

21 February 2025

Director
Financial Reporting System Reform Unit
Market Conduct Division
The Treasury
Langton Crescent
Parkes ACT 2600

Via email: FRSReform@treasury.gov.au

Dear Director

Consultation Paper: Positioning Australia's financial reporting system for the future

The Institute of Public Accountants (IPA) welcomes the opportunity to provide comments on the above Consultation Paper and offer the following comments.

General comment

Overall, IPA supports the proposed structure and principles in the Consultation Paper. However, we make the following overarching comments:

1. Consultation Paper is late in its issuance and lacking in detail

Given the length of time since Treasury's initial Consultation Paper (December 2022) seeking feedback on the standard-setting reforms and the proposed effective date for the new body of 1 July 2026, this Consultation Paper (January 2025) is somewhat late in its issuance and the content is disappointingly lacking in detail and depth. To ensure the new body and committees' powers and functions are properly considered, we recommend the next stage of public consultation include more detail, principles and specific parameters in such key areas of:

- determining which functions of the Board and committees can be added and who makes this decision (ie the Chair or the majority of the Board members)
 - under what circumstances can the Minister terminate Board members and
 - specific eligibility criteria, including independence, for appointing Board and committee members.
- The absence of the above, may expose the Board and committees to unnecessary criticisms of abuse of power and/or operating outside their respective remits.

2. Competencies and independence

Standard-setting is highly specialised and encompasses knowledge, skills and experience in multi-faceted technical areas of accounting, auditing and assurance, and sustainability. The success of which calls for a unique set of skill sets at all levels of the body, including staff and members of the Board and committees. The skill sets include not only high-level technical skills but the ability to think laterally and progressively, and effectively communicate the proposals and requirements to stakeholders. This is to ensure the issued standards are of high quality that caters for the current environment and as future-proofed as possible, and the standards can be applied and regulated effectively. This requires a structure comprising of staff, Board and committee members that have the necessary skills, experience and competencies.

That is:

- staff have the technical skills and competencies to identify and critically analyse issues and recommend proposals for the committee to consider and assist the Board in its strategic and oversight functions
- the committee members have the necessary skills and competencies to actively and robustly consider, challenge and deliberate on matters presented by staff and
- the Board/committee's Chairs must also have the necessary skills and competencies, but to a greater depth, to provide thought leadership and strategic and direction to staff and committee members in their deliberations and the formulation of standards made.

To enhance the legitimacy of the standard-setting body, the majority (if not all) of the above deliberations must be conducted in public. This is to eliminate the public perception and/or criticisms that the private sessions of the current Board meetings are lengthy and that at times, the public sessions lack sufficient depth in technical deliberations and are more a forum for voting on the Board's decisions.

While IPA supports the proposed new structure, the effectiveness of the structure will depend on the composition and capabilities of the Board/Committee and staff as stated above.

We also note the current model of the AASB and AUASB use external resources to deliver their work program by way of tendering out specific projects. We acknowledge that it is not always possible for staff to be subject matter experts for all projects. Therefore, expertise outside the organisation is required from time to time. However, we question the effectiveness of a standard-setter that uses external subject matter experts to drive and deliver a project as a regular operating model. A better model would be to ensure staff have the appropriate skill sets and technical depth to pivot to other subject matters with input from external experts. It is necessary that staff are capable of developing the necessary technical documents, including agenda papers, exposure drafts and draft standards. This approach would better strengthen and preserve the expertise and corporate knowledge of an independent and accountable standard-setter that cannot be accused of being captured by corporate and/or political interests.

3. Functional and authoritative separation of the new governing Board and technical standard-setting committees

Our position is the new body should retain the existing separation and independence of each committee to develop and make standards and the governing Board is prevented from directing or exercising a power of veto over the committees' development, making or recommending a particular standard. This separation is crucial for preserving and upholding accountability, independence and avoiding conflicts of interest between the Board and respective committees.

Specific comment

Further details on our comments above and our responses to the specific proposals in the Consultation Paper are contained in Attachment 1.

If you would like to discuss our comments or require additional information, please contact me at vicki.stylianou@publicaccountants.org.au.

Yours faithfully

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The Institute of Public Accountants is one of the three professional accounting bodies in Australia, having been established in 1923, and represents over 50,000 accountants, business advisers, academics, and students throughout Australia and internationally. Three quarters of the IPA's members work in or are advisers to small business and Small to Medium Enterprises (SMEs).

ATTACHMENT 1 IPA's response to the Consultation Paper's specific questions

1. Structure of the new body – Do you agree with the proposed structure for the new body? Are there any changes to the proposed structure that will better meet the design principles?

As stated in the covering letter, IPA's overarching comment is, standard-setting for financial reporting, auditing and assurance, and sustainability reporting and assurance are highly specialised and technical areas. The success of which calls for unique skill sets at all levels of the body. The skill sets include not only technical skills but the ability to think laterally and progressively, and effectively communicate the proposals and requirements to stakeholders. This is to ensure the issued standards are of high quality that cater for current and future environments and can be applied and regulated effectively.

Consequently, IPA supports a structure that comprises staff and members of the Board and committees that have the necessary skills, experience and competencies to ensure that high quality standards are developed and made. That is:

- staff have the technical skills and competencies to identify and critically analyse the issues and recommend proposals for the committee to consider and assist the Board in its strategic and oversight functions
- the committee members have the necessary skills and competencies to actively and robustly consider, challenge and deliberate on the matters presented by staff and
- the Board/committee's Chairs must also have the necessary skills and competencies, but to a greater depth, to provide thought leadership and strategic direction to staff and committee members in their deliberations and formulation of the standards made.

To enhance the legitimacy of the standard-setting body, the majority (if not all) of the above deliberations must be conducted in public and not in private sessions. This is to eliminate the public perception and/or criticisms that the private sessions of the current Board meetings are lengthy and observations, that at times, the public sessions lack sufficient depth in technical deliberations and are more a forum for voting on the decisions of the Board. There needs to be greater transparency and accountability for the making of standards to mitigate against any potential perceptions of vested interests and deals behind closed doors.

While IPA supports the proposed new structure, the effectiveness of the structure will depend on the composition and capabilities of the Board/Committee and staff as stated above.

IPA supports the design principles of the proposed structure and offer the following comments on the design principles outlined in the Consultation Paper (CP):

- **Flexibility** – to facilitate the evolving nature of standard-setting and other functions as the needs arise. An example is the ability of the Board to add additional committees without seeking legislative change. This was the case in the current structure to address the urgent need for the development of sustainability reporting standards (SRS) driven by unprecedented fast-evolving international developments. We agree with the need to have a dedicated SRS technical committee, as sustainability reporting (SR) covers a range of specialised and complex areas that require technical expertise and skills that are different to financial reporting. Additionally, we think the SRS committee should comprise of members predominately with SR expertise and one member from each of the accounting and assurance and auditing standards technical committees. This contrasts with the current structure where the AASB has a Chair and 12 Board members, of which only three are SR experts. A framework or policy statement detailing the criteria for when this flexibility can be exercised is also crucial.
- **Preserving the key principles of the current institutional arrangements that work well** – We note the current model of the AASB and AUASB is seeking external resources to assist in delivering their work program by way of tendering out specific projects. We acknowledge that it is not always possible for any standard-setter to have staff that are subject matter experts for all

the projects. Therefore, seeking expertise outside the organisation would be required from time to time. However, we question the effectiveness of a standard-setter that uses external subject matter experts to drive and deliver a project as a regular operating model. A better model would be to ensure staff have the appropriate skill sets and technical depth to pivot to other subject matter with input from external experts. It is essential that staff are capable of developing the necessary technical documents, including agenda papers, exposure drafts and draft standards. This approach would better strengthen and preserve the expertise and corporate knowledge of an independent and accountable standard-setter that cannot be accused of being captured by corporate and/or political interests.

- **Ensuring institutional accountability** – we agree this is an important principle and an opportunity to review and strengthen the new body’s accountability and governance arrangements, especially given the Body uses public funds for its operations. Accordingly, we think a framework containing specific criteria is paramount on matters such as:
 - How the body determines which future functions are to be expanded or evolved, and who makes this ultimate decision.
 - Identifying and addressing conflicts of interest that enable the responsible Minister to terminate Board members are critical.
 - Establishing performance indicators that are benchmarked to other comparable organisations domestically and internationally. The performance indicators, where possible should be available to the public and include measures such as staff turnover, especially with departures of key senior personnel, such as the recent departures of three directors from the AASB (a technical director and a SR director) and AUASB (a technical director) for a small organisation at a time where the technical depth and experience of the directors would be useful for delivering the new SR and assurance frameworks.

IPA also offers comments on the following proposed matters:

- Currently, the FRC has the responsibility for strategic policy and advice and reports on the quality of audits conducted by Australian auditors (page 10). However, the Consultation Paper states that “While in principle the FRC’s existing function of giving strategic policy advice and reports relating to audit quality will be assumed by the new body, further consideration will be given to matters such as the best fit and appropriate scope of this function in the context of Treasury’s ongoing review.” (page 11). There are actual and perceived governance and independence concerns having a standard-setting body that also regulate compliance relating to audit quality. The Board should therefore not have audit quality monitoring functions. We note that these functions are currently undertaken by the Australian Securities and Investments Commission and through the quality review programs of the professional accounting bodies.
- Advancing and promoting the objective of the financial reporting system (page 10) – IPA supports the proposed educative activities to support the implementation and adoption of standards in Australia. This contrasts with the current practice of standard-setters only setting the standards and it is up to stakeholders to ensure the correct application and the regulators to enforce their non-compliance. This essentially means the education component is left to other parties to deliver. IPA thinks the successful application of a standard is dependent on the stakeholders understanding the requirements. Educative activities should therefore form part of the functions of the new body.

Additionally, we are unclear why the Accounting Professional & Ethical Standards Board (APESB) was not considered as part of the new structure. The accounting bodies presently funds the APESB, which in the current climate of independence and increased accountability poses a risk of perceived/actual independence in its standard-setting. We therefore recommend the new structure Include APESB as another technical committee to reduce the issue of independence and harness the benefits of the new body.

2. **Issuing standards – Do you agree with the proposed model for issuing standards? Are there any alternative mechanisms that could be adopted that better meet the design principles?**
3. **Transparency measures – Are the proposed transparency measures relating to the respective roles of the Board and committees adequate? If not, what additional measure would you suggest?**

Overall, IPA supports the proposed model for issuing standards and the transparency measures. However, we have the following concerns on the proposed model and the transparency measures of the respective roles of the Board and committees:

- “Adapting to a single body” section (pages 12-13) – The functional and authoritative separation between the governing Board of the new body and its technical standard-setting committees is crucial for preserving and upholding independence and avoiding conflicts of interest. These were the reasons the current structure as stated in the Consultation Paper that the “FRC was expressly prevented from directing, or exercising a power of veto over, the AASB and AUASB in relation to the development, making or recommendation of a particular standard.” (page 12). We are, therefore, disappointed:
 - This delineation is not retained.
 - With the reasons provided of:
 - It is appropriate for the Board to “reserve the power to act”, as it would be rare for the Board to be involved in the day-to-day technical standard-setting (page 12) – we think the legislative power of the Board to be involved in the technical standard-setting, albeit that it may be rare for the Board to do so is a threat to independence in fact and appearance. Additionally, the proposal would potentially permit the Board to override a proposed standard. We think the committee should be entrusted to set standards that are disallowable instruments without the unnecessary layer of the Board, who would not have the expertise, and yet have the ability to override a proposed standard.
 - Although, the approach is consistent with the UK FRC and NZ XRB, which do not expressly delineate the role and powers of the Board and the standard-setting committees – IPA thinks the lack of delineation is a less inferior model and undermines the design principles of preserving the key principles of the current institutional arrangements that work well, and ensuring institutional independence and accountability. As such, we are not convinced that Australia should adopt the proposed model if it is not in the best interests of Australia to do so.
- “Delegation” section (page 13) – IPA appreciates the need to ensure that legislation is not overly prescriptive in describing how the Board must fulfil its functions and this includes flexibility for the Board to establish and amend the committees as it sees fit. However, to ensure good governance and legitimacy of the Board and in turn the committees, we think it is important to have guiding principles and parameters of what can be delegated to the committees. The absence of which, may expose the Board and committees to unnecessary criticisms of abuse of power and/or operating outside their remits.

- 4. Board and committee appointment eligibility – Should requirements be imposed that candidates for membership of the new Board and/or its technical standard setting committees must demonstrate appropriate independence from industry (for example, not having worked in an accounting or auditing firm for a specified period or not having financial ties to a firm)? What should those particular requirements entail and how can those be balanced against the need for specialist expertise?**

As stated in Question 1, IPA is of the view that the effectiveness of a standard-setting body to deliver high quality standards is dependent on the technical skills, experience and competencies of its staff, committees and Board. Having specific appointment eligibility criteria, including independence, of the Board and committee members is therefore essential. This should also be consistent with the appointment requirements of other Government boards and committees. We think that the eligibility criteria should be included for public comment as part of Treasury's next phase of consultation.

- 5. Strengthening institutional governance – Do you agree with the proposed changes to strengthen the governance and oversight? Are there any other gaps or opportunities to strengthen the governance arrangements of the new body?**

IPA is generally supportive of including mechanisms to prohibit conflicts of interest and the capacity for the responsible Minister to formally terminate the appointment of Board members in certain circumstances. The Board should also have similar powers to terminate committee members.

We also support a corporate governance framework that requires Board and committee members to disclose potential or actual conflicts of interest. Given the increased public demand for independence and accountability, a more robust corporate governance framework needs to extend beyond the disclosure of potential and/or actual conflicts of interest. The framework should therefore include:

- requiring a Board and committee member to recuse themselves from the deliberations and voting for/against the proposed requirements and draft standard where there are potential and/or actual conflicts of interest and
- the principles in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* in assessing and evaluating whether arrangements can be put in place to reduce the potential/actual conflict to an acceptable level to enable a person to act on the Board or committee.