include discussion of the role of the FRC and the AASB. **(LO3)**
- 5 How does the AASB obtain input from individuals, and constituent entities and organisations? Your answer should include discussion of the Focus Groups, Project Advisory Panels, Interpretation Advisory Panels and the Academic Advisory Panel. **(LO3, LO4)**
- 6 (a) Briefly describe the procedures for preparing accounting standards in Australia.
(b) Find an example of an issue currently under consideration as a potential accounting standard from the AASB website <www.aasb.gov.au>. **(LO4)**
- 7 There is a tension between the need to issue accounting standards and other guidance on a timely basis and the need to ensure that the due process has been satisfied.
(a) Outline the due process employed by the AASB in the preparation of accounting standards.
(b) What current arrangements have been put in place by Australian standard setters to ensure timely guidance? Your answer should include discussion of the role of AASB Interpretations. **(LO4, LO5)**
- 8 What is the purpose and scope of AASB Interpretations? **(LO5)**
- 9 Distinguish between AASB Accounting Standards and AASB Interpretations. **(LO5)**
- 10 Outline the main features of the AASB approach to developing interpretations of accounting standards. **(LO5)**

- 11** Why would the AASB create an Academic Advisory Panel? What are the aims of this panel, and how could it assist the AASB's objectives and activities? [Hint: visit <www.aasb.gov.au/admin/file/content102/c3/Academic_Advisory_Panel_Charter.pdf>.] (LO3)
- 12** Explain how accounting standards are enforced. (LO6)
- 13** ASIC regularly issues media releases describing the latest news with regard to its activities. These media releases can be found at <www.asic.gov.au/about-asic/media-centre/find-a-media-release/>. Visit the website and find a recent media release in which ASIC has asked a company to restate an item in its financial statements or address a financial reporting matter. For the news item you have found, prepare a brief report outlining what the reporting issue was and why ASIC required the company to make an adjustment (or take some other action). Where relevant, refer to appropriate Australian accounting standards to support your report. Explain why ASIC would publish these items on its website. (LO6)
- 14** The *Accounting in Focus* example in this chapter reproduces ASIC's media release 15-169MR, which describes the financial reporting issues identified by ASIC when it reviewed the 31 December 2014 financial statements of 100 reporting entities. Re-read this media release and then prepare answers to the following questions (where relevant, support your answer by reference to appropriate accounting standards):
- Why would ASIC conduct regular reviews of the financial statements of reporting entities?
 - Under item 1 of media release 15-169MR ('Asset values and impairment testing'), ASIC writes: 'ASIC continues to identify concerns regarding assessments of the recoverability of the carrying values of assets, including goodwill, other intangibles, exploration and evaluation expenditure, and property, plant and equipment. The largest number of ASIC's enquiries at 30 June 2014 (sic.) relate to assets in the mining and renewable energy industries.' Explain why the mining and renewable energy industries would be likely to give rise to so many concerns for the assets mentioned in the media release. Use the examples of the concerns identified by ASIC to help support your answer. (LO6)
- 15** The *Accounting in Focus* example in this chapter reproduces ASIC's media release 15-169MR, which describes the financial reporting issues identified by ASIC when it reviewed the 31 December 2014 financial statements of 100 reporting entities. Re-read this media release and then prepare answers to the following questions (where relevant, support your answer by reference to appropriate accounting standards):
- Item 5 of the media release is entitled 'Non-IFRS financial information'. What is meant by the term 'non-IFRS financial information' and how might this be different from IFRS financial information? [Hint: refer to *ASIC Regulatory Guide 230 'Disclosing non-IFRS financial information'*, which can be found at <<http://asic.gov.au/regulatory-resources/find-a-document/regulatory-guides/rg-230-disclosing-non-ifrs-financial-information/>>.]
 - Why might ASIC be concerned about reporting entities' non-IFRS financial information?
 - What were the specific issues raised in ASIC's media release about the non-IFRS financial information of the entities it reviewed, and was ASIC right to be concerned about these matters? (LO6)
- 16** The Listing Rules of the ASX govern aspects of financial reporting, and, *inter alia*, the ASX and ASIC have responsibility for monitoring of compliance with the listing rules. Obtain (or view)

the most recent *ASX Compliance Monthly Activity Report* (<www.asxgroup.com.au>; from 'About ASX', go to 'ASX News' and then 'Media Releases') and answer the following questions.

- (a) The Listing Rules (Chapter 3) of the ASX require continuous disclosure by listed companies. Briefly explain what is meant by continuous disclosure. (This topic is discussed in Chapter 18 of this book.)
- (b) How many continuous disclosure queries were made by the ASX in the current month? Give an example of what might give rise to such a query.
- (c) How many times did the ASX refer a continuous disclosure matter to ASIC for further consideration in the current month? Explain the circumstances under which the ASX would refer such a matter to ASIC. Does it automatically follow that ASIC will commence enforcement proceedings in relation to the matter? Explain. (LO1, LO6)

The following question relates to Appendix 1.1.

- 17 (a) Trace the changes in the institutional arrangements for accounting standard setting in Australia since 1980. Discuss the contention that these changes have been largely unnecessary.
- (b) What were the reasons for changes to institutional arrangements for standard setting proposed by the accounting bodies in Australia in the 1990s?
- (c) What benefits were expected to ensue? (LO2)

NOTES

- 1 Section 111AC of the *Corporations Act 2001* defines a *disclosing entity* as one that has enhanced disclosure securities. These are essentially securities that are listed on a stock exchange, securities in respect of which a prospectus has been lodged and after the issue of those securities 100 or more people held them, securities issued in a takeover and debentures issued by a borrowing corporation where the Corporations Act requires a trustee to be appointed. *Public companies* are defined as all companies other than proprietary companies. *Large proprietary companies* are proprietary companies that do not meet the requirements for small proprietary companies. *Small proprietary companies* must satisfy at least two of the following: (a) consolidated gross operating revenue for the financial year of the company and the entities it controls is less than \$25 million; or (b) the value of the consolidated gross assets at the end of the financial year of the company and the entities it controls is less than \$12.5 million; or (c) the company and the entities it controls have less than 50 employees at the end of the financial year.
- 2 R. Brown and T. Gorgens, 'Corporate Governance and Financial Performance in an Australian Context', *Treasury Working Paper, 2009–02*, Australian Treasury, Canberra, March 2009.
- 3 Apart from providing empirical evidence on the compliance of ASX 300 companies with the ASX Corporate Governance Council's principles, a main focus of the study by Brown and Gorgens was to examine the relationship between compliance and a firm's financial performance in the areas of shareholder performance, operating performance and one-year sales growth. They found evidence suggesting that companies demonstrating greater compliance with the ASX Corporate Governance Principles outperform less compliant companies in each of these three financial areas. Similarly, Christensen, Kent and Stewart investigated a sample of 1039 companies listed on the ASX in 2004 and found evidence

- that adoption of the best practice recommendations regarding board sub-committees (i.e. audit, nomination and remuneration) was associated with enhanced firm performance measured using return on assets and Tobin's Q.
- 4 The Auditing and Assurance Standards Board is a statutory agency of the Australian Government responsible for making auditing and assurance standards under section 336 of the Corporations Act. The chairman of the AuASB reports to the Minister for Superannuation and Corporate Law on the organisation's operations.
 - 5 A detailed discussion of the role of the ASRB is contained in Appendix 1.1.
 - 6 In 1994 the UIG was established to provide timely guidance on financial reporting issues where there were different opinions about the appropriate treatment. A consensus prepared by the UIG was issued by the AASB as a UIG Interpretation. To ensure that the guidance was timely, a time limit of three meetings was normally imposed on the UIG's deliberations on a particular issue. As the AASB had effectively delegated to the UIG its authority to provide timely guidance, the Board had the power either to approve or to reject an interpretation of the UIG. If the AASB rejected an interpretation of the UIG, it advised the UIG of the reasons for the rejection and returned the interpretation to the UIG for further deliberation or included the issue as a priority item on its work program.

APPENDIX 1.1

The development of institutional arrangements for standard setting in Australia

EARLY DEVELOPMENTS

This appendix outlines the development of the institutional arrangements for setting accounting standards from the 1960s until the present. Our aim is to allow the present standard-setting arrangements to be placed in the context of earlier developments.

By the early 1960s, while there was an established tradition of legislative regulation of financial reporting based on the view that compulsory disclosure of financial information was a key to the prevention of fraud, deception and investor losses, the accounting methods used to prepare the financial statements were the responsibility of the accounting profession. Prior to 1960 the professional accounting bodies in Australia believed that historical cost accounting was sound and that there was no need for them to be overly concerned about providing guidance on the choice of accounting methods.

However, criticism of accounting and accountants increased. Many financial statements, supported by an audit report stating that the statements showed a true and fair view, subsequently proved to be misleading. Financial journalists and government investigators criticised the variety of accounting practices that were acceptable for recording and reporting transactions and events. The then Institute of Chartered Accountants in Australia (now Chartered Accountants Australia and New Zealand, CAANZ) and the then Australian Society of Accountants (now CPAA) were sensitive to the criticism and established a joint research body in 1966. However, the development of joint accounting standards was hampered by the fact that, until the late 1960s, both accounting bodies followed largely independent courses in developing accounting standards. Each had an Accounting Principles Committee which considered accounting methods.¹

Although a proposal to merge the two accounting bodies was defeated by a vote of members in 1969, by April 1973 it had been agreed that the two Accounting Principles

Committees should meet jointly to prepare accounting standards. A few months later, it was decided to form a single committee under the auspices of the Australian Accounting Research Foundation (AARF). The committee comprised an equal number of members from both accounting bodies. Following an overseas trend, the name of the committee was subsequently changed to the Australian Accounting Standards Committee (AASC). This committee had the responsibility for preparing accounting standards, to be issued by the two accounting bodies, which their members were expected to observe.

The composition and work of the AASC was criticised on a number of grounds.

- 1** Members of the committee were not paid, but were expected to devote many hours to its work. This meant that membership was, for all practical purposes, limited to people in organisations that could afford to have senior staff actively engaged in unpaid outside work. Therefore, membership was largely composed of partners in large firms of accountants, executives from large companies, and academics. It was argued that this membership was not representative of all the interests in the community. In particular, some practitioners in small accounting firms and some representatives of small businesses believed that accounting standards were developed for big business. The needs of small practitioners and small businesses were ignored. The AASC attempted to widen its input by contact with other organisations such as the ASX, the Institute of Directors, Commissioners for Corporate Affairs, and so on. However, the lack of contact with small business was a valid complaint. It was, of course, inevitable that where the accounting profession demanded time-consuming voluntary service, the special needs of small business would not be adequately represented. The alternative was to have a paid committee.
- 2** The standards themselves were criticised on a number of grounds.
 - (a)** Some commentators saw them as bolstering a measurement basis that was so inadequate it should have been replaced by something better. Instead of tinkering with the historical cost system, it should be replaced by a system incorporating the effects of changes in prices.² The AASC was receptive to this argument and issued two preliminary exposure drafts outlining alternative accounting measurement systems.³
 - (b)** Some commentators argued that the standards were not based on any coherent conceptual framework, with the result that they were lacking in logic and consistency. The AASC recognised the lack of a conceptual framework and, through the AARF, supported the publication of two major studies that considered the problem.⁴ However, rather than waiting for a resolution of conceptual issues, the AASC continued to prepare standards in an effort to increase uniformity in financial reporting.
 - (c)** Some commentators criticised the standards as arbitrary. Equally acceptable alternatives were outlawed with little justification. This type of criticism usually came from those with a vested interest in an outlawed method. It was inevitable that choosing between alternative methods when there were no clearly defined and acceptable criteria for making the choice would lead to complaints and criticism.
- 3** The most damaging criticism related to the output of the AASC. In spite of a great deal of effort, only 13 accounting standards were in force by the end of 1978. Efforts to produce some standards extended over several years with no obvious result. Exposure drafts were issued, but were not followed by standards. Some topics had been on the AASC work program since it was formed and had not even been discussed.

The failure of the AASC to prepare enough accounting standards was explained on several grounds. First, the committee was part-time and its members had heavy commitments elsewhere. Second, the number of technical support staff was insufficient. The staff members of AARF were responsible for several important committees in addition to the AASC and they could not spend the necessary time on the preparation of accounting standards to increase output. If the Australian community was not prepared to pay for accounting standards, it could hardly complain when they were not produced. Third, the AASC was preoccupied with the major problem of inflation accounting and this resulted in a neglect of other areas that it saw as less urgent. Fourth, research and writing by a committee tends to be inefficient. Discussion, editing, explaining, planning, lobbying and justification took up time that might otherwise have been devoted to preparing new accounting standards.

In mid-1978 the accounting bodies decided to reorganise the structure of the standard-setting arrangements and the procedures for preparing accounting standards in an effort to speed up the process. After the reorganisation, the preparation of accounting standards was undertaken by the Accounting Standards Board (AcSB) of the AARF. The AcSB had a membership of eight, with equal representation from the two accounting bodies.

During 1982 and 1983 the AARF Board of Management discussed the need for a separate board to set accounting standards for the public sector. This discussion culminated in the establishment in late 1983 of the Public Sector Accounting Standards Board (PSASB), whose primary responsibility was to develop accounting standards for public sector reporting entities. The PSASB was established with nine members, four nominated by each of the CPAA and the ICAA, and the Australian representative to the Public Sector Committee of the International Federation of Accountants who was an *ex officio* voting member of the PSASB.

Following the establishment of the PSASB, the AARF had two accounting standard-setting boards: the AcSB, responsible for setting standards for the private sector; and the PSASB, responsible for setting standards for public sector reporting entities. In late 1985 the Australian representative on the International Accounting Standards Committee (IASC) became a member of the AcSB, which increased the membership of the AcSB to nine in line with the membership of the PSASB.

While the establishment of the PSASB in 1983 gave explicit recognition to the need to improve financial reporting in the public sector, there were some potential difficulties arising from such a development. First, there was the possibility of conflict between the two boards over specific standards. Second, there was potential conflict over the allocation of resources to each board.

The first potential difficulty was avoided by the PSASB's decision that there should be, as far as possible, a common set of accounting standards for both the public and private sectors. The PSASB's approach was that it should not develop accounting standards for the public sector that were different from those for the private sector. This approach had the advantage of enabling the PSASB to make better progress in developing accounting standards for the public sector than its overseas counterparts. This decision made it possible for the PSASB and the AcSB to work closely on the development of a conceptual framework for general purpose financial reporting and the preparation of accounting standards. There was some duplication of effort, however, because the PSASB and the AcSB were considering the same issues. Fears of conflicts over resource allocation also proved to be groundless. This was due, in large part, to the spirit of cooperation between the boards.

In January 1984 the profession's accounting standard-setting boards were joined by the ASRB. The ASRB was created by the Ministerial Council for Companies and Securities, which comprised the attorneys-general of the state governments and the Commonwealth Government.

ESTABLISHMENT OF THE ACCOUNTING STANDARDS REVIEW BOARD

The ASRB was established by the Ministerial Council because of concern about the ability of the professional accounting bodies to enforce their accounting standards. The approach to enforcement employed by CPAA and the ICAA was contained in *Miscellaneous Professional Statement APS1*⁵ on issue at the time. The main features of *APS1* were that:

- 1 members who were accountants or directors should use their best endeavours to ensure that departures from accounting standards were disclosed in the accounts;
- 2 members who were auditors should issue a qualified audit report if the departure from accounting standards was such as to impair the presentation of a true and fair view; and
- 3 if *APS1* was not observed by members, then the Councils of CPAA and the ICAA had the power to investigate and take disciplinary action against those members.

This approach to enforcement was perceived to have two major weaknesses. First, there was no mechanism for enforcing compliance by non-members. The directors of a company are legally responsible for the company's published financial statements, but most directors are not members of the three Australian professional associations. Second, the enforcement mechanism applied against members was mandatory *disclosure of non-compliance* with accounting standards, rather than mandatory *compliance*. Therefore, even if members complied with *APS1*, it did not necessarily mean that reporting entities complied with the accounting standards.

The main thrust for the establishment of the ASRB came from New South Wales. The NSW Corporate Affairs Commission had been critical of corporate fraud and mismanagement and the apparent high level of non-compliance with accounting standards. In July 1976 the NSW Attorney-General recommended the establishment of a board to review accounting standards. This board 'should not be concerned with the promotion or development of proposed standards but with reviewing and either endorsing or rejecting proposed accounting standards selected, although not necessarily exclusively, by the accounting profession'.

In other words, he was suggesting that the approval phase, but not necessarily the preparation phase, should be taken out of the hands of the accounting profession. In November 1977 the NSW Attorney-General announced the formation of a committee 'to examine the accounts provisions of the Companies Act and the provisions of other statements of standard accounting practice'. The committee, chaired by Professor R.J. Chambers of the University of Sydney, reported in 1978. It concluded, *inter alia*, that the body of accounting standards then existing was not suitable for recognition. Changes to both the approval and the enforcement of accounting standards were recommended.

On 23 May 1980 the Ministerial Council for Companies and Securities resolved that the establishment of the ASRB should be considered by the National Companies and Securities Commission (NCSC, a predecessor of ASIC). In November 1981 the Report of the Committee of Inquiry into the Australian Financial System (the Campbell Report) recommended that:

- 1 the professional accounting bodies should continue to be responsible for the design and development of accounting standards;
- 2 the ASRB should be established with responsibility for approving accounting standards, having regard to the needs of different users (the NCSC, professional accounting bodies and other interested parties should be represented on the board); and
- 3 accounting standards approved by such a board should be given legislative support.⁶

The NCSC welcomed the Campbell Report's recommendations and circulated detailed proposals for comment (NCSC Release 401, 26 November 1981). Submissions were made to the NCSC by the professional accounting bodies, by preparers and auditors of financial statements, and by academics, but none was received from users (see NCSC Release 405, 3 December 1982). The revised NCSC recommendations to the Ministerial Council (NCSC Release 405) included the possibility of recognising accounting standards that had been developed by organisations other than AARF. Before the final decisions of the Ministerial Council were made, a further set of recommendations was prepared jointly by the NCSC and the NSW Corporate Affairs Commission, proposing a further broadening of the ASRB's role to include preparing accounting standards and determining the priorities for new standards.

The Ministerial Council's 1983 decision to establish the ASRB was partly implemented in legislation drafted and passed through Parliament as the *Companies and Securities Legislation (Miscellaneous Amendments) Act 1983*. This legislation was intended to encourage the production by companies of relevant, reliable, comparable and timely financial information. It attempted to do this by a requirement to prepare accounts in accordance with 'applicable approved accounting standards' while retaining the overriding obligation for the accounts to give a true and fair view.

'Applicable approved accounting standards' were accounting standards that had been approved by the ASRB. The directors of a company had to state, *inter alia*, whether in their opinion the income statement and balance sheet were drawn up so as to give a true and fair view, and whether the accounts had been made out in accordance with applicable approved accounting standards. If the accounts had not been made out in accordance with a particular approved accounting standard, the directors had to state why the accounts, if made out in accordance with that accounting standard, would not have given a true and fair view. The directors were also required to give particulars of the quantified financial effect on the accounts of the failure to make out the accounts in accordance with that accounting standard (*Companies Act and Codes*, section 269(9)). Section 269(10) provided similarly for group accounts.

In addition, auditors had to report, *inter alia*, whether in their opinion the accounts gave a true and fair view, and were in accordance with the *Companies Act and Codes*, and with applicable approved accounting standards. In those cases where there had not been compliance with an approved accounting standard, the auditors also had to give their opinion on the quantified financial effect of the non-compliance, as disclosed by the directors.

However, this legislation did not formally establish the ASRB. The ASRB was established in January 1984 by resolution of the Ministerial Council. Its powers and duties were not specified in any legislation but resulted from decisions of the Ministerial Council, which empowered the Board to:

- determine priorities for reviewing and approving accounting standards;
- sponsor the development of accounting standards;
- review accounting standards referred to it;
- seek expert advice;
- conduct public hearings into whether a proposed accounting standard should be approved;
- invite public submissions; and
- approve accounting standards.⁷

The powers of the ASRB were thus much broader than first suggested and, clearly, were designed to have an impact on all aspects of setting accounting standards in Australia.

By early 1987, it was apparent that Australia had two accounting standard-setting boards for the private sector and that there was some fragmentation of the standard-setting effort. The AARF and the professional accounting bodies believed that, while the objective of statutory backing for accounting standards was desirable, the current arrangements were unworkable. The accounting bodies believed that a merger of the ASRB and the AcSB was essential and negotiations took place between the professional accounting bodies, the AARF and the NCSC, during 1987 and 1988. In September 1988 the Ministerial Council agreed that the ASRB should be the sole standard-setting body for the private sector. This involved the ASRB taking over the activities that had previously been performed by the AcSB. The AcSB was disbanded in October 1988.

To assist the ASRB in its role as the sole standard-setting body for the private sector, ASRB membership was increased from seven to nine members with the addition of two members nominated by CPAA and the ICAA. This brought to four the number of members nominated by the accounting bodies. The accounting bodies also agreed that the AARF would provide administrative and technical services to the ASRB.

ESTABLISHMENT OF THE AUSTRALIAN ACCOUNTING STANDARDS BOARD

With the passage of amendments to the Corporations Law in 1990, the standard-setting arrangements for companies were changed yet again. Section 224 of the *Australian Securities and Investments Commission Act 1989* provided for the establishment of an Australian Accounting Standards Board to replace the ASRB. The functions of the AASB, which began operations at the beginning of 1991, were expanded beyond those of the ASRB to reflect its explicit role as a standard-setting body.

Although the Act did not specify a maximum number of members of the AASB, the membership during 1999 was 10, comprising a Director and nine other part-time members, one of whom was a representative on the International Accounting Standards Committee. Appointments to the AASB were made by the Commonwealth Treasurer from nominations made by a number of bodies including CPAA, the ICAA, the Business Council of Australia and the ASX. Accounting standards were approved by a simple majority of the members of the Board present and voting. In addition, the AASB had two observers – a representative of the Financial Reporting Standards Board in New Zealand and one from the Commonwealth Treasury.

The arrangements for standard setting in Australia during the 1990s are represented by Figure A1.1.1.

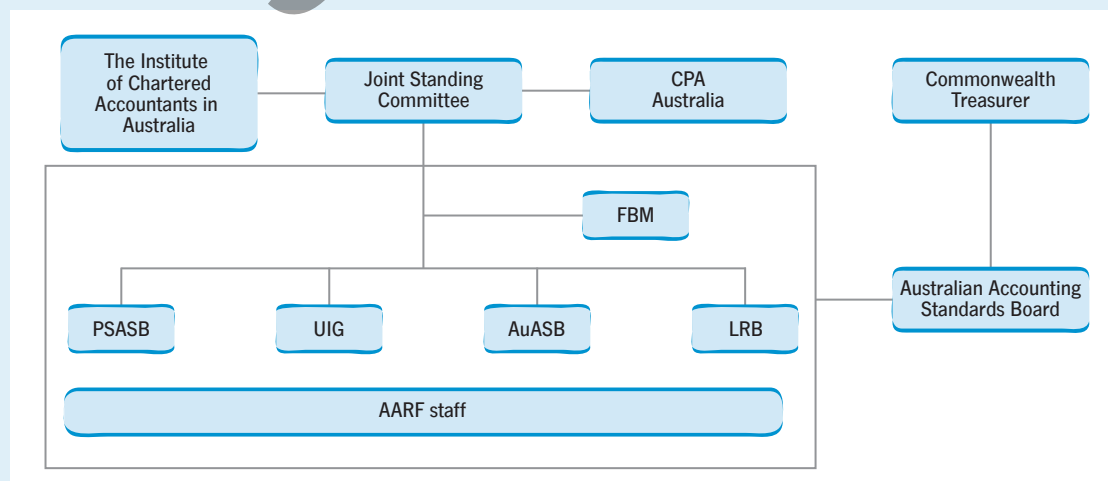


FIGURE A1.1.1 Arrangements for standard setting in Australia during the 1990s

The Foundation Board of Management (FBM) had responsibility for the administration of AARF and for liaison with the Joint Standing Committee of CPAA and the ICAA. The AARF provided administrative and technical support for the AuASB, the Legislation Review Board (LRB), the PSASB, the AASB and the UIG. The AuASB was responsible for developing auditing standards and other authoritative guidance on audit and assurance services, while the LRB was responsible for reviewing and drafting submissions for the accounting profession on government legislation. The UIG was established in 1994. Its role was to provide timely guidance to preparers and auditors on urgent financial reporting issues. The composition and responsibilities of the PSASB and AASB have already been outlined.

The arrangements during the 1990s, therefore, involved two accounting standard-setting boards, the AASB and the PSASB, and thus two sets of accounting standards. The AASB developed and issued accounting standards applicable to those entities required to report under the Corporations Act. These accounting standards are referred to as AASB Accounting Standards and have the prefix AASB – for example, AASB 108 'Accounting Policies, Changes in Accounting Estimates and Errors'. The PSASB developed accounting standards applicable to all reporting entities other than those to which AASB accounting standards apply. They are referred to as Australian Accounting Standards and have the prefix AAS – for example, AAS25 'Financial Reporting by Superannuation Plans'. In addition, both boards prepared and issued statements of accounting concepts that have the prefix SAC – for example, SAC1 'Definition of the Reporting Entity'. Note, however, that if there is a conflict between the requirements of accounting standards and the provisions of statements of accounting concepts, the requirements of the accounting standards prevail.

The subsequent developments in respect of the AASB and the PSASB that have led to the present standard-setting arrangements in Australia are discussed in section 1.2 in the main body of the text.

NOTES TO APPENDIX 1.1

- 1 For an excellent survey, see S.A. Zeff, 'Forging Accounting Principles in Australia', *Society Bulletin* No. 14, Australian Society of Accountants, Melbourne, March 1973. See also G. Burrows, *The Foundation: A History of the Australian Accounting Research Foundation 1966–91*, Australian Accounting Research Foundation, Melbourne, 1996.
- 2 R.J. Chambers, 'Current Cost Accounting Does Not Add Up', *Australian Accountant*, September 1976, pp. 490–6.
- 3 Australian Accounting Research Foundation, *Preliminary Exposure Draft, 'A Method of Accounting for Changes in the Purchasing Power of Money'*, AARF, Melbourne, 1974. Australian Accounting Research Foundation, *Preliminary Exposure Draft, 'A Method of Current Value Accounting'*, AARF, Melbourne, 1975.
- 4 W.J. Kenley and G.J. Staubus, *Objectives and Concepts of Financial Statements*, AARF, Melbourne, 1972. A.D. Barton, 'Objectives and Basic Concepts of Accounting', *Accounting Theory Monograph* No. 2, AARF, Melbourne, 1982.
- 5 Australian Society of Certified Practising Accountants, *Miscellaneous Professional Statement APS1 'Conformity with Statements of Accounting Standards'*, ASCPA, Melbourne, 1979.
- 6 Committee of Inquiry, 'Australian Financial System', *Final Report*, Australian Government Publishing Service, Canberra, 1981, pp. 370–2.
- 7 Accounting Standards Review Board, *Annual Report 1985/86*, ASRB, October 1986, p. 4.