

Financial Reporting Council

Australian Accounting Standards Board

Auditing and Assurance Standards Board

**Annual Reports
2005-06**

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ISBN 0 642 74357 6

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Australian Government
Financial Reporting Council

Chairman:
Mr Charles Macek
c/- The Treasury
Langton Crescent
Canberra ACT 2600

Telephone:
(03) 9691 4000

Email:
chairman@frc.gov.au

Secretariat:
c/- The Treasury
Langton Crescent
Canberra ACT 2600

Telephone:
(02) 6263 3144

Facsimile:
(02) 6263 2770

E-mail:
frcsecretary@treasury.gov.au

26 September 2006

The Hon Peter Costello MP
Treasurer
Parliament House
CANBERRA ACT 2600

Dear Treasurer

I have pleasure in presenting the annual reports of the Financial Reporting Council (FRC), Australian Accounting Standards Board (AASB) and Auditing and Assurance Standards Board (AUASB) for the year ended 30 June 2006.

The report by the FRC on its auditor independence functions for 2005-06 is being issued under separate cover.

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

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

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

Yours sincerely

A handwritten signature in black ink, appearing to read "C. Macek". The signature is written in a cursive, slightly slanted style.

Charles Macek
Chairman

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ABBREVIATIONS

The following abbreviations are used throughout this report:

AASB	Australian Accounting Standards Board
AEIFRS	Australian Equivalents to International Financial Reporting Standards
AGS	Auditing Guidance Statements
A-IFRS	Australian International Financial Reporting Standards
APESB	Accounting Professional and Ethical Standards Board
APRA	Australian Prudential Regulatory Authority
AQRB	Audit Quality Review Board
ASA	Auditing Standard
ASAE	Standards on Assurance Engagements
ASIC	Australian Securities and Investments Commission
ASIC Act	<i>Australian Securities and Investments Commission Act 2001</i>
ASRB	Accounting Standards Review Board – New Zealand
ASRE	Standards on Review Engagements
ASRS	Standards on Related Services
ASX	Australian Stock Exchange
AuASB	Auditing and Assurance Standards Board (to 30 June 2004)
AUASB	Auditing and Assurance Standards Board (as reconstituted on 1 July 2004).
CAC Act	<i>Commonwealth Authorities and Companies Act 1997</i>
CDS	Commonwealth Disability Strategy
CLERP	Corporate Law Economic Reform Programme
CLERP 9 Act	<i>Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004</i>
FRC	Financial Reporting Council
FRLI	Federal Register of Legislative Instruments
FRSB	Financial Reporting Standards Board – New Zealand

Abbreviations (continued)

GAAP	Generally Accepted Accounting Principles
GFS	Government Finance Statistics
GST	Goods and Services Tax
HOTARAC	Heads of Treasuries Accounting and Reporting Advisory Committee
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IASCF	International Accounting Standards Committee Foundation
ICAA	The Institute of Chartered Accountants in Australia
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IPSASB	International Public Sector Accounting Standards Board
ISA	International Standard on Auditing
MOU	Memorandum of Understanding
NIA	National Institute of Accountants
NSS	National Standard Setters
PCAOB	Public Company Accounting Oversight Board
RIS	Regulation Impact Statement
SAC	Standards Advisory Council (of the IASB)
SMEs	Small and Medium Enterprises
TTASAG	Trans Tasman Accounting Standards Advisory Group
UIG	Urgent Issues Group

CONTACT OFFICER

The contact officer for this Annual Report is the Financial Reporting Council Secretary, who may be contacted at:

Post:	Secretary Financial Reporting Council c/- The Treasury Langton Crescent PARKES ACT 2600
Telephone:	(02) 6263 3144
Facsimile	(02) 6263 2770
E-mail	frcsecretary@treasury.gov.au

PART 1: OVERVIEW

OVERVIEW

OVERSIGHT BY THE FINANCIAL REPORTING COUNCIL

The key functions of the Financial Reporting Council (FRC) are to determine the broad strategic direction of the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB), to provide broad oversight of the processes for setting accounting and auditing standards in Australia, and to monitor the effectiveness of auditor independence requirements in Australia.

In performing its functions the FRC takes into account the objectives of standard setting specified in the *Australian Securities and Investments Commission Act 2001* (ASIC Act) – to facilitate the Australian economy by reducing the cost of capital, enabling Australian entities to compete effectively overseas, having accounting and auditing standards that are clearly stated and easy to understand, and maintaining investor confidence in the Australian economy (including its capital markets).

ACTIVITIES OF THE FINANCIAL REPORTING COUNCIL

During 2005-06 the FRC:

- commissioned research into how adequately a ‘sector neutral’ approach to the development of accounting standards can meet the information needs of users of financial statements and the public interest more generally;
- monitored the AASB’s work on GFS/GAAP harmonisation and the AUASB’s work in developing legally-binding auditing standards;
- considered issues raised by various stakeholders regarding the transition to the use of International Financial Reporting Standards (IFRS), and continued to monitor developments in the implementation of IFRS internationally;
- funded and participated in the International Financial Reporting Standards Regional Policy Forum in Sydney in October 2005, along with representatives from ten other jurisdictions of Asia-Oceania;
- conducted performance assessments of AASB and AUASB members and made appointments to the AASB and AUASB;
- established projects to fulfil its mandate to monitor developments in auditor independence, in the areas of the teaching of professional and business ethics, the

Overview

quality review programmes of Australia's professional accounting bodies, and the disciplinary procedures in place in Australia relating to auditor independence;

- organised and co-hosted the Ken Spencer Memorial Lecture;
- secured funding for international and Australian accounting and auditing standard setting, from the professional accounting bodies, the Commonwealth and the States and Territories; and
- held a strategy meeting to review aspects of its own operations and consider opportunities for the Council going forward.

ACCOUNTING STANDARD SETTING

The AASB held 10 meetings, including a one-day strategy meeting, in 2005-06 for a total of 20 meeting days, at which it addressed significant standard setting and administrative issues.

The AASB issued one new Australian equivalent to IFRS, a revised Australian Accounting Standard and seven Australian Accounting Standards which incorporated subsequent amendments made by the IASB to its Standards and refinements made by the AASB. The AASB also issued twelve Exposure Drafts and four Invitations to Comment during the year.

The Urgent Issues Group (UIG), which ceased to operate on 30 June 2006, met seven times in 2005-06. The UIG continued to review IFRIC Interpretations for adoption in Australia and issued six Interpretations during the year including the adoption of four IFRIC Interpretations. Following public consultation the AASB has replaced the UIG with a new interpretations model that applies from 1 July 2006.

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

Major progress was achieved in respect of meeting the FRC's broad strategic direction regarding harmonisation of requirements of Generally Accepted Accounting Principles (GAAP) and Government Finance Statistics (GFS) with the issue of an exposure draft in July 2005 and subsequent consideration of constituents' comments and a draft Standard. At the time of this report the final Standard has been issued. The AASB also made significant progress in reviewing accounting standards relating to accounting by whole of government, government departments and local governments.

AUDITING STANDARD SETTING

The AUASB's primary focus during the year was the review of all of those Auditing Standards which had been given interim legal endorsement and the reissue of those standards as legally enforceable instruments under section 307A of the *Corporations Act 2001* for financial reporting periods commencing on or after 1 July 2006. The AUASB completed phase 1 of this review process in issuing 35 legally enforceable Auditing Standards (ASAs), together with a *Foreword to AUASB Pronouncements* and *AUASB Glossary*, on 28 April 2006 in anticipation of the need to have these standards in place by 30 June 2006. The Standards were lodged and registered as legislative instruments and tabled for Parliamentary review.

Phase 2 of the review and revision of the ASAs will be ongoing and may be impacted by the reissue of the International Auditing and Assurance Standards Board's (IAASB's) International Standards on Auditing (ISAs) in clarity format, which is not due for completion until 2008. Review of specific ASAs in the meantime will occur as a targeted response to developments nationally or internationally as they emerge.

The AUASB's focus for the coming year will be the review, reissue or withdrawal of the Auditing Guidance Statements, Auditing Guidance Notes, Audit Guides and Audit and Assurance Alerts, issued by the former AuASB, along with commencement of the review of Auditing Standards which are not legally enforceable. These Auditing Standards will be reissued as Standards on Review Engagements (ASREs), Assurance Engagements (ASAEs) and Related Services (ASRSs).

The AUASB held fourteen meetings in 2005-06 for a total of twenty meeting days, at which it addressed drafting principles for the legally enforceable Auditing Standards, which are set out in *ASA 100 Preamble to AUASB Standards*, and provided technical oversight throughout the redrafting process.

The AUASB has continued to maintain a strong relationship with the IAASB through regular representation at IAASB meetings. Revision of the ASAs has been based on the ISAs, although some additional requirements have been retained from the former AuASB's standards and certain differing terminology has been necessary to reflect the mandatory requirements of the Australian regulatory system. The ASAs that have been issued conform with the ISAs and compliance with the ASAs enables compliance with the equivalent ISAs.

AUDIT INDEPENDENCE FUNCTION

From 1 July 2004, the FRC became responsible for monitoring the effectiveness of auditor independence requirements in Australia and giving the Minister reports and advice about those requirements. The FRC report on its activities in relation to its auditor independence function for 2005-06 is provided in a separate report.

Overview

CONSULTATION

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

In 2005-06, the FRC:

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

In 2005-06, the AASB:

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

In 2005-06 the AUASB:

- used its website www.auasb.gov.au to provide information about the Board, its meetings and activities;

- issued media releases to announce the issue of pronouncements and the release of other publications; and
- met with a number of stakeholders in relation to these activities and conducted Executive Briefings and other seminars in May and June of 2006.

INTERNATIONAL

The FRC has a statutory obligation to:

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

In 2005-06, the FRC continued to monitor the adoption of international accounting standards both in Australia and overseas, following from the strategic direction in 2002 to the AASB to work toward the adoption of international accounting standards in Australia. The FRC supported and participated in the first Regional Policy Forum on IFRS held in Sydney in October 2005, with representatives from ten other countries in the region.

The FRC has a statutory obligation to:

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

In 2005-06, the FRC monitored the adoption of international auditing standards both in Australia and overseas. In April 2005, the FRC issued a strategic direction to the AUASB requiring it to develop Australian auditing standards of the highest quality and with a clear public interest focus. In May 2006 the AUASB issued legally-binding Australian Auditing Standards in accordance with the strategic direction.

Overview

FRC members were provided with regular updates on work carried out by international standard setting and oversight bodies and the national standard setting bodies of various jurisdictions in Europe, North America and Asia-Oceania.

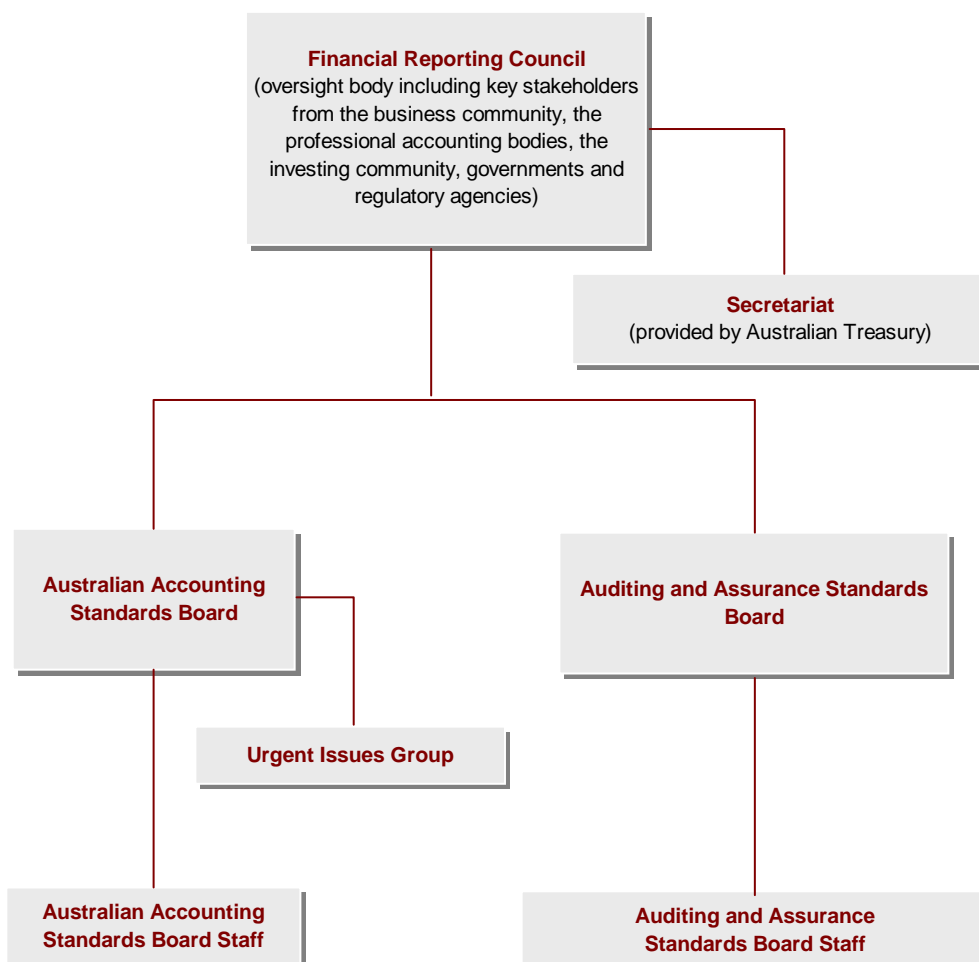
ACCOUNTABILITY

The FRC Chairman Mr Charles Macek and the FRC Secretary Mr Jorge del Busto appeared before the Senate Economics Legislation Committee on 31 May 2006 during hearings on the Budget estimates.

The AASB Chairman Professor David Boymal and Technical Director Angus Thomson appeared before the Senate Economics Legislation Committee on 1 June 2006 during hearings on the Budget estimates.

AUSTRALIAN ACCOUNTING AND AUDITING STANDARD SETTING IN 2005-06

Figure 1: Structure of institutional arrangements from 1 July 2004



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

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

The AASB has overhauled its interpretations functions, and from 1 July 2006, the Urgent Issues Group ceased to exist. The new arrangements will be indicated in the next Annual Report.

PART 2: FINANCIAL REPORTING COUNCIL

FINANCIAL REPORTING COUNCIL

CHAIRMAN'S REPORT



The past year has seen the continued evolution of the role of the FRC as it fulfils the mandate bestowed by the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act (CLERP 9) in 2004. In terms of its major overall responsibilities, the FRC extended its work on auditor independence matters, monitored the actions of the AUASB in issuing legally-enforceable auditing standards, and provided guidance to the AASB on its approach to public sector accounting issues and interpretations.

With Australian businesses reporting under international financial reporting standards (IFRS) requirements for financial years commencing on or after 1 January 2005, the FRC's role in monitoring associated implementation issues has been an important one. On the international front, the FRC's involvement in the Regional Policy Forum on IFRS, held in Sydney on 24 October 2005, contributed to furthering dialogue and sharing experiences in accounting standard setting issues between 11 jurisdictions represented from the Asia-Oceania region.

Financial Reporting Council responsibilities

Accounting standard setting

With the advent of a relatively stable platform of IFRS applying to for-profit businesses, the FRC was able to turn its attention to the development of accounting standards for other sectors.

In November 2005 the FRC engaged Mr Kevin Simpkins, the former Deputy Auditor-General of New Zealand, to undertake research into how adequately a 'sector neutral' approach to the development of accounting standards can meet the information needs of the different users of financial statements and the public interest more generally. Working in consultation with the FRC's Sector Neutral Standards Steering Committee, Mr Simpkins presented his final report to the FRC in June 2006. His report raised a number of important issues, including the appropriateness of the AASB's current approach to the making of standards for the public and not-for-profit sectors, the need for one or more separate sets of standards, and options for better meeting user needs. The FRC has sought public comment on the issues raised in the

report, and will consider taking action in response to the report and public comment during 2006-07.

Mr Simpkins' report is an outstanding document that has served to educate FRC members and the wider stakeholder community of trends and issues in standard setting around the globe. In compiling the report, Mr Simpkins surveyed a number of standard setting organisations around the world. The report has raised Australia's profile in the global standard setting community.

The AASB's project to harmonise GFS and GAAP accounting standards gathered pace throughout the year, with the release of exposure drafts and consultation with key public sector stakeholders. The FRC has monitored the project to ensure its compliance with the strategic direction issued to the AASB on this issue in 2002, and has sought to ensure that the concerns of the stakeholders are addressed by the AASB before the project is finalised.

The FRC provided advice to the AASB on the overhaul of its interpretations process and the establishment of an Interpretations Agenda Committee. The FRC is satisfied that under its new structure, the AASB will be able to tap into the necessary expertise and work to complement rulings made by the International Financial Reporting Interpretations Committee of the International Accounting Standards Board.

The FRC continued to encourage a positive relationship between the AASB and its New Zealand equivalent, the Financial Reporting Standards Board. I am pleased that a formal protocol of cooperation between the two boards was completed, expanding contact beyond the initial cross-appointment of the two Board Chairs. The Trans Tasman Accounting Standards Advisory Group (TTASAG), whose principal role is to encourage harmonisation of Australian and New Zealand accounting standards, has observed that the biggest difference is that New Zealand has a form of differential reporting applying to certain unlisted companies.

The FRC continues to monitor the performance of the AASB. Under the auspices of the Nominations Committee, the FRC undertook performance assessments of AASB members, via a peer survey. The results of the assessment were discussed by the Nominations Committee with the AASB Chair, allowing him to provide feedback to individual Board members. The performance assessments are useful in determining the skill needs of the AASB.

The FRC appointed four new members, and reappointed another three members to the AASB, including the reappointment of the New Zealand representative, Ms Joanna Perry, on the advice of the TTASAG.

On an international level I note that the IASB will be focusing further attention on standards for SMEs. This will be an issue of considerable significance and I look forward to strong cooperation between the IASB and the AASB on this issue to

facilitate the promulgation of appropriate standards for the many SMEs that play such an important role in the Australian economy.

Audit standard setting

The focus of the AUASB in 2005-06 was on reviewing and reissuing Australian Auditing Standards in accordance with the legislative requirements under the *Corporations Act 2001*, and the strategic direction issued by the FRC in April 2005 requiring that the standards display a clear public interest focus. The FRC was keen to ensure that the AUASB undertook extensive consultation with a range of stakeholders, including those in sectors other than the private for-profit sector. Now that these auditing standards are in place, the FRC looks forward to the AUASB working closely with the International Auditing and Assurance Standards Board, and other international bodies, to enhance the clarity and the comprehensive nature of the Australian Auditing Standards.

As with the AASB, the FRC monitored the performance of the AUASB, with the Nominations Committee implementing a performance assessment of AUASB members utilising a peer survey. The results of the assessment were discussed by the Nominations Committee with the AUASB Chair.

The FRC appointed five new members, and reappointed another member to the AUASB. As a consequence, the size of the AUASB expanded by two members, from 11 to 13, to assist in filling skills gaps identified by the performance assessment process and by the AUASB Chair.

Auditor independence

The FRC continued its programme of meetings with key stakeholder bodies that were initiated during the first year of its responsibilities for auditor independence matters, and the 'Big Four' accounting firms. I was pleased to meet with the Chair of the newly-established Audit Quality Review Board (AQRB), Mr Andrew Rogers QC. I anticipate that the FRC and the AQRB will develop a closer working relationship in 2006-07, and may establish an MOU in doing so.

Last year's report on the FRC's work on auditor independence was presented to the Treasurer last October and was well received by stakeholders. The report revealed strong compliance with the auditor independence requirements, along with some areas for improvement. The report for 2005-06 is being issued as a separate document rather than included with this FRC/AASB/AUASB Annual Report.

In addition to the overall work on auditor independence matters undertaken by Mr William Bartlett for the FRC, the FRC engaged consultants to undertake three specific tasks forming part of the FRC's 2005-06 auditor independence work programme. These consultancies were concerned with the teaching of professional and business ethics by, or on behalf of, the professional accounting bodies, the quality

review programmes of Australia's professional accounting bodies, and the disciplinary procedures in place in Australia relating to auditor independence.

The Auditor Independence Subcommittee provided significant assistance to the Council in the performance of the independence function.

Transition to International Financial Reporting Standards

Following activity organised at the international level over the past few years, there is a relatively stable platform of accounting standards applying to for-profit entities. Nevertheless the FRC continues to monitor issues raised by stakeholders on IFRS implementation. In 2005 the FRC sought submissions from stakeholders on progress with implementation. A number of common themes emerged from the submissions, including the level of Australian influence over the development of IFRS, education and the skill level of those responsible for implementing and interpreting IFRS, issues affecting small and medium enterprises, the future stability of the accounting standards platform, and issues arising from the process by which standards are set by the AASB.

The FRC considered that some of the issues raised were transitional and would largely resolve themselves over time, while others were more substantive. The FRC advised the AASB of these issues.

The FRC sought legal advice on the extent to which the requirements of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) conditioned the role of the AASB in its treatment of options and interpretations of IFRS. The Australian Government Solicitor concluded that the objects of Part 12 of the ASIC Act did not require the AASB to limit alternative treatments in IASB standards. The AASB has undertaken to change its approach so that it will no longer exclude options allowed under IFRS or add additional guidance to that included in IFRS.

In October 2005 I was pleased to assist with the running of the IFRS Regional Policy Forum held in Sydney under the auspices of the TTASAG. The participating jurisdictions comprised China, Hong Kong SAR, Indonesia, Japan, the Republic of Korea, Malaysia, the Philippines, Singapore, Thailand and the two host countries, Australia and New Zealand. Delegates included senior representatives of accounting standard setting and oversight bodies, professional accounting bodies, central banks and government officials.

As noted in the communiqué issued by participants, the forum was held at an important time, as many jurisdictions in the Asia-Oceania region are relatively advanced in adopting IFRS or harmonising their standards with IFRS. Consequently there is significant scope to enhance regional cooperation and coordination with the aim of delivering positive outcomes for the region and participating jurisdictions. Adoption or harmonisation of IFRS within the region provides further impetus to the

globalisation process by reducing the risks associated with cross-border investment, and reducing the cost of preparing financial statements for companies that operate in more than one jurisdiction. The communiqué was forwarded to Sir David Tweedie, Chairman of the IASB.

I was especially pleased that Mr Tatsumi Yamada, a member of the IASB, was able to attend the Regional Policy Forum and provide useful input into the Forum's deliberations.

In June 2006 I followed on from the forum by meeting with relevant parties in Japan, China and Singapore. I am pleased that Japan has offered to host the next Regional Policy Forum in 2007. These fora will help provide a voice to jurisdictions in the Asia-Oceania region at a time when the IASB, in developing IFRS, will also need to take account of developments with standards issued by the Financial Accounting Standards Board of the United States.

Stakeholder liaison

Liaison with a broad range of domestic and international stakeholders, including those with whom the FRC has established formal MOUs in relation to auditor independence matters, forms a vital component of the FRC's information gathering.

Mr Richard Humphry AO, a trustee of the International Accounting Standards Committee Foundation, reports regularly to the FRC on developments at the Foundation. A number of FRC members were able to meet with the Chairman of the IASB, Sir David Tweedie, during Sir David's visit to Australia in November 2005, and I was able to meet him earlier in that month in London.

Ms Judith Downes, a former member of the AASB, was appointed to the Standards Advisory Council (SAC) of the IASB in 2005. She has reported to the FRC on the meetings of the SAC held since her appointment. Mr Warren McGregor, an Australian who has been a member of the IASB since 2001, was reappointed to the IASB for a further five-year term in June 2006. Mr McGregor has permanent observer status on the AASB and provides useful advice to the FRC.

In conjunction with the FRC Secretary I undertook a series of meetings in Europe and North America in November 2005. Meetings were conducted with senior representatives of a broad range of policy making, standard setting, regulatory and professional accounting bodies. The meetings added significantly to our understanding of global trends in accounting and auditing standards, and audit independence matters. It was clear that there was a genuine commitment to convergence around the globe. The extent of mutual recognition between IFRS and US GAAP was becoming the cornerstone of consistent global standards.

Financial Reporting Council

In June 2006 I visited Japan, China and Singapore, where I met with policy makers, standard setters and professional accounting bodies as a follow-up to the IFRS Regional Forum held in Australia in October 2005.

In February 2006 I attended a joint Financial Stability Forum/International Accounting Standards Board/International Federation of Accountants Roundtable on Financial Reporting and Auditing held in Paris. Issues considered were implementation of international accounting standards, an update on convergence, fair value accounting and risk and vulnerabilities in the financial reporting process. In April 2006 I attended a National Institute of Accountants (NIA) conference in Malaysia on challenges facing the professional accountant.

Domestically, I met with Dr Ken Henry, Secretary of the Australian Government Treasury and Chair of the Heads of Commonwealth and State Treasuries, to discuss issues associated with GAAP/GFS. As reported above, I met with the new Chairman of the Audit Quality Review Board, Mr Andrew Rogers. Early in 2006 I met with the Hon Chris Pearce MP, Parliamentary Secretary to the Treasurer, and on 31 May 2006 I appeared before the Senate Economics Legislation Committee during hearings on the Budget estimates. During the course of the year I held my usual meetings with the professional accounting bodies, regulatory bodies including ASIC and APRA, and other stakeholders.

As reported above, the Council sought stakeholder input as part of its reporting to the Minister and to the AASB on IFRS implementation issues. Much of the liaison work was undertaken by FRC members in respect of the stakeholders that they represent on the Council.

At the June 2006 meeting of the FRC, members of the AUASB joined with the Council to listen to the report from the Chairman of the AUASB, Ms Merran Kelsall, and to engage in further informal discussions with FRC members over lunch. This proved to be a worthwhile event that I expect to be replicated with other stakeholder groups during 2006-07.

Ken Spencer Memorial

The FRC organised two events in memory of Mr Ken Spencer. Mr Spencer was Chairman of the AASB from 1994 to 1999 and was later a Trustee of the International Accounting Standards Committee Foundation and member of the FRC. He passed away in 2004.

The main Board room at the AASB – AUASB office was named in honour of Mr Spencer. A plaque was unveiled by Sir David Tweedie during his visit in November 2005. As well as Sir David, Professor Boymal made some remarks on behalf of the AASB and Elizabeth Alexander spoke on behalf of the FRC.

The Ken Spencer Memorial Lecture was held at the KPMG Lecture Theatre in Melbourne in April 2006. The lecture, organised by the FRC and co-sponsored by KPMG, was given by Mr Kevin Stevenson, of PricewaterhouseCoopers and formerly Technical Director at the IASB.

Mr Stevenson's topic, 'Global Accounting Standards: Has the Game Really Begun?' was well-received by the audience of around 70, which included members of the Spencer family and many stakeholders from across business, standard setting and the accounting profession.



Mr Stephen Harrison (Master of Ceremonies), Mr Kevin Stevenson (Lecturer) and Mr Charles Macek (FRC Chairman) at the Ken Spencer Memorial Lecture, held in the KPMG theatrette in Melbourne on 27 April 2006.

New Zealand

The relationship between the Council and its New Zealand equivalent, the Accounting Standards Review Board (ASRB) was maintained during the year, with Mr Warwick Hunt (Chair of the ASRB) and I attending the meetings of both the ASRB and FRC. Mr Hunt took over as Chair of the TTASAG at the beginning of 2006, and provided reports on TTASAG's work to FRC members.

Financial Reporting Council

The New Zealand Government co-sponsored the IFRS Regional Policy Forum held in Sydney in October 2005, and a number of presentations were made by New Zealand representatives. I am pleased to note that the AASB and their New Zealand equivalent, the FRSB, have expanded the range of their joint activities on standard setting, which includes the establishment of a protocol of cooperation.

TTASAG has embarked upon a review of the legislative framework for financial reporting in Australia and New Zealand. This work is aimed at identifying differences between the frameworks with a view to informing policy development in this area so unnecessary differences between the two countries can be eliminated. Aligning financial reporting frameworks in Australia and New Zealand should assist in reducing compliance costs for companies with trans-Tasman operations.

Financial Reporting Council operational matters

A survey of FRC members on the operations and performance of the FRC was undertaken in July and August 2005. The results were examined by the Nominations Committee and the FRC at its September 2005 meeting. The survey revealed overall satisfaction with the Council's performance.

The FRC agreed to follow up the survey with a special meeting of the FRC to consider only long-term strategic issues concerning the role of the FRC. The meeting was held in February 2006. Discussion ranged over the FRC's progress to date and ways in which the FRC could better fulfil its mandate to provide guidance to the AASB and AUASB on accounting and auditing standards and to monitor the effectiveness of auditor independence requirements. Improvements to existing operations, as well as the inclusion of new tasks, were canvassed. A number of actions were agreed and these are being followed up and reviewed at regular FRC meetings. In particular, the FRC has identified a need to improve its communication with stakeholders and the public, and to formulate a consistent framework governing the issue of strategic directions to the standard setting boards. We plan to make progress on those matters in 2006-07.

Funding for standards setting activities

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

For a number of years, the FRC employed a tri-partite funding model which has included contributions from the Australian Government, State and Territory governments, the professional accounting bodies, and the corporate sector. As a result of the extra responsibilities endowed to the FRC under CLERP 9, the Australian Government is providing an additional \$19.2 million over four years from 2005-06 to support the FRC in its expanded role of overseeing auditor independence and auditing

standards setting arrangements and for the continuation of the Financial Reporting Panel (FRP).

Firm funding commitments have been secured from the professional accounting bodies to 2008-09 and from the States and Territories to 2009-10. In view of the additional funding provided by the Australian Government, voluntary contributions from the corporate sector are no longer sought. I should however acknowledge the contribution that has been made over a number of years by the ASX which has enabled the standard setting Boards to enjoy appropriate accommodation.

These funding arrangements provide ongoing certainty for the FRC and the functions for which it is responsible.

The FRC once again showed its tangible support for international standard setting activities by approving a contribution to the IASCF of \$1 million in 2005-06.

The FRC agreed to extend sitting fee payments to FRC members to cover attendance at FRC-related Committee meetings and related activities. The fees are payable for meetings held after 1 January 2006. In approving these payments, the FRC issued guidelines setting out the circumstances and amount of payment.

The FRC agreed, for the first time in some years, to increase the sitting fees payable to members of the AASB and AUASB for their Board meetings, and to review these amounts more regularly. The FRC also agreed to extend sitting fee payments to cover attendance by Board members at eligible Board Subcommittee meetings. Meetings relating to the AASB's interpretations functions will be covered by these payments. Guidelines for payments to Board members for these meetings are based on those applying to FRC members for attendance at FRC-related Committee meetings.

Committees of the Financial Reporting Council

Four committees performed an extensive role in undertaking background work to allow the FRC to make informed decisions at its meetings. Committees operating in 2005-06 were:

- the Finance Committee, which also acts as the AASB Audit Committee and AUASB Audit Committee when considering the budgets of the AASB and AUASB respectively;
- the Nominations Committee;
- the Audit Independence Subcommittee; and
- the Sector Neutral Standards Steering Committee.

Financial Reporting Council

The first three of these are standing committees with their own charters which are reviewed from time to time. The Sector Neutral Standards Steering Committee was established for the specific purpose of providing oversight on the sector neutral accounting standards project.

The Finance Committee provides advice to the FRC on the funding and expenditures of the FRC and its constituent bodies, the AASB and AUASB, while the Audit Committees assist the directors of the AASB and AUASB (the members of the FRC) in discharging their responsibilities under the *Commonwealth Authorities and Companies Act 1997*. The Finance Committee oversees the business plans of the two Boards and preparations for the FRC/AASB/AUASB annual reports, and advises the Council on significant payments to external bodies such as to the IASC Foundation. In 2005-06 the Finance Committee also took responsibility for organising the Ken Spencer Memorial Lecture.

The Nominations Committee undertook a comprehensive selection exercise for both AASB and AUASB membership, culminating in a series of appointments at the FRC meeting held on 16 December 2005. A further appointment to the AASB was made during the first half of 2006. The Nominations Committee undertook a performance assessment of AASB and AUASB members based on a peer survey, and provided feedback on this to the Board Chairs.

The Audit Independence Subcommittee assists the FRC to perform its auditor independence functions. It works closely with a consultant, Mr William Bartlett, employed by the FRC to assist on auditor independence issues. Subcommittee members attend meetings with those bodies with which the FRC has MOU agreements with, and oversees production of the FRC annual report on its auditor independence functions. In 2005-06, the Subcommittee played a key role in appointing consultants to undertake the audit independence projects I refer to earlier in this report, and in overseeing the work of those consultants.

The Sector Neutral Standards Steering Committee was responsible for recommending the appointment of Mr Simpkins to undertake the research into sector neutral standards, and met with him regularly in the months leading up to the presentation of the report at the June 2006 FRC meeting, to define the parameters of the research and provide general guidance.

Membership

I thank all of my colleagues for the work that they have put into the FRC and its Committees during 2005-06. Their commitment has permitted the Council to tackle some interesting and important issues through the course of the year. The leadership provided by the Committee Chairs, Ms Elizabeth Alexander AM (Audit Independence Subcommittee), Mr Graeme McGregor AO (Finance Committee) and Mr Phillip Prior

(Nominations Committee and Sector Neutral Standards Steering Committee), together with the contribution of other Committee members, should be recognised.

Retiring from the FRC during 2005-06 were Mr Tom Pockett and Mr Brian Scullin. Both provided considerable expertise to the Council with their respective backgrounds in business and finance.

With the FRC permitting proxy voting at individual meetings, alternate members are no longer appointed. The terms of alternate members, Mr Roger Cotton, Mr Stephen Harrison and Mr Mike Rawstron ended in 2005-06, and I thank them for their contributions. There are now no alternate members on the Council.

New appointments to the Council in 2005-06 were Mr Bruce Brook, Mr John Gethin-Jones, Mr Eric Mayne, Mr John Stanhope and Mr Lee White. Mr Brook is the nominee of the Business Council of Australia, taking over from Mr Pockett, while Mr Gethin-Jones was nominated by the Investment and Financial Services Association, taking over from Mr Scullin. Mr Mayne and Mr White were nominated respectively by the Australian Stock Exchange and the Australian Securities and Investments Commission, both of which have traditionally been represented on the Council. Mr Stanhope is the nominee of the Group of 100 Inc, which represents Chief Financial Officers. It is the first time that the Group has had a nominee appointed to the Council.

Three members – Mr Jim Murphy, Ms Catherine Walter AM and Mr Klaus Zimmermann – were reappointed to further terms on the Council.

Assistance to the Council

Thanks are due to the Chair of the AASB, Professor David Boymal, and the Chair of the AUASB, Ms Merran Kelsall for their work in keeping the Council informed of developments. Both provide valuable input, often at Committee level, on matters of direct relevance to their Boards such as appointments and budgetary matters. They are ably assisted by their staff members.

The FRC Secretary, Mr Jorge del Busto, and his Secretariat have enabled the work of the Council and its Committees to be carried out in a timely and effective manner.

Financial Reporting Council

I am gratified by the Council's recent achievements in furthering its aims and objectives, and expect that 2006-07 will provide many challenges on both the domestic and global fronts. The Council and I are confident of meeting those challenges with a high degree of capability.

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

Charles Macek
Chairman of Financial Reporting Council
26 September 2006

FINANCIAL REPORTING COUNCIL GOVERNANCE

Establishment, functions and powers

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

Specific accounting and auditing standard setting functions for which the FRC is responsible include:

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

Financial Reporting Council

effectiveness of the consultative arrangements used by the AASB and AUASB; and

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

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

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

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

- Accounting standards should facilitate the Australian economy by reducing the cost of capital and enabling Australian entities to compete effectively overseas and should maintain investor confidence in the Australian economy, including its capital markets.
- Accounting and auditing standards should facilitate the Australian economy by having accounting and auditing standards that are clearly stated and easy to understand.

The ASIC Act expressly limits the FRC's ability to become involved in the technical deliberations of the AASB and AUASB. It provides that the FRC does not have power to direct the AASB or AUASB in relation to the development, or making, of a particular standard, or to veto a standard formulated or recommended by the AASB or AUASB. This provision is designed to ensure the independence of the standard setters.

Membership and meetings

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

A full list of members during 2005-06, and the stakeholders who nominated them is in Appendix A. In addition, a list of alternate members, appointed to be able to participate in FRC meetings when FRC members for whom they have been nominated as alternates are unable to attend, is also in Appendix A. As members are now able to appoint proxies on a meeting-by-meeting basis, no alternate members were appointed in 2005-06. The terms of alternate members have now all expired and there are no longer any alternate members.

OPERATIONS AND ACTIVITIES

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

The Nominations Committee is responsible for recommending appointments to the AASB and AUASB. In making recommendations, the Committee reviews written applications, interviews candidates, and takes into consideration the past performance and future needs of the two Boards. The Committee is also given other tasks from time

to time; for example, in 2005-06, the Committee provided oversight of the FRC's performance assessment.

In 2005-06, the Chairman of the Nominations Committee was Mr Phillip Prior. The other members of the Nominations Committee were the FRC Chairman, Mr Charles Macek, Mr Don Challen, Ms Jan West and Mr Klaus Zimmermann. The Nominations Committee formally met three times during the year. In addition, the Committee met over two days in November 2005 and again in June 2006 to conduct interviews for appointment to the AASB and AUASB.

The FRC appointed Ms Jan McCahey, Mr John O'Grady, Mr Colin Parker and Mr Brett Rix to the AASB during 2005-06. AASB members re-appointed were Mr Glenn Appleyard, Mr Brett Kaufmann, and Ms Joanna Perry. The re-appointment of Ms Perry, who is Chair of New Zealand's Financial Reporting Standards Board, was made at the recommendation of the Trans-Tasman Accounting Standards Advisory Group.

The FRC appointed Mr Chris Hall, Mr David Simmonds, Mr Mike Blake, Mr Greg Pound, and Ms Elizabeth Johnstone to the AUASB during 2005-06. Mr Ian McPhee, Auditor-General of the Commonwealth of Australia, was re-appointed to the AUASB.

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

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

During 2005-06, the FRC Finance Committee, meeting as the AASB Audit Committee and the AUASB Audit Committee, undertook the detailed reviewing of the budgets, business plans and work programmes of the two Boards. Further information on the work programme for the AASB is contained in Appendix E. Further information on the work programme for the AUASB is contained in Appendix F.

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

Audit independence

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

A detailed report on the FRC's performance of the auditor independence functions has been prepared separately from this Annual Report.

Communication and consultation

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

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

Financial Reporting Council consultants

During 2005-06, Mr William Bartlett continued to assist the FRC in the performance of the auditor independence functions conferred on the Council by the CLERP 9 legislation. Mr Bartlett, a retired partner of accounting firm Ernst & Young, was initially appointed in December 2004.

In November 2005, Mr Kevin Simpkins was engaged by the FRC to undertake research into how adequately a 'sector neutral' approach to the development of accounting standards can meet the information needs of users of financial statements and the public interest more generally. Mr Simpkins was Deputy Controller and Auditor-General of New Zealand for three years until May 2005, having previously held other positions in the Office of the Auditor-General, Ernst & Young and the New Zealand Institute of Chartered Accountants, where he was Technical Director. Mr Simpkins' report was tabled at the FRC meeting held in June 2006.

In April 2006, three consultants were engaged to undertake short-term consultancies associated with the Council's auditor independence function. The International Accounting and Auditing Institute provided consultancy services in respect of the quality review programmes of the professional accounting bodies. The principals of the Institute, Mr Graeme Macmillan and Mr Michael Cain, have experience in large accounting practices both in Australia and overseas and have provided a wide range of consultancies on topics associated with financial reporting.

Henderson Walton Consulting provided consultancy services in respect of the teaching of professional and business ethics by, or on behalf of, the professional accounting

Financial Reporting Council

bodies. Ms Jane Walton, the principal of the company, has extensive experience in the development and teaching of courses on ethics.

Mr Bartlett also provided consultancy services in respect of the disciplinary procedures of the professional accounting bodies, assisted by Ms Anne Dalton of Melbourne legal firm Sparke Helmore.

Finances

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

- the 2003-04 Budget provided \$4 million over four years to support the expanded functions of the FRC under the CLERP 9 reforms;
- the 2004-05 Budget provided an additional \$3.4 million to assist with the implementation of the expanded role of the FRC under CLERP 9, including the reconstitution of the Auditing and Assurance Standards Board, and for the establishment of the Financial Reporting Panel; and
- the 2005-06 Budget provided funding of \$19.2 million over four years to support the FRC in its expanded role of overseeing auditor independence and audit standards-setting arrangements and for the continuation of the Financial Reporting Panel (which does not fall under the oversight of the FRC).

Total Australian Government funding provided to the FRC through Treasury (including funding of \$1 million per annum for the Financial Reporting Panel) is \$5.8 million in both 2005-06 and 2006-07. A review of ongoing Australian Government funding for the FRC will be undertaken by October 2006 as part of the planning for the 2007-08 Budget.

The States and Territories provided \$500,000 in 2005-06 and have committed themselves to funding at the same level through to 2009-10.

In 2005-06, the professional accounting bodies provided contributions totalling \$1.75 million. CPA Australia, and the Institute of Chartered Accountants in Australia (ICAA) contributed \$750,000 each while the National Institute of Accountants contributed \$250,000. The professional bodies have advised that their funding commitment would fall to \$1.5 million in 2006-07, \$1.25 million in 2007-08, and \$1 million in 2008-09. The rationale given for this reduction in funding is that the professional bodies themselves require increased resources to address obligations stemming from their membership of IFAC, including enhanced requirements in respect of quality control and disciplinary areas. In addition the professional

accounting bodies are funding the newly established Accounting Professional and Ethical Standards Board.

In view of the funding from Australian Government sources, the FRC no longer seeks voluntary contributions from the business community. Due to the importance of financial reporting matters to listed companies, the ASX continued to provide an annual grant to the standard setting bodies.

During 2005-06 the FRC approved payments to the IASCF totalling \$1 million. This amount was finalised following agreement between the AASB and the IASCF concerning access to IASCF publications that supplement the IFRS-based standards. The IASCF is currently reviewing its funding model, which may have implications for the level of contribution expected from Australian bodies in the future.

As noted above, in 2005-06 the Government provided \$4.8 million to support the role of the FRC and to contribute towards the activities of the bodies it oversees (excluding the \$1 million set aside for the Financial Reporting Panel). In 2005-06, a total of \$2,284,897 of FRC's own expenditure was paid by Treasury out of this appropriation. This consisted of:

- \$1,000,000 of 2006 contributions to the IASCF;
- \$492,327 in staffing costs;
- \$351,501 on consultants;
- \$79,182 on the Chairman's salary (including superannuation);
- \$39,143 in sitting fees for FRC members (other than the Chairman), including sitting fees for attendance at Committee meetings;
- \$205,794 on travel; and
- \$116,950 on overheads.

The 2005-06 appropriation from the Australian Government was also used to supplement the funding of the AASB and AUASB (as noted in the adjunct 2005-06 AASB financial report and AUASB financial report).

FREEDOM OF INFORMATION

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

- FRC meeting agenda papers;

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

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

No applications under the *Freedom of Information Act 1982* were received by the FRC in 2005-06.

CONTACTING THE FINANCIAL REPORTING COUNCIL

Post:	The Secretary Financial Reporting Council c/- The Treasury Langton Crescent PARKES ACT 2600
Telephone:	(02) 6263 3144
Facsimile:	(02) 6263 2770
E-mail:	frcsecretary@treasury.gov.au

**PART 3: AUSTRALIAN ACCOUNTING
STANDARDS BOARD**

AUSTRALIAN ACCOUNTING STANDARDS BOARD

CHAIRMAN'S REPORT



Introduction

Even though the first full year of reporting under the new international accounting standards regime has only just concluded for most entities, the AASB has already moved on. In fact, the activities of the AASB for the year ended 30 June 2006 are more indicative of the AASB's ongoing standard-setting function now that Australia has adopted International Financial Reporting Standards (IFRS). Considerable resources have been devoted to monitoring the activities of the IASB, leading research projects on behalf of the IASB, issuing exposure drafts and standards simultaneously with the IASB and virtually completing the issuance of a standard for the convergence of Generally Accepted Accounting Principles (GAAP) with Government Finance Statistics (GFS) for the General Government Sector in accordance with the second Strategic Directive of the FRC.

The initial move to International Financial Reporting Standards

The early part of the 2005-06 year saw many changes to the 'stable platform' of international standards as the IASB dealt with practical problems being encountered by first-time users. In addition, the AASB began to revisit some of its earlier decisions on domestic guidance, additional Australian paragraphs, and exemptions and deletions, as constituents identified problems in applying the new standards for the first time.

Notwithstanding that some of the larger companies have spent considerable resources in planning for the change, the transition to IFRS has now been successfully accomplished.

Ongoing compliance with International Financial Reporting Standards

The benefits to the Australian economy from the adoption of IFRS will only be fully achieved if companies can continue to claim IFRS compliance into the future. Accordingly, it is necessary for the AASB to continue to closely monitor IASB plans and progress and to issue domestic exposure drafts and standards simultaneously with the IASB.

The IASB is now working towards convergence of its standards and conceptual framework with equivalent US standards and conceptual statements. To achieve this it has already issued a number of exposure drafts in some controversial areas and these have been replicated by the AASB. The IASB has recently announced that these changes will have a 2009 application date in order to provide a period of stability. The AASB welcomes this initiative of the IASB because it provides preparers with adequate time to plan and implement the changes.

Urgent Issues Group

At 30 June 2006 the UIG ceased to operate as a separate interpretative body. The AASB has replaced it with a new interpretations model which is expected to more efficiently deal with issues in the context of the internationalisation of accounting standards. Since the introduction of IFRS, authoritative interpretations have become part of the accounting standards themselves and therefore need to be dealt with through the AASB's own processes and must be voted on by the AASB. My special thanks go to all past UIG members who have contributed their time and effort over many years to the standard-setting cause.

Relationship with International Accounting Standards Board and other national standard setters

Our relationship with IASB remains healthy, and the IASB is appreciative of our efforts and the amount of resource that we are devoting to their projects.

The AASB has been heading three research projects for the IASB, namely joint ventures, intangible assets and extractive activities. Our work on joint ventures has recently been used by IASB in its efforts to converge with US standards on this topic, and has now been suspended. Our work on the other two research projects continues. AASB staff are also on IASB project teams developing new international standards for insurance contracts and revenue recognition.

We have a close working relationship with the Financial Reporting Standards Board of New Zealand. Through a reciprocal arrangement, the chairs of the two boards are

voting members of the other boards. During the year the two boards signed a protocol for cooperation, designed to eliminate differences between the standards of the two countries to the extent possible, and to share staff resources to avoid duplication of effort on international projects. In May 2006 the New Zealand and Australian boards successfully held their first joint meeting in Auckland, and henceforth it is proposed to hold joint meetings annually.

In October 2005 the Treasuries of Australia and New Zealand held a regional forum on IFRS in Sydney to which standard setters and regulators from the region were invited. Following the forum, which was highly successful, the AASB separately met with the visiting standard setters to discuss regional issues concerning the introduction of IFRS, to identify areas where cooperation is appropriate and to offer assistance where this was needed.

The AASB also works closely with its equivalents in the United Kingdom and Canada and retains a dialogue with the FASB in United States of America. Australia, New Zealand, United Kingdom and Canada currently are involved in a joint project to monitor the IASB/FASB progress in revising the Conceptual Framework, in order that we are alert to possible consequences of any changes upon public sector accounting. Unfortunately the IASB/FASB work itself is not currently focusing on public sector accounting consequences.

The Generally Accepted Accounting Principles/Government Finance Statistics project

During 2005-06, considerable progress has been made on meeting the FRC's second directive to harmonise GAAP and GFS reporting.

In July 2005 an Exposure Draft was issued containing proposals to combine GAAP and GFS reporting in the financial reports of General Government Sectors. As some of the proposals were controversial, the Exposure Drafts elicited many responses, and considerable effort has been put into analysing the comments, liaising with interested constituents including the Heads of Treasuries of the various governments, and redrafting the proposed final standard. At the time of this report the final standard has been issued.

The International Public Sector Accounting Standards Board

The AASB remains a strong supporter of the International Public Sector Accounting Standards Board (IPSASB) and its standard setting activities for public sector entities. We respond to IPSASB exposure drafts, and a senior AASB technical manager attends each IPSASB meeting as the technical adviser to the Australian member of the IPSASB.

Australian Accounting Standards Board

The IPSASB has recently confirmed that its broad approach is to continue to use IASB standards as a starting point, and amend them as necessary to accommodate the public sector. This is a similar approach to that adopted by the AASB. However, the 'transaction neutral' approach of the AASB considers the public sector consequences of IASB standards as soon as those standards are issued, whereas IPSASB has a considerable time lag arising from a difference in its priorities.

Recently the IPSASB has called for expressions of interest from national standard setters in a collaborative effort to develop a public sector conceptual framework and to develop a public sector accounting standard on service concessions (public-private partnerships). As the AASB's constituents will be significantly affected by these projects the AASB has offered to assist in these projects.

Copyright

As constituents have expressed concern that some IASB Implementation Guidance and Bases for Conclusions are not freely available on the AASB website, a royalty arrangement has been negotiated with the IASB so that, from 1 July 2006, Australian constituents have free electronic access to this material in addition to the standards, interpretations and other material, that is already freely available.

Work programme and business plan

The status of the 2005-06 prior year work programme is reported in Appendix E and the AASB's standard setting priorities for the current year, as approved by the FRC, are also set out in Appendix E.

The 2006-7 AASB Business Plan and a further document entitled Business Plan Initiatives 2006-7 are available on the AASB website in the section labelled 'Plans and Policies'.

Board changes

During the year Messrs Glenn Appleyard, Bryce Denison, Brett Kaufmann and Steve McClintock and Ms Joanna Perry and Alice Williams completed the terms of their appointment. Mr Denison, Mr McClintock and Ms Williams retired from the Board. Mr Appleyard, Mr Kaufmann and Ms Perry were each reappointed for a further period. New appointees during the year were:

- Mrs Jan McCahey, Partner, PwC;
- Mr John O'Grady, Partner, Ernst & Young; and
- Mr Colin Parker, Principal, GAAP Consulting Services.

On 3 July 2006 Mr Garth Campbell-Cowan also retired from the Board. He was replaced by Mr Brett Rix, Manager, Group Accounting – Policy and Governance, BHP Billiton Limited.

Appreciation

My thanks go to all of the present and retired members of the AASB and UIG for their significant contributions. These people are all busy professionals who generously give their time to the standard setting function.

Thanks also go to the AASB technical team, headed by our Technical Director, Angus Thomson, and to the AASB administrative team headed by our Administration Director, Leone Mansell.

Finally, thanks go to our constituents who respond to exposure drafts, invitations to comment and discussion papers and who participate in advisory panels, round-tables and consultative groups. In this new era of international standards it is important that Australian constituents continue to be heard if we expect to have any influence on the international scene.



David Boymal
Chairman AASB
26 September 2006

AUSTRALIAN ACCOUNTING STANDARD BOARD DIRECTORS' REPORT OF OPERATIONS

Technical activities of Australian Accounting Standard Board during 2005-06

Membership and meetings of Australian Accounting Standard Board

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

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

The members of the AASB during 2005-06 are listed in Appendix B. The Board held 10 meetings for a total of 20 meeting days, including a one-day strategy meeting, during the year. Attendance of members at these meetings is set out in Appendix D.

Standard setting

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

During 2005-2006, the Board issued or reissued the following standards and other documents:

Standards	
AASB 7	<i>Financial Instruments: Disclosures</i> (August 2005)
AASB 124	<i>Related Party Disclosures</i> (December 2005)
AASB 1048	<i>Interpretation and Application of Standards</i> (revised) (September 2005)
AASB 1048	<i>Interpretation and Application of Standards</i> (revised) (December 2005)
AASB 1048	<i>Interpretation and Application of Standards</i> (revised) (April 2006)
AASB 2005-9	<i>Amendments to Australian Accounting Standards</i> [AASB 4, AASB 1023, AASB 132 and AASB 139] (September 2005)
AASB 2005-10	<i>Amendments to Australian Accounting Standards</i> [AASB 1, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1023 and AASB 1038] (September 2005)
AASB 2005-11	<i>Amendments to Australian Accounting Standards</i> [AASB 101, AASB 112, AASB 132, AASB 133, AASB 139 and AASB 141] (September 2005)

Standards (continued)

AASB 2005-12	<i>Amendments to Australian Accounting Standards [AASB 1023 and AASB 1038] (December 2005)</i>
AASB 2005-13	<i>Amendments to Australian Accounting Standards [AAS 25] (December 2005)</i>
AASB 2006-1	<i>Amendments to Australian Accounting Standards [AASB 121] (January 2006)</i>
AASB 2006-2	<i>Amendments to Australian Accounting Standards [AASB 1] (March 2006)</i>

Exposure drafts

ED 139	<i>Proposed Amendments to AASB 3 Business Combinations (July 2005)</i>
ED 140	<i>Proposed Amendments to AASB 137 Provisions, Contingent Liabilities and Contingent Assets and AASB 119 Employee Benefits (July 2005)</i>
ED 141	<i>Proposed Amendments to AASB 127 Consolidated and Separate Financial Statements (July 2005)</i>
ED 142	<i>Financial Reporting of General Government Sectors by Governments (July 2005)</i>
ED 143	<i>Director and Executive Disclosures by Disclosing Entities: Removal of AASB 1046 and Addition to AASB 124 (September 2005)</i>
ED 144	<i>Proposed Australian Guidance to accompany AASB 1004 Contributions (October 2005)</i>
ED 145	<i>Operating Segments (January 2006)</i>
ED 146	<i>Proposed Amendments to AASB 2 Share-based Payment – Vesting Conditions and Cancellations (February 2006)</i>
ED 147	<i>Revenue from Non-Exchange Transactions (February 2006)</i>
ED 148	<i>Proposed Amendments to AASB 101 Presentation of Financial Statements: A Revised Presentation (March 2006)</i>
ED 149	<i>Proposed Amendments to AASB 123 Borrowing Costs (April 2006)</i>
ED 150	<i>Proposed Amendments to AASB 132 Financial Instruments: Disclosure and Presentation and AASB 101 Presentation of Financial Statements: Financial Instruments Puttable at Fair Value and Obligations Arising on Liquidation (June 2006)</i>

Invitations to Comment

ITC 7	<i>Proposed Interpretations Model for Australian Accounting Standards (November 2005)</i>
ITC 8	<i>'Policyholder Equity' of Friendly Societies and AASB 1038 Life Insurance Contracts (November 2005)</i>
ITC 9	<i>Superannuation Plans — Financial Liabilities (November 2005)</i>
ITC 10	<i>Proposed Amendment to AASB 1 (February 2006)</i>

Other

Glossary of Defined Terms June 2005 (February 2006)

Urgent Issues Group

The UIG ceased to operate on 30 June 2006 as the AASB has replaced it with a new interpretations model to apply from 1 July 2006. Prior to its dissolution the UIG's purpose was to review on a timely basis, in the context of existing Accounting Standards and Statements of Accounting Concepts, accounting issues that were likely to receive divergent or unacceptable treatment in the absence of authoritative guidance, with a view to reaching a consensus as to the appropriate accounting treatment. The UIG comprised 15 members drawn from a wide range of constituent groups. A consensus of the UIG required that 11 or more members vote in favour of, and no more than three members vote against, the proposed treatment for the issue in question. A full list of UIG Abstracts and Interpretations and their issue dates is at Appendix G.

The following Interpretations were issued during 2005-2006:

Interpretations	
6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment (October 2005)
7	Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies (February 2006)
8	Scope of AASB 2 (March 2006)
9	Reassessment of Embedded Derivatives (April 2006)
1001	Consolidated Financial Reports in relation to Pre-Date-of-Transition Dual Listed Company Arrangements (July 2005)
1002	Post-Date-of-Transition Stapling Arrangements (December 2005)

Interpretations Model

The AASB introduced a new Interpretations Model with effect from 1 July 2006. Under the new model the AASB will have direct responsibility for developing and approving Interpretations. The AASB's objective was to introduce a streamlined interpretations function that interacts with the IFRIC to provide guidance to Australian constituents in the context of the formal adoption of IFRS in Australia for private sector, public sector and not-for-profit entities, while maintaining a capacity to deal with issues relating to purely domestic Standards. The interpretations function has a flexible structure so that it can be adapted in response to changing circumstances and the nature of the issues to be addressed. The new model has the following principal features:

- (a) an Interpretations Agenda Committee (IASC) comprising the Chairman and two other AASB members, with the role of considering issue proposals, IFRIC Draft Interpretations and IFRIC Interpretations and recommending a course of action to the AASB. On the basis that it is the primary regulator in respect of the Corporations Act, the ASIC has been invited to accept observer status on the IAC;
- (b) forming Advisory Panels, constituted as a committee of the AASB, as required on a topic-by-topic basis. The role of panels will be limited to preparing alternative

views and, where appropriate, recommendations for consideration by the AASB. Each panel will normally comprise 4-8 members, including the Chairman and at least one AASB member. Members will be appointed on the basis of their professional competence and practical experience in the topic area. The AASB agrees that it is important that panels have a balanced composition to ensure that both a depth of knowledge and breadth of perspective are achieved. The AASB will seek to ensure that the perspectives represented include those of preparers, users, auditors and regulators;

- (c) a public Register of Potential Advisory Panel Members on the AASB website. It is expected that members of panels will be drawn from the register. However, depending on the issue to be addressed, the AASB may decide to draw panel members from other sources to achieve an appropriate balance of expertise and experience. Inclusion on the register does not necessarily mean that a person will be appointed to an advisory panel;
- (d) issues relating to interpreting Australian equivalents to IASB requirements that the AASB considers warrant further guidance will, in the first instance, be forwarded to the IFRIC for consideration for inclusion on the IFRIC work program. The AASB considers that a unique domestic interpretation of Australian equivalents to IASB requirements will be required only in rare and exceptional circumstances. In addition, the AASB will deal directly with the adoption of IFRIC Interpretations in Australia; and
- (e) the due process will include publishing the recommendations of a panel on the AASB's website for an appropriate period, depending on the nature of the issue, before an AASB meeting. Where the AASB proposes to issue an Interpretation, the Proposed Interpretation will be further exposed by publication on the website for an appropriate period, depending on the nature of the issue, before the AASB considers it for formal adoption. Due process will also include documentation, on public record, of the composition of each panel and the background and experience of each panel member.

Due process

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

- communicating its views and policies to a broad range of interested parties via invitations to comment and exposure drafts;
- meeting with representatives of interested parties and organisations;

Australian Accounting Standards Board

- inviting public comment on its policies, procedures, priorities and standards under consideration;
- issuing media releases related to its activities; and
- maintaining a website www.aasb.com.au.

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

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

Consultative Group

The AASB Consultative Group brings together a wide cross-section of interest groups in the private, public and not-for-profit sectors. The purpose and operation of the Consultative Group is set out in Policy Statement PS 2 *The AASB Consultative Group* as revised and reissued in June 2001. The Consultative Group met once during the year, in November 2005. The AASB is in the process of enhancing its consultative arrangements through establishing smaller more focused groups of constituents comprising industry and user groups for consultation on particular issues. During 2005-06 a User Focus Group comprising investment and credit analysts was formed, and work on establishing a focus group involving private sector not-for-profit constituents is well advanced.

Liaison with constituents

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

Use of website

The AASB maintains a website www.aasb.com.au. The website is used to provide information about the AASB, its activities and work programme to its constituents and other interested parties, the UIG and its activities and the new process relating to interpretations. Authoritative pronouncements including compilations of Accounting Standards are published on the website and may be downloaded free of charge. The AASB also publishes meeting agendas and copies of key AASB Board papers on its website, prior to meetings. Minutes of meetings are also published on the website. The AASB publishes brief summaries of key projects on the Board's website outlining the background to each project and recent progress and Board decisions. The AASB also uses the website to seek comments on exposure drafts and invitations to comment in order to facilitate urgent action on projects.

Seminars

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

Accountability

The AASB Chairman, Professor David Boymal, and Technical Director, Angus Thomson, appeared before the Senate Economics Legislation Committee on 1 June 2006 during hearings on the Budget estimates.

Indemnities and insurance premiums for directors and officers

No indemnities have been given or agreements made in respect of any current or former officer of the AASB, including FRC Directors. The AASB has arranged professional indemnity insurance with COMCOVER, to a value of \$100 million at a cost of \$17,065.

Federal Register of Legislative Instruments

The FRLI regime, introduced by the *Legislative Instruments Act 2003*, commenced on 1 January 2005 replacing the gazettal process previously required for those Accounting Standards made by the AASB that are disallowable instruments. The AASB has completed the backcapture process for Accounting Standards made before 1 January 2005. Standards made in 2005-06 have been lodged and registered and the AASB has prepared compiled versions of Accounting Standards to include subsequent amendments. In addition to lodging on the FRLI, compiled versions are also published on the AASB website.

AUSTRALIAN ACCOUNTING STANDARDS BOARD PUBLICATIONS

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

During the year the AASB also published a range of other documents, including:

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

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- AASB and UIG media releases;
- exposure drafts of proposed new and revised accounting standards;
- invitations to comment; and
- consultative and discussion papers.

The AASB is considering publication of a newsletter in order to inform constituents about the broad range of its activities. The AASB provides subscription services in respect of most of these documents. In addition, individual copies are available for sale. Further information can be obtained from the AASB using the contact details set out below. Accounting standards, UIG abstracts and interpretations, exposure drafts, invitations to comment and policy statements are freely available on the website.

FREEDOM OF INFORMATION

The AASB maintains possession of the following documents:

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

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

No applications under the *Freedom of Information Act 1982* were received by the AASB in 2005-06.

COMMONWEALTH FRAUD CONTROL GUIDELINES

The AASB has in place a Fraud Control Plan and fraud control mechanisms which are appropriate to the needs of the AASB. The AASB complies with the requirements of the Commonwealth Fraud Control Guidelines for the year ended 30 June 2006.

COMMONWEALTH DISABILITY STRATEGY

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

Commonwealth Disability Strategy performance reporting

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

CONTACTING THE AASB

The AASB can be contacted as follows:

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

Telephone: (03) 9617 7600
 Facsimile: (03) 9617 7608
 Document Exchange: DX 30897
 E-mail: standard@asb.com.au

**PART 4: AUDITING AND ASSURANCE
STANDARDS BOARD**

AUDITING AND ASSURANCE STANDARDS BOARD

CHAIRMAN'S REPORT



Introduction

The Financial Reporting Council (FRC) is responsible for oversight of the Auditing and Assurance Standards Board (AUASB), which was reconstituted as an independent statutory body on 1 July 2004. The FRC provides the AUASB with its strategic direction, as well as appointing AUASB members, approving and monitoring the AUASB's business plans, budgets and staffing arrangements.

Role and mission of the Auditing and Assurance Standards Board

The mission of the AUASB is to develop, in the public interest, high quality Auditing and Assurance Standards and related guidance, as a means to enhance the relevance, reliability and timeliness of information provided to users of audit and assurance services. Sound public interest oriented Auditing and Assurance Standards are necessary to reinforce the credibility of the auditing process for those who use audited financial information. The AUASB contributes to public confidence in the financial reporting and corporate governance frameworks by issuing high quality standards, which carry the force of law for audits of financial reports of a Corporation by virtue of section 307A of the *Corporations Act 2001*, other auditing and assurance pronouncements and related guidance. The AUASB's role also extends to liaison with other standard setters and participating in standard setting initiatives, both in Australia and internationally. Such involvement seeks to contribute ultimately to the quality of AUASB pronouncements.

Board appointments and changes during 2005-06

The AUASB comprises an independent part-time Chairman (appointed by the Federal Treasurer) and twelve part-time members (appointed by the FRC). The members sitting on the AUASB as at year end consisted of six members from public practice, two members from the public sector, one member from academia, one member from the legal profession, one independent member from the accounting profession and one member representing users.

Auditing and Assurance Standards Board

At the commencement of 2006, Mr Mike Blake, Mr Chris Hall, Ms Elizabeth Johnstone, Mr Greg Pound and Mr David Simmonds were appointed to the AUASB replacing Mr William Edge, Mr Keith Houghton and Mr Robert Sendt whose terms expired at the end of 2005. Also at the commencement of 2006, Mr Ian McPhee was reappointed to the AUASB following expiration of his previous term. See Appendix C for full details of AUASB members and their terms of appointment.

Reissuing Auditing Standards as legal instruments

The focus of the AUASB's work programme for 2005-06, has been redrafting and issuing legally enforceable Auditing Standards (ASAs) in order for those ASAs to be in place for financial reporting periods commencing on or after 1 July 2006.

Review of the existing auditing standards issued by the former AuASB, which had been given interim legal endorsement, culminated in 35 legally enforceable standards being issued as legislative instruments on 28 April 2006 along with a *Foreword to AUASB Pronouncements* and *AUASB Glossary*. This completed Phase 1 of the reissuing of Auditing Standards. Redrafting all of the standards to ensure that the mandatory requirements can be enforced and that the standards meet all of the requirements set out in the equivalent International Auditing Standards (ISAs) has been a major exercise, which has preoccupied the Board and staff for most of the year. ASA 100 *Preamble to AUASB Pronouncements* sets out how the standards have been drafted and so how they should be understood, interpreted and applied. Since issuing the standards, the AUASB have been monitoring them during the disallowance period in Parliament and Board and staff effort has been turned to planning the future work of the AUASB.

Phase 2 will involve the review of ASAs to improve quality, clarity, and presentation and may be impacted by the developments of the International Auditing and Assurance Standards Boards (IAASBs) 'Clarity of IAASB Standards' project as well as other international standard setters. The AUASB has committed to support the IAASB's clarity project by undertaking to participate in a working group that will redraft three of the ISAs in clarity format.

The AUASB's work in relation to the legally enforceable standards during 2006-07 will consist of monitoring the impact of implementation and conducting ongoing communication and consultation with stakeholders. Review of the ASA's during the next twelve months will be limited to responding to matters arising from the implementation of those standards or from any significant international developments.

Reissuing other auditing and assurance standards and guidance

The work programme for the 2006-07 year will largely be focused on the revision of the pre-existing Auditing Guidance Statements (AGS) and other standards. The framework within which guidance and other standards are to be issued will be further developed and clarified and drafting rules determined. Review of the AGS and other standards will be prioritised based on the importance of a need for revised guidance due to regulatory changes, changes to accounting standards, changes to the related ASA, legal developments, international developments and changes in best practice. The standards that are not legally enforceable will be reviewed and reissued as Standards on Assurance Engagements (ASAE), on Review Engagements (ASRE) or on Related Services (ASRS).

The status of the 2005-06 AUASB Work Programme is reported in Appendix F. The AUASB's standard setting priorities for 2006-07, have been approved by the FRC and are summarised in Appendix F.

Relationship with the International Auditing and Assurance Standards Board

Consistent with its strategic direction, the AUASB has, wherever possible, used the ISAs as a base for its Auditing Standards (ASAs), and in doing so seeks to maintain conformity of its standards with those of the IAASB. The strong rationale for continuing with this policy is the existence of the IAASB as the major global principles-based auditing and assurance standards setting body. That Board has significantly strengthened its public interest focus in recent years, reinforced through oversight of its activities by International Federation of Accountant's (IFAC's) Public Interest Oversight Board. Conformity with the ISAs has been possible to the extent that compliance with the AUASB's reissued standards (ASAs) enables compliance with the equivalent ISA, where it exists.

The IAASB is currently pursuing a major exercise of reviewing its own auditing standards, through the 'Clarity of IAASB Standards' project. This project is significant since it may have major implications for Phase 2 of the strategy adopted by the AUASB in reviewing its Auditing Standards vis-a-vis ongoing conformity between ASAs and ISAs.

Participation in and input into the work of the IAASB is considered integral to the ability of the AUASB to continue as an effective national standard-setter, and is considered crucial to it maintaining and further developing the current body of Auditing and Assurance Standards and related guidance, which is used by the Australian accounting profession. For many years, Australia has been regarded as an influential international contributor, through participation on the IAASB and its related activities. AUASB member, Mr Ian McPhee, is also a member of the IAASB and

Auditing and Assurance Standards Board

its Steering Committee. Furthermore, AUASB Principal Executive, Mr Richard Mifsud has continued to serve as Mr McPhee's IAASB technical advisor over the past year.

Facilities, technical support and resources

For the past year the AUASB has continued to occupy offices as a co-tenant with the Australian Accounting Standards Board. However it will be relocating to Level 7, 600 Bourke St, Melbourne in early September 2006.

The AUASB is assisted by the technical and secretarial support that is provided by the Principal Executive and the staff of the AUASB Technical Group. The AUASB has continued to recruit well-qualified and experienced professional staff members during the year to replace staff leaving through natural attrition, still needed to address the ongoing workload. The work of the AUASB has also from time to time, been assisted, by the contributions of external working parties, which provided input to several projects being considered by the AUASB.

Acknowledgements

I would like to thank the members of the AUASB for their contributions over the past year. I especially would like to thank Mr Bob Sendt (Deputy Chairman to 31 December 2005), Mr Jon Tyers (Deputy Chairman during 2006), and Mr Ian McPhee (IAASB Member) for their assistance in carrying out their respective roles over this period.

I would also like to thank the FRC and its Chairman, Mr Charles Macek, for their oversight and support of the AUASB's ongoing operations.

Finally, I would also like to express my appreciation to Richard Mifsud, (Principal Executive) and to the staff of the AUASB Technical Group, comprising, Claire Grayston, Nina Lewis, Howard Pratt, and Margaret Salter (Senior Project Managers), Craig Angove, Bernadette Dillon, Brett James and Michael Sadhu (Project Managers), Jessie Wong (Assistant Project Manager), Chiara Carotenuto (Research Project Officer) as well as Christine Purtell (Executive Assistant) for their work in supporting the AUASB. Thanks are also extended to Leone Mansell (Administration Director) and the administrative staff of the Australian Accounting Standards Board (AASB) for additional administrative support services provided to the AUASB over the past year.

The Auditing and Assurance Standards Board going forward

The issuing of 35 legally enforceable standards by the AUASB in the year to 30 June 2006 has been a significant achievement, however a substantial body of work

still lies ahead. Issuing of the ASAs paves the way for the revision process of the Auditing Guidance Statements (AGS), which provide industry and situation specialist guidance to support the ASAs, as well as revision of other standards for reissue as Standards on Assurance Engagements (ASAE), Review Engagements (ASRE) and Related Services (ASRS), over the coming year. Monitoring the impact of the new legally enforceable standards and communicating with stakeholders in relation to implementation of the standards will also be important over the next six to twelve months as they start to be applied to audits for financial reporting periods commencing on or after 1 July 2006.

A handwritten signature in black ink, appearing to read 'Merran H Kelsall', with a long horizontal stroke extending to the right.

Merran H Kelsall
Chairman Auditing and Assurance Standards Board
26 September 2006

AUDITING AND ASSURANCE STANDARDS BOARD DIRECTORS' REPORT OF OPERATIONS

Technical activities of the Auditing and Assurance Standards Board during 2005-06

Functions and powers of the Auditing and Assurance Standards Board

Under section 227B of the *Australian Securities and Investments Commission Act 2001* (ASIC Act) the functions and powers of the AUASB are:

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

Membership and meetings of the Auditing and Assurance Standards Board

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

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

Details of the Chairman and the members of the AUASB during 2005-06 are listed at Appendix C. During the year, the AUASB held 14 meetings for a total of 20 meeting days. Attendance of members at these meetings is set out at Appendix D.

Auditing and Assurance Standards Board Standards

On 1 July 2004, the majority of the Auditing Standards previously issued by the former AuASB of the Australian Accounting Research Foundation, were granted interim legal endorsement under section 1455(1) of the *Corporations Act 2001* and *Corporations Regulation* 10.5.01. The Auditing Standards with interim legal endorsement do not

have effect for financial reporting periods ending on or after 29 June 2007, under section 1455(4) of the *Corporations Act 2001*.

Consequently, the AUASB's focus for the 2005/2006 year has been preparation of Auditing Standards for reissue as legally enforceable standards with effect for financial reporting periods commencing on or after 1 July 2006. The AUASB's work has involved:

- establishing the drafting rules and principles for the review and reissue of Auditing Standards; and
- completing the review and reissue of Auditing Standards in preparation of these being given the force of law from 1 July 2006.

During the year, the AUASB issued the following standards:

Legally enforceable AUASB Standards	
ASA 100	Preamble to AUASB Standards
ASA 200	Objective and General Principles Governing an Audit of a Financial Report
ASA 210	Terms of Audit Engagements
ASA 220	Quality Control for Audits of Historical Financial Information
ASA 230	Audit Documentation
ASA 240	The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report
ASA 250	Consideration of Laws and Regulations in an Audit of a Financial Report
ASA 260	Communication of Audit Matters with Those Charged with Governance
ASA 300	Planning an Audit of a Financial Report
ASA 315	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement
ASA 320	Materiality and Audit Adjustments
ASA 330	The Auditor's Procedures in Response to Assessed Risks
ASA 402	Audit Considerations Relating to Entities Using Service Organisations
ASA 500	Audit Evidence
ASA 501	Existence and Valuation of Inventory
ASA 505	External Confirmations
ASA 508	Enquiry Regarding Litigation and Claims
ASA 510	Initial Engagements – Opening Balances
ASA 520	Analytical Procedures
ASA 530	Audit Sampling and Other Means of Testing
ASA 540	Audit of Accounting Estimates
ASA 545	Auditing Fair Value Measurements and Disclosures
ASA 550	Related Parties
ASA 560	Subsequent Events
ASA 570	Going Concern
ASA 580	Management Representations
ASA 600	Using the Work of Another Auditor

Auditing and Assurance Standards Board

Legally enforceable AUASB Standards (continued)

ASA 610	Considering the Work of Internal Audit
ASA 620	Using the Work of an Expert
ASA 700	The Auditor's Report on a General Purpose Financial Report
ASA 701	Modifications to the Auditor's Report
ASA 710	Comparatives
ASA 720	Other Information in Documents Containing Audited Financial Reports
ASA 800	The Auditor's Report on Special Purpose Audit Engagements
ASRE 2410	Review of an Interim Financial Report Performed by the Independent Auditor of the Entity

Other Auditing and Assurance Standards Board pronouncements

During the year, the AUASB issued the following other pronouncements:

Other Pronouncements

Foreword to AUASB Pronouncements
AUASB Glossary

Auditing and Assurance Standards Board Guidance

During the year, the AUASB issued the following guidance:

Auditing Guidance Statements

AGS 1046	Responding to Questions at an Annual General Meeting (October 2005)
AGS 1038	Access to Audit Working Papers (February 2006)

Audit and Assurance Guides

2005 Supplement to Audit Guide 'The Audit of Superannuation Funds' (October 2005)

Auditing Guidance Notes

Auditor's Report on AASB 124 Remuneration Disclosures contained in the Annual Directors' Report (August 2005)

Attendance at meetings of the International Auditing and Assurance Standards Board

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

- 12 to 16 September 2005 in New York;
- 19 to 21 October 2005 in New York;
- 5 to 9 December 2005 in Cape Town;
- 6 to 10 March 2006 in Hong Kong; and
- 22 to 26 May 2006 in New York.

Due process

The AUASB has formalised a comprehensive 'due process' (outlined in the *Foreword to AUASB Pronouncements*) for the development of its pronouncements, which will encourage stakeholders to actively participate in the standards-setting process by:

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

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

Liaison with constituents

The AUASB has met with key stakeholders to discuss the review and reissue of Auditing Standards as legally enforceable standards, as well as matters in relation to specific projects.

Use of website

The AUASB has a website www.auasb.gov.au which is continuously enhanced to meet stakeholder information needs. The website is used to provide information about the AUASB, its activities and work programme to its stakeholders and interested parties. The AUASB also publishes meeting agendas prior to meetings and meeting highlights after meetings on the website. During the year, all revised and reissued standards and pronouncements have been made available on the website.

Accountability

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

Indemnities and insurance premiums for directors and officers

No indemnities have been given or agreements made in respect of any current or former officer of the AUASB, including FRC Directors. The AUASB has arranged professional indemnity insurance with COMCOVER, to a value of \$100 million at a cost of \$8,000.

Regulation Impact Statements

Regulation Impact Statements (RISs) are required by the Australian Government for all new legislation and regulations, including AUASB standards legally enforceable under the *Corporations Act 2001*. The objective of the RIS requirements is 'to ensure that proposed new regulations that impact on business are warranted and efficient' (Productivity Commission, 2005). RISs are prepared to inform decision-makers about the possible economic impact of the legislation and regulations being proposed. The Office for Regulation Review (ORR), which is part of the Productivity Commission, is required to formally approve all draft RISs before they are sent to the relevant decision-makers.

During 2005-06 the AUASB prepared a RIS to address the effects of the options that were available to the AUASB in issuing Auditing Standards. This RIS accompanied 35 statutory Auditing Standards that were issued on the 28 April 2006. The RIS is available on the AUASB's website.

Making of Legislative Instruments

Legally enforceable auditing standards made by the AUASB together with explanatory statements are required to be lodged and registered with the Federal Register of Legislative Instruments (FRLI) prior to their tabling in both Houses of Parliament for a disallowance period of 15 sitting days.

All 35 legally enforceable auditing standards made on 28 April 2006 were lodged and registered with FRLI and tabled in both Houses of Parliament. The disallowance period for these auditing standards will end on 4 September 2006.

AUDITING AND ASSURANCE STANDARDS BOARD PUBLICATIONS

All pronouncements issued by the AUASB are published on its website and are available for purchase from the AUASB using the contact details set out below. A full list of pronouncements currently on issue is at Appendix G.

The AUASB also publishes a range of other documents, which are available on its website, including:

- media releases;
- exposure drafts of proposed AUASB standards and explanatory guides;
- explanatory statements for AUASB standards;
- regulatory impact statements for legally enforceable AUASB standards; and
- invitations to comment on exposure drafts issued by the International Auditing and Assurance Standards Board.

FREEDOM OF INFORMATION

The AUASB maintains possession of the following documents:

- copies of Auditing and Assurance Standards, Guidance Statements and Other Guidance issued by the former AuASB of the Australian Accounting Research Foundation;
- copies of AUASB pronouncements and explanatory statements;
- copies of exposure drafts of proposed AUASB standards and explanatory guides;
- copies of media releases;
- AUASB meeting agenda papers;
- correspondence with constituents, including submissions received on exposure drafts; and
- internal technical and administrative papers, including project proposals, key decisions, and issues papers.

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

COMMONWEALTH FRAUD CONTROL GUIDELINES

The AUASB has in place a Fraud Control Plan and fraud control mechanisms, which are appropriate to the needs of the AUASB. The AUASB complied with the requirements of the Commonwealth Fraud Control Guidelines for the year ended 30 June 2006.

COMMONWEALTH DISABILITY STRATEGY

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

Commonwealth Disability Strategy performance reporting

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

CONTACTING THE AUDITING AND ASSURANCE STANDARDS BOARD

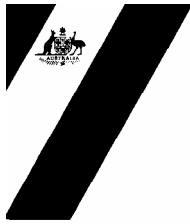
The AUASB can be contacted as follows:

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

PART 5: FINANCIAL REPORTS

AUSTRALIAN ACCOUNTING STANDARDS BOARD

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INDEPENDENT AUDIT REPORT

To the Treasurer

Scope

The financial statements and Directors' responsibility

The financial statements comprise:

- Statement by Directors and Chief Executive;
- Income Statement, Balance Sheet and Cash Flow Statement;
- Statement of Changes in Equity;
- Schedules of Commitments and Contingencies; and
- Notes to and forming part of the financial statements

of the Australian Accounting Standards Board for the year ended 30 June 2006.

The Directors of the Australian Accounting Standards Board are responsible for preparing financial statements that give a true and fair view of the financial position and performance of the Australian Accounting Standards Board and that comply with Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, Accounting Standards and mandatory financial reporting requirements in Australia. The Directors of the Australian Accounting Standards Board are also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit Approach

I have conducted an independent audit of the financial statements to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

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

I have performed procedures to assess whether, in all material respects, the financial statements present fairly, in accordance with Finance Minister's Orders made under the

PO Box A456 Sydney South NSW 1235
130 Elizabeth Street
SYDNEY NSW
Phone (02) 9367 7100 Fax (02) 9367 7102

Financial reports

Commonwealth Authorities and Companies Act 1997, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with my understanding of the Australian Accounting Standards Board's financial position, and of its financial performance and cash flows.

The audit opinion is based on these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Directors of the Australian Accounting Standards Board.

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

Audit Opinion

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

- (a) have been prepared in accordance with Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*; and
- (b) give a true and fair view of the Australian Accounting Standards Board's financial position as at 30 June 2006 and of its performance and cash flows for the year then ended, in accordance with:
 - (i) the matters required by the Finance Minister's Orders; and
 - (ii) applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

Australian National Audit Office



P Hinchey
Senior Director
Delegate of the Auditor-General

Sydney
26 September 2006

AUSTRALIAN ACCOUNTING STANDARDS BOARD STATEMENT BY DIRECTORS AND CHIEF EXECUTIVE

In our opinion, the attached financial statements for the year ended 30 June 2006 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*.

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

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



Charles Macek
Chairman – FRC
26 September 2006



Bruce Brook
Director
26 September 2006



David Boymal
Chairman – AASB
26 September 2006

Australian Accounting Standards Board
Income statement
 For the year ended 30 June 2006

	Notes	2006 \$	2005 \$
Revenues			
Revenues from Commonwealth government	4A	2,727,500	2,440,000
Goods and services	4B	124,252	138,176
Interest	4C	113,834	91,864
Contributions	4D	1,350,000	2,339,085
Other	4E	141,647	78,374
Total revenues		4,457,233	5,087,499
Expenses			
Employees	5A	2,616,123	2,425,121
Suppliers	5B	1,257,058	1,222,442
Depreciation and amortisation	5C	221,366	197,094
Impairment of assets		-	11,644
Loss from derecognition of assets	5E	457,061	-
Other - Contribution to IASCF	5D	-	1,000,000
Other - Contribution to AUASB	5D	-	544,431
Total expenses		4,551,608	5,400,732
Net (deficit)/surplus		(94,375)	(313,233)

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

Australian Accounting Standards Board
Balance sheet
As at 30 June 2006

	Notes	2006 \$	2005 \$
ASSETS			
Financial assets			
Cash	6A	2,321,846	2,068,227
Receivables	6B	353,634	50,850
Total financial assets		2,675,480	2,119,077
Non-financial assets			
Leasehold improvements	7A,D	72,156	683,822
Plant and equipment	7B,D	202,860	221,110
Intangibles	7C,D	13,209	9,675
Inventory	7E	2,995	4,537
Prepaid expenses		135,670	54,599
Total non-financial assets		426,890	973,743
Total assets		3,102,370	3,092,820
LIABILITIES			
Provisions			
Employees	8A	664,736	724,763
Total provisions		664,736	724,763
Payables			
Suppliers	9	115,181	121,318
Subscriptions in advance		43,849	41,886
Other	9	45,444	49,318
Total payables		204,474	212,522
Total liabilities		869,210	937,285
NET ASSETS		2,233,160	2,155,535
EQUITY			
Accumulated surplus		2,233,160	2,155,535
Total equity		2,233,160	2,155,535
Current liabilities		869,210	916,636
Non-current liabilities		-	20,649
Current assets		2,814,146	2,178,213
Non-current assets		288,224	914,607

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

Australian Accounting Standards Board
Statement of changes in equity
 For the year ended 30 June 2006

	Accumulated results		Total equity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Opening balance				
Balance carried forward from previous period	2,155,535	2,468,768	2,155,535	2,468,768
Adjustment for changes in accounting policies		27,420		27,420
Adjusted opening balance	2,155,535	2,496,188	2,155,535	2,496,188
Income and expenses				
Deficit	(94,375)	(313,233)	(94,375)	(313,233)
Income and expenses directly recognised in equity				
Non-current annual leave		(4,535)		(4,535)
Superannuation deficiency		(22,885)		(22,885)
Actuarial gains/(losses)	172,000	-	172,000	-
Total income and expenses recognised directly in equity	77,625	(340,653)	77,625	(340,653)
Sub-total income and expenses of which:				
attributable to Australian Government	77,625	(340,653)	77,625	(340,653)
Transactions with owners	-	-	-	-
Transfers between equity components	-	-	-	-
Closing balance	2,233,160	2,155,535	2,233,160	2,155,535
Closing balance attributable to the Australian Government	2,233,160	2,155,535	2,233,160	2,155,535

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

Australian Accounting Standards Board
Cash flow statement
For the year ended 30 June 2006

	Notes	2006 \$	2005 \$
OPERATING ACTIVITIES			
Cash received			
Revenues from Commonwealth government		2,491,244	2,440,000
Goods and services		134,082	149,350
Interest		113,834	91,864
GST recovered from taxation authority		144,902	237,377
Contributions		1,425,000	2,530,000
Other		145,305	78,374
Total cash received		4,454,367	5,526,965
Cash used			
Employees		2,535,844	2,350,080
Suppliers		1,483,499	1,486,893
GST paid to taxation authority		130,260	175,110
Contribution to IASB		-	1,000,000
Contribution to AUASB		-	525,000
Total cash used		4,149,603	5,537,083
Net cash from/(used by) operating activities	10	304,764	(10,118)
INVESTING ACTIVITIES			
Cash received			
		-	-
Cash used			
Purchase of leasehold improvements, plant and equipment and intangibles		51,145	990,416
Total cash used		51,145	990,416
Net cash used by investing activities		51,145	990,416
Net increase (decrease) in cash held		253,619	(1,000,534)
Cash at the beginning of the reporting period	6A	2,068,227	3,068,761
Cash at the end of the reporting period	6A	2,321,846	2,068,227

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

Australian Accounting Standards Board Schedule of commitments

As at 30 June 2006

	Notes	2006 \$	2005 \$
BY TYPE			
Other commitments			
Operating leases(1)		4,732,702	2,729,842
Other [GST on sub-lease income]		50,200	-
Total other commitments		4,782,902	2,729,842
Commitments receivable(2)		(982,448)	(248,168)
Net commitments		3,800,454	2,481,674
BY MATURITY			
Operating lease commitments			
One year or less		398,510	636,814
From one to five years		1,690,267	2,093,028
Over five years		2,643,925	-
Total operating lease commitments		4,732,702	2,729,842
Other commitments			
One year or less		3,833	-
From one to five years		18,406	-
Over five years		27,961	-
Total Other commitments		50,200	-
Commitments receivable		(982,448)	(248,168)
Net commitments		3,800,454	2,481,674

All commitments are GST inclusive where relevant.

(1) Operating leases are effectively non-cancellable and comprise:

Nature of lease	General description of leasing arrangement
Lease for office accommodation	Lease payments are subject to increase of 4 per cent per annum as per Lease agreement.
Lease of photocopiers	The lessor provides photocopiers for 40-60 months at fixed instalment rates, plus copy charges at rates which may vary each year.

(2) Part of the leased area is sub-let and this represents the revenue from the sub-lease.

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

Australian Accounting Standards Board Schedule of contingencies

As at 30 June 2006

Contingent liability	Note	Contribution to IASCF	
		2006	2005
		\$	\$
Balance from previous period		-	1,000,000
New		-	-
Obligation expired*	5D	-	(1,000,000)
Total contingent liabilities		-	-

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

There are no known contingencies as at 30 June 2006.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies

1.1 Basis of preparation of the financial statements

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

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

The statements have been prepared in accordance with:

- Finance Minister's Orders (or FMO's, being the *Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 1 July 2005)*);
- Australian Accounting Standards issued by the Australian Accounting Standards Board that apply for the reporting period; and
- Interpretations issued by the AASB and UIG that apply for the reporting period.

This is the first financial report to be prepared under Australian Equivalents to International Financial Reporting Standards (AEIFRS). The impacts of adopting AEIFRS are disclosed in Note 2.

The Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets which, as noted, are at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial report is presented in Australian dollars.

Unless alternative treatment is specifically required by an accounting standard, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies.

Unless alternative treatment is specifically required by an accounting standard, revenues and expenses are recognised in the Income Statement when and only when

the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

1.2 Significant accounting judgements and estimates

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

1.3 Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards (AEIFRS).

The AASB has applied Australian Accounting Standards in preparing its financial report for the year ended 30 June 2006. Some of the requirements of these Standards, as they apply to not-for-profit entities such as the AASB, are different from IFRS. The nature and timing of the transactions in the year ended 30 June 2006 has been such that these differences have not had an impact on the AASB's financial report. Accordingly, the application of Australian Accounting Standards in the year ended 30 June 2006 has given the same outcomes as would have been achieved had the AASB applied IFRS. Whether the AASB also complies with IFRS in future years depends on the nature and timing of the transactions in those years.

Australian Accounting Standards require the AASB to disclose Australian Accounting Standards that have not been applied, for standards that have been issued but are not yet effective.

The AASB website identifies standards and amendments that will become effective in the future. The AASB intends to adopt all of the standards upon their application date where they apply to the AASB.

The impact of the adoption of these standards on the financial report is not expected to be financially significant based on the AASB's initial assessment at this date, but this assessment may change.

Users should consult the full version available on the AASB website to identify the full impact of the change.

1.4 Revenue

Revenue from the sale of goods is recognised when:

- The risks and rewards of ownership have been transferred to the buyer;
- The seller retains no managerial involvement nor effective control over the goods;

Financial reports

- The revenue and transaction costs incurred can be reliably measured; and
- It is probable that the economic benefits associated with the transaction will flow to the entity.

Revenues from government and contributions are recognised at nominal amounts when invoiced in accordance with agreed schedules of payment (annually or quarterly).

Receivables for goods and services, which have 14 day terms, are recognised at the nominal amounts due less any provision for bad and doubtful debts. Collectability of debts is reviewed at balance date. Provisions are made when collectability of the debt is no longer probable.

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

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

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

1.5 Employee benefits

As required by the Finance Minister's Orders, the AASB has early adopted AASB 119 *Employee Benefits* as issued in December 2004, in order to recognise the actuarial gain direct to equity.

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

Liabilities for 'short term employee benefits' (as defined in AASB 119) and termination benefits due within twelve months are measured at their nominal amounts.

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

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

Leave

The liability for employee benefits includes provision for annual leave and long service leave. No provision has been made for sick leave as all sick leave is non-vesting and

the average sick leave taken in future years by employees of the AASB is estimated to be less than the annual entitlements for sick leave.

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

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at 30 June 2006. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Superannuation

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

For certain employees, the AASB has guaranteed minimum accumulated balances equivalent to benefits under a defined benefit plan. The Present Value of the Defined Benefit Obligation of these members as at 30 June 2006 amounted to \$2,563,000 (2005: \$2,374,000) compared to the fair value of attributable assets of \$2,461,000 (2005: \$2,169,000), giving a deficiency of \$102,000 (2005: deficiency \$205,000). A provision for this guaranteed deficiency has been recognised at 30 June 2006 (refer Notes 5A and 8A).

Refer to Note 8B for a reconciliation of the superannuation liability as at 30 June 2006.

1.6 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased non-current assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

The AASB has no finance leases.

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

1.7 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

Temporarily surplus funds are placed on deposit at call with the AASB's Business Investment Account. Interest is credited to revenue as it accrues.

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1.8 Receivables

Receivables are recognised at nominal amounts due less any provision for bad and doubtful debts. Credit terms are 14 days (2004-05: 14 days).

1.9 Financial risk management

The AASB's activities expose it to normal commercial financial risk. As a result of the nature of the AASB's business, internal and Australian Government policies dealing with the management of financial risk, the AASB's exposure to market, credit, liquidity and cash flow and fair value interest rate risk is considered to be low.

1.10 Derecognition of financial assets and liabilities

As prescribed in the Finance Minister's Orders, the AASB has applied the option available under AASB 1 of adopting AASB 132 and 139 from 1 July 2005 rather than 1 July 2004. The financial effect of this adoption is nil.

Financial assets are derecognised when the contractual rights to the cash flow from the financial assets expire or the asset is transferred to another entity. In the case of a transfer to another entity, it is necessary that the risks and rewards of ownership are also transferred.

Financial liabilities are derecognised when the obligation under the contract is discharged or cancelled or expires.

1.11 Impairment of financial assets

As prescribed in the Finance Minister's Orders, the AASB has applied the option available under AASB 1 of adopting AASB 132 and 139 from 1 July 2005 rather than 1 July 2004. The financial effect of this adoption is nil.

Financial assets are assessed for impairment at each balance date.

Financial assets held at cost

If there is objective evidence that an impairment loss has been incurred on the funds held in the AASB business investment account with the National Australia Bank, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets. Since the account is a current account and the interest is a commercial rate calculated daily, the asset has not been discounted.

If there is objective evidence that an impairment loss has been incurred for receivables, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets.

Comparative year

For the comparative year receivables were recognised and carried at original invoice amount less a provision for doubtful debts based on an estimate made when collection of the full amount was no longer probable. There were no bad debts.

1.12 Payables

Payables are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced). Settlement is usually made net 30 days.

1.13 Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recognised in the Balance Sheet but are discussed in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an existing liability or asset in respect of which settlement is not probable or the amount cannot be reliably measured. Remote contingencies are part of this disclosure. Where settlement becomes probable, a liability or asset is recognised. A liability or asset is recognised when its existence is confirmed by a future event, settlement becomes probable (virtually certain for assets) or reliable measurement becomes possible.

1.14 Acquisition of assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor authority's accounts immediately prior to the restructuring.

1.15 Property, plant and equipment (PP&E)*Asset recognition threshold*

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

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Revaluations

Leasehold improvements, plant and equipment are carried at fair value, being revalued with sufficient frequency such that the carrying amount of each asset is not materially different, at reporting date, from its fair value. Valuations undertaken in each year are as at 30 June.

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

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

Following initial recognition at cost, valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not materially differ from the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through profit and loss. Revaluation decrements for a class of assets are recognised directly through profit and loss except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation

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

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

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

	2006	2005
Leasehold improvements	Lease term	Lease term
Plant and equipment	3 to 10 years	3 to 10 years

The aggregate amount of depreciation/amortisation allocated for each class of asset during the reporting period is disclosed in Note 5C.

1.16 Derecognition of non-current assets

Leasehold Improvements and Furniture and Equipment have been written down due to the termination of the lease on 30 June 2006. The relocation of the AASB resulted in fixed parts of the previous fitout and some minor fixed furniture being left in the vacated tenancy. The recoverable amounts for these items are nil. See Note 5E.

1.17 Impairment of non-financial assets

All assets were assessed for impairment at 30 June 2006. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its *fair value less costs to sell* and its *value in use*. *Value in use* is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the AASB were deprived of the asset, its *value in use* is taken to be its depreciated replacement cost.

1.18 Intangibles

The AASB's intangible assets comprise purchased software and licences for internal use. These assets are carried at cost.

Software and licences are amortised on a straight line basis over their anticipated useful life. The useful life of AASB's software and licences is 3-5 years (2004-05: 3-5 years).

1.19 Inventories

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

1.20 Taxation

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

Revenues, expenses and assets are recognised net of GST:

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

Financial reports

1.21 Insurance

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

1.22 Foreign currency

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

1.23 Comparative figures

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

Note 2: The impact of the transition to AEIFRS from previous AGAAP*Reconciliation of total equity as presented under previous AGAAP to that under AEIFRS*

	2005	Opening 1 July 2004
	\$	\$
Total equity under previous AGAAP	2,242,300	2,468,768
Adjustments to retained earnings:		
Adjustments to net deficit (1)	(86,765)	27,420
Total equity translated to AEIFRS	2,155,535	2,496,188

Reconciliation of net deficit as presented under previous AGAAP to AEIFRS

Prior year net deficit as previously reported	(226,468)
Employee entitlements — non- current annual leave	4,409
Employee entitlements — uperannuation	(91,174)
Prior year net deficit translated to AEIFRS	(313,233)

- (1) AASB 119 *Employee Benefits* prescribes the disclosures required for a Defined Benefit Superannuation Plan. For certain employees the AASB superannuation plan has guaranteed minimum accumulated balances equivalent to benefits under a defined benefit plan.

Actuarial gains have been recognised directly in equity as required by the FMO's. Other costs calculated under AASB 119 are recognised as employee expenses in the Income Statement.

The cash flow statement presented under previous AGAAP is equivalent to that prepared under AEIFRS.

Note 3: Events after the balance sheet date

Subsequent to balance date the AASB contracted for the construction of the fitout of the new offices. This will be funded through a lease incentive. The AASB's costs in relation to the fitout amount to \$555,374 (GST exclusive).

Note 4: Income

	2006	2005
	\$	\$
4A. Revenues from Commonwealth government		
ASIC funding	1,607,500	1,500,000
Appropriation funds from FRC	1,120,000	940,000
Total revenues from Commonwealth government	2,727,500	2,440,000
4B. Goods and services		
Publications	124,252	138,176
Total sales of goods	124,252	138,176
Provision of goods to:		
Related entities	2,770	4,000
External entities	121,482	134,176
Total sales of goods	124,252	138,176
4C. Interest		
Deposits	113,834	91,864
4D. Contributions		
Contributions from States and Territories	500,000	500,000
Other contributions:		
— CPA Australia	325,000	325,000
— The Institute of Chartered Accountants in Australia	325,000	325,000
— National Institute of Accountants	100,000	100,000
— Australian Stock Exchange	100,000	110,000
— Voluntary Corporate Contributions	-	32,500
— Companies Unclaimed Monies Account (for 2004-05 operating expenses and relocation)	-	946,585
Total contributions revenue	1,350,000	2,339,085
4E. Other revenue		
Seminar income	207	-
Recoupment of costs from AUASB	141,440	78,374
Total other revenue	141,647	78,374

Note 5: Operating expenses

	2006	2005
	\$	\$
5A. Employee expenses		
Wages and salaries	2,542,716	2,085,819
Superannuation *	29,137	260,861
Leave and other benefits	44,270	78,441
Total employee expenses	2,616,123	2,425,121
* Includes a decrease in the provision for superannuation of \$102,174 (decrease of \$82,786 in 2005). (Refer Note 1.5)		
5B. Suppliers expenses		
Goods from external entities	105,572	171,769
Services from related entities	108,006	117,721
Services from external entities	575,457	541,114
Operating lease rental	453,856	380,232
Comcare premium (Workers' compensation)	14,167	11,606
Total supplier expenses	1,257,058	1,222,442
5C. Depreciation and amortisation		
<i>Depreciation</i>		
Leasehold improvements	158,115	119,910
Plant and equipment	56,364	71,521
Total depreciation	214,479	191,431
<i>Amortisation</i>		
Intangibles — Computer Software (purchased)	6,887	5,663
Total depreciation and amortisation	221,366	197,094
5D. Other		
Contribution to International Accounting Standards Committee Foundation towards the development of international accounting standards	-	1,000,000
Contribution to the Auditing and Assurance Standards Board *	-	544,431
Total other	-	1,544,431
* During the AUASB establishment period AUASB funding from the FRC was via the AASB.		
5E. Loss from derecognition of assets		
Leasehold improvements	456,322	-
Furniture and equipment	739	-
Total loss from derecognition of assets	457,061	-
(Refer Note 1.16)		

Financial reports

Note 6: Financial assets

	2006	2005
	\$	\$
6A. Cash		
Cash at bank and on hand	2,321,846	2,068,227
	2,321,846	2,068,227
Balance of cash as at 30 June shown in the Cash Flow Statement	2,321,846	2,068,227
6B. Receivables		
Revenues from Commonwealth Government	287,500	51,244
Other	51,040	(948)
GST receivable	15,094	554
	353,634	50,850
All receivables are current (not overdue).		

Note 7: Non-financial assets

	2006	2005
	\$	\$
7A. Leasehold improvements		
Leasehold improvements at fair value	108,233	803,732
Accumulated amortisation	(36,077)	(119,910)
Total leasehold improvements (non-current)	72,156	683,822
7B. Plant and equipment		
Plant and equipment at fair value	334,411	376,586
Accumulated depreciation	(131,551)	(155,476)
Total plant and equipment (non-current)	202,860	221,110
7C. Intangibles (purchased software)		
Intangibles at fair value	30,419	19,999
Accumulated amortisation	(17,210)	(10,324)
Total intangibles (non-current)	13,209	9,675

7D. Analysis of leasehold improvements, plant and equipment and intangibles

Reconciliation of the opening and closing balances of leasehold improvements, plant and equipment and intangibles.

Note 7: Non-financial assets (continued)

	Leasehold improvements \$	Plant and equipment \$	Intangibles (purchased software) \$
As at 1 July 2005			
Gross book value	803,732	376,586	19,999
Accumulated depreciation/amortisation	(119,910)	(155,476)	(10,324)
Opening net book value	683,822	221,110	9,675
Additions by purchase	2,771	38,854	10,420
Depreciation/amortisation expense	(158,115)	(56,364)	(6,887)
Derecognition of assets	(456,322)	(739)	-
As at 30 June 2006			
Gross book value	108,232	334,411	30,419
Accumulated depreciation/amortisation	(36,077)	(131,551)	(17,210)
Closing net book value	72,156	202,860	13,209

At 30 June 2006 the AASB had no assets under construction or finance leases.

	2006 \$	2005 \$
7E. Inventories		
Inventories held for sale	2,995	4,537
Total inventories	2,995	4,537
All inventories are current assets.		

Note 8: Provisions

	2006 \$	2005 \$
8A. Employee provisions		
Salaries and wages	(798)	1,326
Annual leave	252,614	237,531
Long service leave	310,920	281,732
Superannuation [Notes 1.5, 8B]	102,000	*204,174
Aggregate employee entitlement liability	664,736	724,763
Employee provisions are categorised as follows:		
Current	562,736	499,114
Non-current	102,000	*225,649
	664,736	724,763

* In the transition to AEIFRS adjustments there are rounding differences in the 2005 comparative figures. The actuarial reports are provided in \$000's from 2006, which includes further rounding differences in the Provision for Superannuation. In future all superannuation provision calculations will be rounded to \$000's and the rounding differences will be absorbed.

Note 8: Provisions (continued)

8B. Superannuation provision		
Financial year ending	30 June 2006	30 June 2005
	\$	\$
Net superannuation liability (asset) at start of year	205,000	173,000
Add:		
Actuarial expense	193,000	235,000
Amount recognised in accumulated surplus	(172,000)	-
Less:		
Employer contributions	(124,000)	(203,000)
Net superannuation liability (asset) at end of year	102,000	205,000

Note 9: Payables

	2006	2005
	\$	\$
Trade creditors	115,181	121,318
Other payables (PAYG payable to ATO)	45,444	49,318
	160,625	170,636

All payables are current (settlement usually occurs within 30 days).

Note 10: Cash flow reconciliation

Reconciliation of net deficit to net cash from (used by) operating activities

	2006	2005
	\$	\$
Net (deficit)/surplus	(94,375)	(313,233)
Depreciation and amortisation	221,366	197,094
Superannuation net expense as per Actuarial Report	69,826	91,174
Writedown of assets	457,061	
Impairment of assets		11,643
Changes in assets and liabilities		
Decrease/(increase) in receivables	(302,785)	12,415
Decrease/(increase) in inventories	1,542	(1,899)
Decrease/(increase) in prepaid expenses	(81,071)	(33,910)
Increase/(decrease) in employee provisions (non super'n)	46,313	(5,074)
Increase/(decrease) in liability to suppliers (operating)	(11,202)	30,507
Decrease/(increase) in subscriptions in advance	1,963	(3,170)
Increase/(decrease) in other payables	(3,874)	4,335
Net cash from/(used by) operating activities	304,764	(10,118)

Note 11: Directors' remuneration

	2006	2005
The number of directors of the AASB included in these figures are shown below in the relevant remuneration bands.		
\$... Nil — \$14,999 [#]	21	22
\$75,000 — \$90,000	1	1
Total number of directors of the AASB	22	23
	\$	\$
Aggregate amount of superannuation payments in connection with the retirement of directors	9,835	7,412
Other remuneration received or due and receivable by directors of the AASB	109,276	84,402
Total remuneration received or due and receivable by directors of the AASB*	119,111	91,814

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

Twelve (12) (2005: 13) of the members in the Nil — \$14,999 range received no remuneration.

Financial reports

Note 12: Related party disclosures

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

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

- Charles Macek – Chairman
- Elizabeth Alexander, AM – Deputy Chairman
- Bruce Brook (appointed 6 March 2006)
- Don Challen
- John Gethin-Jones (appointed 11 June 2006)
- Richard Humphry, AO
- Warwick Hunt
- David Jackson
- Graeme McGregor, AO
- Eric Mayne (appointed 6 March 2006)
- Jim Murphy
 - Mike Rawstron (Alternate to Mr Murphy to 6 March 2006)
- Tom Pockett (retired 6 March 2006)
- Phillip Prior
- Brian Scullin (retired 10 June 2006)
- John Stanhope (appointed 6 March 2006)
- Catherine Walter AM
- Jan West
 - Stephen Harrison (Alternate to Ms West to 31 December 2005)
- Lee White (appointed 6 March 2006)
- Klaus Zimmermann
 - Roger Cotton (Alternate to Mr Zimmermann to 6 March 2006)

Note 13: Executive remuneration

	2006	2005
The number of senior executives who received or were due to receive total remuneration of \$130,000 or more:		
\$130,000 — \$144,999	1	1
\$250,000 — \$264,999		1
\$265,000 — \$279,999	1	1
\$280,000 — \$294,999	1	-
	3	3
The aggregate amount of total remuneration of executives shown above	\$699,831	\$673,895

The senior executives' remuneration includes executives concerned with or taking part in the management of the AASB during 2005-06 except the FRC Chairman. Details in relation to the remuneration of the FRC Chairman and FRC members have been incorporated into Note 11: Directors Remuneration.

Note 14: Remuneration of part-time members of the AASB

	2006	2005
	\$	\$
Sitting fees	98,470	79,069

Note 15: Remuneration of auditors

	2006	2005
	\$	\$
Remuneration to the Australian National Audit Office (ANAO) for auditing the financial statements for the reporting period	18,000	15,000

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

Note 16: Average staffing levels

	2006	2005
The average staffing levels for the AASB during the year were (equivalent full-time staff)	22	22

Note 17: Financial instruments**17A Interest rate risk**

	Notes	Floating interest rate		Non-interest bearing		Total		Weighted average effective interest rate	
		2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
		\$	\$	\$	\$	\$	\$	%	%
Financial assets (recognised)									
Cash on hand	6A	-	-	1,584	1,691	1,584	1,691	n/a	n/a
Cash at bank - cheque account	6A	280,264	527,375			280,264	527,375	3.65	3.8
Cash at bank - AASB Bus Invest A/c	6A	2,039,998	1,518,619			2,039,998	1,518,619	5.15	5.1
Cash at bank - FRC Bus Invest A/c	6A	-	20,542			-	20,542	0.01	4.28
Receivables	6B	-	-	353,634	50,850	353,634	50,850	n/a	n/a
Total financial assets (recognised)		2,320,262	2,066,536	355,218	52,541	2,675,480	2,119,077		
Total assets						3,102,370	3,092,820		
Financial liabilities (recognised)									
Supplier payables	9	-	-	115,181	121,318	115,181	121,318	n/a	n/a
Other payables	9	-	-	45,444	49,318	45,444	49,318	n/a	n/a
Total financial liabilities (recognised)		-	-	160,625	170,636	160,625	170,636		
Total liabilities			-			869,210	850,520		

17B

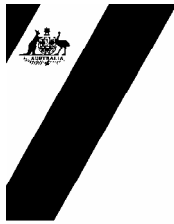
The fair value of financial assets and liabilities approximate their carrying amounts.

17C Credit risk exposures

The economic entity's maximum exposures to credit risk at reporting date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the Balance Sheet. The economic entity has no significant exposures to any concentrations of credit risk.

AUDITING AND ASSURANCE STANDARDS BOARD

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INDEPENDENT AUDIT REPORT

To the Treasurer

Scope

The financial statements and Directors' responsibility

The financial statements comprise:

- Statement by Directors and Chief Executive;
- Income Statement, Balance Sheet and Cash Flow Statement;
- Statement of Changes in Equity;
- Schedules of Commitments and Contingencies; and
- Notes to and forming part of the financial statements

of the Auditing and Assurance Standards Board for the year ended 30 June 2006.

The Directors of the Auditing and Assurance Standards Board are responsible for preparing financial statements that give a true and fair view of the financial position and performance of the Auditing and Assurance Standards Board and that comply with Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*, Accounting Standards and mandatory financial reporting requirements in Australia. The Directors of the Auditing and Assurance Standards Board are also responsible for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial statements.

Audit Approach

I have conducted an independent audit of the financial statements to express an opinion on them to you. My audit has been conducted in accordance with the Australian National Audit Office Auditing Standards, which incorporate the Australian Auditing and Assurance Standards, to provide reasonable assurance as to whether the financial statements are free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive, rather than conclusive, evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

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

PO Box A456 Sydney South NSW 1235
130 Elizabeth Street
SYDNEY NSW
Phone (02) 9367 7100 Fax (02) 9367 7102

Financial reports

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

The audit opinion is based on these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial statements; and
- assessing the appropriateness of the accounting policies and disclosures used, and the reasonableness of significant accounting estimates made by the Directors of the Auditing and Assurance Standards Board.

Independence

In conducting the audit, I have followed the independence requirements of the Australian National Audit Office, which incorporate the ethical requirements of the Australian accounting profession.

Audit Opinion

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

- (a) have been prepared in accordance with Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*; and
- (b) give a true and fair view of the Auditing and Assurance Standards Board's financial position as at 30 June 2006 and of its performance and cash flows for the year then ended, in accordance with:
 - (i) the matters required by the Finance Minister's Orders; and
 - (ii) applicable Accounting Standards and other mandatory financial reporting requirements in Australia.

Australian National Audit Office



P Hinchey
Senior Director
Delegate of the Auditor-General

Sydney
26 September 2006

AUDITING AND ASSURANCE STANDARDS BOARD STATEMENT BY DIRECTORS AND CHIEF EXECUTIVE

In our opinion, the attached financial statements for the year ended 30 June 2006 are based on properly maintained financial records and give a true and fair view of the matters required by the Finance Minister's Orders made under the *Commonwealth Authorities and Companies Act 1997*.

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

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



Charles Macek
Chairman – FRC
26 September 2006



Bruce Brook
Director
26 September 2006



Merran Kelsall
Chairman – AUASB
26 September 2006

**Auditing and Assurance Standards Board
Income statement**

For the year ended 30 June 2006

	Notes	2006 \$	2005 \$
Revenues			
Revenues from Commonwealth Government	4A	900,000	544,431
Contributions	4C	1,000,000	1,000,000
Interest	4B	32,187	4,854
Other revenues	4D	-	34,804
Total revenues		1,932,187	1,584,089
Expenses			
Employees	5A	1,098,850	618,699
Suppliers	5B	766,751	558,897
Depreciation and amortisation	5C	12,842	7,769
Total expenses		1,878,443	1,185,365
Net surplus		53,744	398,724

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

Auditing and Assurance Standards Board
Balance sheet
As at 30 June 2006

	Notes	2006 \$	2005 \$
ASSETS			
Financial assets			
Cash	6A	643,009	399,613
Receivables	6B	11,102	132,910
Total financial assets		654,111	532,523
Non-financial assets			
Plant and equipment	7A,C	36,802	34,720
Intangibles	7B,C	12,429	665
Prepaid expenses		16,529	3,144
Total non-financial assets		65,760	38,529
Total assets		719,871	571,052
LIABILITIES			
Provisions			
Employees	8A	153,224	96,685
Total provisions		153,224	96,685
Payables			
Suppliers	9	114,060	79,930
Other	9	27,094	31,688
Total payables		141,154	111,618
Total liabilities		294,378	208,303
NET ASSETS		425,493	362,749
EQUITY			
Accumulated surplus		425,493	362,749
Total equity		425,493	362,749
Current liabilities		294,378	208,303
Non-current liabilities		0	0
Current assets		670,640	535,667
Non-current assets		49,231	35,385

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

Auditing and Assurance Standards Board Statement of changes in equity

For the year ended 30 June 2006

	Accumulated results		Total equity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Opening balance				
Balance carried forward from previous period	362,749	-	362,749	-
Adjustment for changes in accounting policies	-	-	-	-
Adjusted Opening Balance	362,749	-	362,749	-
Income and expenses				
Surplus	53,744	398,724	53,744	398,724
Income and expenses directly recognised in equity				
Actuarial Gain/(Loss) for year	9,000	(35,975)	9,000	(35,975)
Total income and expenses recognised directly in equity	62,744	362,749	62,744	362,749
Sub-total Income and Expenses				
of which:				
attributable to Australian Government	62,744	362,749	62,744	362,749
Transactions with Owners	-	-	-	-
Transfers between equity components	-	-	-	-
Closing balance	425,493	362,749	425,493	362,749
Closing balance attributable to the Australian Government	425,493	362,749	425,493	362,749

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

Auditing and Assurance Standards Board

Cash flow statement

For the year ended 30 June 2006

	Notes	2006 \$	2005 \$
OPERATING ACTIVITIES			
Cash received			
Revenues from Commonwealth government		900,000	544,431
Interest		32,187	4,854
GST recovered from taxation authority		75,469	13,221
Contributions		1,232,910	738,589
Total cash received		2,240,566	1,301,095
Cash used			
Employees		1,095,577	432,040
Suppliers		754,399	422,018
GST paid to taxation authority		121,629	28,750
Total cash used		1,971,605	882,808
Net cash from operating activities	10	268,961	418,287
INVESTING ACTIVITIES			
Cash used			
Purchase of plant and equipment and intangibles		25,565	18,674
Total cash used		25,565	18,674
Net cash used by investing activities		25,565	18,674
Net increase in cash held			
Cash at the beginning of the reporting period	6A	399,613	0
Cash at the end of the reporting period	6A	643,009	399,613

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

Auditing and Assurance Standards Board Schedule of commitments

As at 30 June 2006

	Notes	2006 \$	2005 \$
BY TYPE			
Other commitments			
Operating leases(1)		2,890,053	26,374
Other [GST on sub-lease income]		30,378	-
Total other commitments		2,920,431	26,374
Commitments receivable(2)		(596,890)	(2,398)
Net commitments		2,323,541	23,976
BY MATURITY			
Operating lease commitments			
One year or less		228,984	8,792
From one to five years		1,061,134	17,582
Over 5 years		1,599,935	-
Total operating lease commitments		2,890,053	26,374
Other commitments			
One year or less		2,319	-
From one to five years		11,139	-
Over 5 years		16,920	-
Total Other commitments		30,378	-
Commitments receivable		(596,890)	(2,398)
Net commitments		2,323,541	23,976

All commitments are GST inclusive where relevant.

(1) Operating leases are effectively non-cancellable and comprise:

Nature of lease	General description of leasing arrangement
Lease for office accommodation	Lease payments are subject to increase of 4 per cent per annum as per Lease agreement.
Lease of photocopiers	The lessor provides photocopiers for 36 months at a fixed instalment rate.

(2) Part of the leased area is sub-let and this represents the revenue from the sub-lease.

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

Auditing and Assurance Standards Board
Schedule of contingencies

As at 30 June 2006

There are no known contingencies as at 30 June 2006.

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

NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS

Note 1: Summary of significant accounting policies

1.1 Basis of preparation of the financial statements

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

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

The statements have been prepared in accordance with:

- Finance Minister's Orders (or FMO's, being the *Commonwealth Authorities and Companies Orders (Financial Statements for reporting periods ending on or after 1 July 2005)*);
- Australian Accounting Standards issued by the Australian Accounting Standards Board that apply for the reporting period; and
- Interpretations issued by the AASB and UIG that apply for the reporting period.

This is the first financial report to be prepared under Australian Equivalents to International Financial Reporting Standards (AEIFRS). The impacts of adopting AEIFRS are disclosed in Note 2.

The Income Statement, Balance Sheet and Statement of Changes in Equity have been prepared on an accrual basis and are in accordance with the historical cost convention, except for certain assets which, as noted, are at fair value. Except where stated, no allowance is made for the effect of changing prices on the results or the financial position.

The financial report is presented in Australian dollars.

Unless alternative treatment is specifically required by an accounting standard, assets and liabilities are recognised in the Balance Sheet when and only when it is probable that future economic benefits will flow and the amounts of the assets or liabilities can be reliably measured. However, assets and liabilities arising under agreements equally proportionately unperformed are not recognised unless required by an Accounting Standard. Liabilities and assets that are unrecognised are reported in the Schedule of Commitments and the Schedule of Contingencies.

Unless alternative treatment is specifically required by an accounting standard, revenues and expenses are recognised in the Income Statement when and only when

the flow or consumption or loss of economic benefits has occurred and can be reliably measured.

1.2 Significant accounting judgements and estimates

No accounting assumptions or estimates have been identified that have a significant risk of causing a material adjustment to carrying amounts of assets and liabilities within the next accounting period.

1.3 Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian Equivalents to International Financial Reporting Standards (AEIFRS).

The AUASB has applied Australian Accounting Standards in preparing its financial report for the year ended 30 June 2006. Some of the requirements of these Standards, as they apply to not-for-profit entities such as the AUASB, are different from IFRS. The nature and timing of the transactions in the year ended 30 June 2006 has been such that these differences have not had an impact on the AUASB's financial report. Accordingly, the application of Australian Accounting Standards in the year ended 30 June 2006 has given the same outcomes as would have been achieved had the AUASB applied IFRS. Whether the AUASB also complies with IFRS in future years depends on the nature and timing of the transactions in those years.

Australian Accounting Standards require the AUASB to disclose Australian Accounting Standards that have not been applied, for standards that have been issued but are not yet effective.

The AASB website identifies standards and amendments that will become effective in the future. The AUASB intends to adopt all of the standards upon their application date where they apply to the AUASB.

The impact of the adoption of these standards on the financial report is not expected to be financially significant based on the AUASB's initial assessment at this date, but this assessment may change.

Users should consult the full version available on the AASB website to identify the full impact of the change.

1.4 Revenue

Revenues from government and contributions are recognised at nominal amounts when invoiced in accordance with agreed schedules of payment (annually or quarterly).

Interest revenue is recognised using the effective interest method as set out in AASB 139 *Financial Instruments: Recognition and Measurement*.

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

1.5 Employee benefits

As required by the Finance Minister's Orders, the AUASB has early adopted AASB 119 *Employee Benefits* as issued in December 2004, in order to recognise the actuarial gain direct to equity.

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

Liabilities for 'short term employee benefits' (as defined in AASB 119) and termination benefits due within twelve months are measured at their nominal amounts.

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

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

Leave

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

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

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at 30 June 2006. The estimate of the present value of the liability takes into account attrition rates and pay increases through promotion and inflation.

Superannuation

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

For certain employees, the AUASB has guaranteed minimum accumulated balances equivalent to benefits under a defined benefit plan. The Present Value of the Defined Benefit Obligation of these members as at 30 June 2006 amounted to \$295,000 (2005: \$228,000) compared to the fair value of attributable assets of \$250,000 (2005: \$190,000),

giving a deficiency of \$45,000 (2005: deficiency \$38,000). A provision for this guaranteed deficiency has been recognised at 30 June 2006 (refer Notes 5A and 8A).

Refer to Note 8B for a reconciliation of the superannuation liability as at 30 June 2006.

1.6 Leases

A distinction is made between finance leases and operating leases. Finance leases effectively transfer from the lessor to the lessee substantially all the risks and rewards incidental to ownership of leased non-current assets. An operating lease is a lease that is not a finance lease. In operating leases, the lessor effectively retains substantially all such risks and benefits.

The AUASB has no finance leases.

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

1.7 Cash

Cash means notes and coins held and any deposits held at call with a bank or financial institution. Cash is recognised at its nominal amount.

Temporarily surplus funds are placed on deposit at call with the AUASB's Business Investment Account. Interest is credited to revenue as it accrues.

1.8 Receivables

Receivables are recognised at nominal amounts due less any provision for bad and doubtful debts. Credit terms are 14 days (2004-05: 14 days).

1.9 Financial risk management

The AUASB's activities expose it to normal commercial financial risk. As a result of the nature of the AUASB's business, internal and Australian Government policies dealing with the management of financial risk, the AUASB's exposure to market, credit, liquidity and cash flow and fair value interest rate risk is considered to be low.

1.10 Derecognition of financial assets and liabilities

As prescribed in the Finance Minister's Orders, the AUASB has applied the option available under AASB 1 of adopting AASB 132 and 139 from 1 July 2005 rather than 1 July 2004. The financial effect of this adoption is nil.

Financial assets are derecognised when the contractual rights to the cash flow from the financial assets expire or the asset is transferred to another entity. In the case of a

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transfer to another entity, it is necessary that the risks and rewards of ownership are also transferred.

Financial liabilities are derecognised when the obligation under the contract is discharged or cancelled or expires.

1.11 Impairment of financial assets

As prescribed in the Finance Minister's Orders, the AUASB has applied the option available under AASB 1 of adopting AASB 132 and 139 from 1 July 2005 rather than 1 July 2004. The financial effect of this adoption is nil.

Financial assets are assessed for impairment at each balance date.

Financial assets held at cost

If there is objective evidence that an impairment loss has been incurred on the funds held in the AUASB business investment account with the National Australia Bank, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets. Since the account is a current account and the interest is a commercial rate calculated daily, the asset has not been discounted.

If there is objective evidence that an impairment loss has been incurred for receivables, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate for similar assets.

Comparative year

For the comparative year receivables were recognised and carried at original invoice amount less a provision for doubtful debts based on an estimate made when collection of the full amount was no longer probable. There were no bad debts.

1.12 Payables

Payables are recognised at their nominal amounts, being the amounts at which the liabilities will be settled. Liabilities are recognised to the extent that the goods or services have been received (and irrespective of having been invoiced). Settlement is usually made net 30 days.

1.13 Contingent liabilities and contingent assets

Contingent liabilities and contingent assets are not recognised in the Balance Sheet but are discussed in the relevant schedules and notes. They may arise from uncertainty as to the existence of a liability or asset, or represent an existing liability or asset in respect of which settlement is not probable or the amount cannot be reliably measured. Remote contingencies are part of this disclosure. Where settlement becomes probable,

a liability or asset is recognised. A liability or asset is recognised when its existence is confirmed by a future event, settlement becomes probable (virtually certain for assets) or reliable measurement becomes possible.

1.14 Acquisition of assets

Assets are recorded at cost on acquisition except as stated below. The cost of acquisition includes the fair value of assets transferred in exchange and liabilities undertaken. Financial assets are initially measured at their fair value plus transaction costs where appropriate.

Assets acquired at no cost, or for nominal consideration, are initially recognised as assets and revenues at their fair value at the date of acquisition, unless acquired as a consequence of restructuring of administrative arrangements. In the latter case, assets are initially recognised as contributions by owners at the amounts at which they were recognised in the transferor authority's accounts immediately prior to the restructuring.

1.15 Plant and equipment (P&E)

Asset recognition threshold

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

Revaluations

Plant and equipment are carried at fair value, being revalued with sufficient frequency such that the carrying amount of each asset is not materially different, at reporting date, from its fair value. Valuations undertaken in each year are as at 30 June.

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

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

Following initial recognition at cost, valuations are conducted with sufficient frequency to ensure that the carrying amounts of assets do not materially differ from the assets' fair values as at the reporting date. The regularity of independent valuations depends upon the volatility of movements in market values for the relevant assets.

Revaluation adjustments are made on a class basis. Any revaluation increment is credited to equity under the heading of asset revaluation reserve except to the extent that it reverses a previous revaluation decrement of the same asset class that was previously recognised through profit and loss. Revaluation decrements for a class of

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assets are recognised directly through profit and loss except to the extent that they reverse a previous revaluation increment for that class.

Any accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the asset restated to the revalued amount.

Depreciation

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

Depreciation rates (useful lives), residual values and methods are reviewed at each reporting date and necessary adjustments are recognised in the current, or current and future reporting periods, as appropriate.

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

	2006	2005
Plant and equipment	3 to 10 years	3 to 10 years

The aggregate amount of depreciation/amortisation allocated for each class of asset during the reporting period is disclosed in Note 5C.

1.16 Impairment of non-financial assets

All assets were assessed for impairment at 30 June 2006. Where indications of impairment exist, the asset's recoverable amount is estimated and an impairment adjustment made if the asset's recoverable amount is less than its carrying amount.

The recoverable amount of an asset is the higher of its *fair value less costs to sell* and its *value in use*. *Value in use* is the present value of the future cash flows expected to be derived from the asset. Where the future economic benefit of an asset is not primarily dependent on the asset's ability to generate future cash flows, and the asset would be replaced if the AUASB were deprived of the asset, its *value in use* is taken to be its depreciated replacement cost.

1.17 Intangibles

The AUASB's intangible assets comprise purchased software and licences for internal use. These assets are carried at cost.

Software and licences are amortised on a straight line basis over their anticipated useful life. The useful life of AUASB's software and licences is 3-5 years (2004-05: 3-5 years).

1.18 Taxation

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

Revenues, expenses and assets are recognised net of GST:

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

1.19 Insurance

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

1.20 Foreign currency

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

1.21 Comparative figures

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

Note 2: The impact of the transition to AEIFRS from previous AGAAP

Reconciliation of total equity as presented under previous AGAAP to that under AEIFRS

	2005
	\$
Total equity under previous AGAAP	380,147
Adjustments to retained earnings:	
Adjustments to net surplus (1)	(17,398)
Total equity translated to AEIFRS	362,749

Note that the AUASB commenced operations on 1 July 2004 and hence there are no financial statements for the year ended 30 June 2004.

Reconciliation of net surplus as presented under previous AGAAP to AEIFRS

Prior year net surplus as previously reported	380,147
Employee entitlements – non-current annual leave	535
Employee entitlements - superannuation	18,042
Prior year net surplus translated to AEIFRS	398,724

- (1) AASB 119 *Employee Benefits* prescribes the disclosures required for a Defined Benefit Superannuation Plan. For certain employees the AUASB participation in the AASB superannuation plan provides guaranteed minimum accumulated balances equivalent to benefits under a defined benefit plan.

Actuarial losses of \$35,975 have been recognised directly in equity as required by the FMO's. Other costs calculated under AASB 119 are recognised as employee expenses in the Income Statement.

The cash flow statement presented under previous AGAAP is equivalent to that prepared under AEIFRS.

Note 3: Events after the balance sheet date

Subsequent to balance date the AUASB contracted for the construction of the fitout of the new offices. This will be funded through a lease incentive. The AUASB's costs in relation to the fitout amount to \$336,077 (GST exclusive).

Note 4: Income

	2006	2005
	\$	\$
4A. Revenues from Commonwealth government		
Appropriation funds from FRC *	900,000	544,431
Total revenues from Commonwealth government	900,000	544,431
* During the AUASB establishment period AUASB funding from the FRC was via the AASB.		
4B. Interest		
Deposits	32,187	4,854
4C. Contributions		
Contributions:		
— CPA Australia	412,500	425,000
— The Institute of Chartered Accountants in Australia	412,500	425,000
— National Institute of Accountants	175,000	150,000
Total contributions revenue	1,000,000	1,000,000
4D. Other Revenue		
Settlement for Employee Entitlements transferred from Australian		
Accounting Research Foundation to AUASB	-	34,804
Total other revenue	-	34,804

Note 5: Operating expenses

	2006	2005
	\$	\$
5A. Employee expenses		
Wages and salaries	947,513	538,542
Superannuation *	107,451	45,050
Leave and other benefits	43,886	35,107
Total employee expenses	1,098,850	618,699
* Includes an increase in the provision for superannuation of \$7,667 (\$37,333 in 2005). [Note 1.5]		
5B. Suppliers expenses		
Goods from external entities	67,092	145,866
Services from external entities	357,384	216,183
Goods from related entities	578	-
Services from related entities	335,065	195,152
Comcare premium (workers' compensation)	6,632	1,696
Total Supplier Expenses	766,751	558,897
5C. Depreciation and amortisation		
<i>Depreciation</i>		
Plant and equipment	11,498	7,741
<i>Amortisation</i>		
Intangibles – Computer Software (purchased)	1,344	28
Total depreciation and amortisation	12,842	7,769

Note 6: Financial assets

	2006	2005
	\$	\$
6A. Cash		
Cash at bank and on hand	643,009	399,613
	643,009	399,613
Balance of cash as at 30 June shown in the Cash Flow Statement	643,009	399,613
6B. Receivables		
Contributions	-	132,910
GST receivable	11,102	-
	11,102	132,910
All receivables are current (not overdue).		

Note 7: Non-financial assets

	2006	2005
	\$	\$
7A. Plant and equipment		
Plant and equipment at fair value	54,375	42,461
Accumulated depreciation	(17,573)	(7,741)
Total plant and equipment (non-current)	36,802	34,720
7B. Intangibles (purchased software)		
Intangibles at fair value	13,801	693
Accumulated amortisation	(1,372)	(28)
Total intangibles (non-current)	12,429	665

7C. Analysis of plant and equipment and intangibles

Reconciliation of the opening and closing balances of plant and equipment and intangibles

	Plant and equipment	Intangibles (purchased software)
	\$	\$
As at 1 July 2005		
Gross book value	42,461	693
Accumulated depreciation/amortisation	(7,741)	(28)
Opening net book value	34,720	665
Additions by purchase	13,580	13,108
Depreciation/amortisation expense	(11,498)	(1,344)
As at 30 June 2006		
Gross book value	54,375	13,801
Accumulated depreciation/amortisation	(17,573)	(1,372)
Closing net book value	36,802	12,429

At 30 June 2006 the AUASB had no assets under construction or finance leases.

Note 8: Provisions

	2006	2005
	\$	\$
8A. Employee Provisions		
Salaries and wages	7,897	2,911
Annual Leave	71,889	32,115
Long Service Leave	28,438	24,326
Superannuation* [Notes 1.5, 8B]	45,000	37,333
Aggregate employee entitlement liability	153,224	96,685
Employee provisions are categorised as follows:		
Current	153,224	96,685
Non-current	-	-
	153,224	96,685

* In the transition to AEIFRS adjustments there are rounding differences in the 2005 comparative figures. The actuarial reports are provided in \$000's from 2006, which includes further rounding differences in the Provision for Superannuation. In future all superannuation provision calculations will be rounded to \$000's and the rounding differences will be absorbed.

8B. Superannuation provision		
Financial year ending	30 June 2006	30 June 2005
	\$	\$
Net superannuation liability (asset) at start of year	38,000	-
Add:		
Actuarial expense	40,000	26,000
Amount recognised in accumulated surplus	(9,000)	35,000
Less:		
Employer contributions	(24,000)	(23,000)
Net superannuation liability (asset) at end of year	45,000	38,000

Note 9: Payables

	2006	2005
	\$	\$
Trade creditors	114,060	79,930
Other payables (PAYG payable to ATO)	27,094	31,688
	141,154	111,618

All payables are current (settlement usually occurs within 30 days).

Note 10: Cash flow reconciliation**Reconciliation of net surplus to net cash from operating activities**

	2006	2005
	\$	\$
Net surplus	53,744	398,724
Depreciation and amortisation	12,842	7,769
Contributions in kind	-	(19,431)
Superannuation expense/(surplus) as per actuarial report	16,667	1,358
Changes in assets and liabilities		
Decrease/(increase) in receivables	121,808	(132,910)
Decrease/(increase) in prepaid expenses	(13,385)	(3,144)
Increase/(decrease) in employee provisions (non super'n)	48,338	59,352
Increase/(decrease) in liability to suppliers (operating)	33,541	74,881
Increase/(decrease) in other payables	(4,594)	31,688
Net cash from operating activities	268,961	418,287

Note 11: Directors' remuneration

	2006	2005
The number of directors of the AUASB included in these figures are shown below in the relevant remuneration bands.		
\$... Nil — \$14,999 [#]	21	22
\$75,000 — \$90,000	1	1
Total number of directors of the AUASB	22	23
	\$	\$
Aggregate amount of superannuation payments in connection with the retirement of directors	9,835	7,412
Other remuneration received or due and receivable by directors of the AASB	109,276	84,402
Total remuneration received or due and receivable by directors of the AUASB*	119,111	91,814

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

Twelve (12) (2005: 13) of the members in the Nil — \$14,999 range received no remuneration.

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Note 12: Related party disclosures

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

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

- Charles Macek – Chairman
- Elizabeth Alexander, AM – Deputy Chairman
- Bruce Brook (appointed 6 March 2006)
- Don Challen
- John Gethin-Jones (appointed 11 June 2006)
- Richard Humphry, AO
- Warwick Hunt
- David Jackson
- Graeme McGregor, AO
- Eric Mayne (appointed 6 March 2006)
- Jim Murphy
 - Mike Rawstron (Alternate to Mr Murphy to 6 March 2006)
- Tom Pockett (retired 6 March 2006)
- Phillip Prior
- Brian Scullin (retired 10 June 2006)
- John Stanhope (appointed 6 March 2006)
- Catherine Walter AM
- Jan West (appointed 7 March 2005)
 - Stephen Harrison (Alternate to Ms West to 31 December 2005)
- Lee White (appointed 6 March 2006)
- Klaus Zimmermann
 - Roger Cotton (Alternate to Mr Zimmermann to 6 March 2006)

Note 13: Executive remuneration

	2006	2005
Remuneration of senior executives:		
\$15,000 — \$29,999	-	1
\$70,000 — \$84,999	1	-
\$130,000 — \$145,999	-	1
\$220,000 — \$234,999	1	-
The aggregate amount of total remuneration of executives shown above	304,297	142,248

The senior executives' remuneration includes executives concerned with or taking part in the management of the AUASB during 2005-06 except the FRC Chairman. Details in relation to the remuneration of the FRC Chairman and FRC members have been incorporated into Note 11: Directors Remuneration.

Note 14: Remuneration of part-time members of the AUASB

	2006	2005
	\$	\$
Sitting fees	87,811	32,776

Note 15: Remuneration of auditors

	2006	2005
	\$	\$
Remuneration to the Australian National Audit Office (ANAO) for auditing the financial statements for the reporting period	17,000	15,000

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

Note 16: Average Staffing Levels

	2006	2005
The average staffing levels for the AUASB during the year were (equivalent full time staff)	8	7

Note 17: Financial instruments**17A Interest Rate Risk**

	Notes	Floating interest rate		Non-interest bearing		Total		Weighted average effective interest rate	
		2005-06	2004-05	2005-06	2004-05	2005-06	2004-05	2005-06	2004-05
		\$	\$	\$	\$	\$	\$	%	%
Financial assets (recognised)									
Cash on hand	6A	-	-	300	300	300	300	n/a	n/a
Cash at bank - Cheque Account	6A	111,405	292,387			111,405	292,387	3.31	3.45
Cash at bank - AASB Bus Invest A/c	6A	531,304	106,926			531,304	106,926	5.15	4.68
Receivables	6B	-	-	11,102	132,910	11,102	132,910	n/a	n/a
Total financial assets (recognised)		642,709	399,313	11,402	133,210	654,111	532,523		
Total assets						719,871	571,052		
Financial liabilities (recognised)									
Supplier payables	9	-	-	114,060	79,930	114,060	79,930	n/a	n/a
Other payables	9	-	-	27,094	31,688	27,094	31,688	n/a	n/a
Total financial liabilities (recognised)		-	-	141,154	111,618	141,154	111,618		
Total liabilities						294,378	208,303		

17B

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

17C Credit risk exposures

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

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

APPENDICES

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APPENDIX A

MEMBERS OF THE FINANCIAL REPORTING COUNCIL 1 JULY 2005 TO 30 JUNE 2006

The Chairman, all members and alternates are non-executive directors of the Financial Reporting Council (FRC).

Chairman

Charles Macek Company Director, Melbourne
Nominated by the Securities Institute of Australia
Reappointed Chairman from 11 June 2006 to 10 December 2007

Deputy Chairman

Elizabeth Alexander AM Company Director, Melbourne
Nominated by the Australian Institute of Company Directors
Reappointed from 7 March 2005 to 6 September 2006

Members

Bruce Brook Company Director, Melbourne, Victoria.
Nominated by Business Council of Australia
Appointed from 7 March 2006 to 6 March 2009

Don Challen Secretary, Tasmanian Department of Treasury and Finance, Hobart
Nominated by Heads of State and Territory Treasuries
Reappointed from 7 March 2005 to 6 September 2006

John Gethin-Jones General Manager, Queensland Investment Corporation
Nominated by the Investment and Financial Services Association
Appointed from 11 June 2006 to 10 June 2009

Richard Humphry AO Trustee, International Accounting Standards Committee Foundation
Nominated by the Australian Government
Appointed from 7 March 2005 to 6 March 2008

Warwick Hunt Chair, Accounting Standards Review Board of New Zealand
Nominated by the New Zealand Minister of Finance
Appointed from 9 February 2005 to 8 February 2008

Appendix A: Members of the Financial Reporting Council

Members of the Financial Reporting Council (*continued*)

Members

David Jackson	Director, Australian Shareholders' Association, Sydney Nominated by the Australian Shareholders' Association Reappointed from 7 March 2005 to 6 September 2006
Graeme McGregor AO	Company Director, Melbourne Nominated by CPA Australia Reappointed from 7 March 2005 to 6 September 2006
Eric Mayne	Group Executive, Market Supervision, Australian Stock Exchange, Melbourne Nominated by the Australian Stock Exchange Appointed from 6 March 2006 to 26 February 2009
Jim Murphy	Executive Director, Markets Group, Department of the Treasury, Canberra Nominated by the Australian Government Reappointed from 7 March 2006 to 6 March 2009
Tom Pockett	Chief Financial Officer, Woolworths Limited, Sydney Nominated by the Business Council of Australia Appointed from 7 March 2003 to 6 March 2006
Phillip Prior	First Assistant Secretary, Financial Management Group Department of Finance and Administration Nominated by the Australian Government Reappointed from 13 September 2004 to 12 September 2006
Brian Scullin	Company Director and Adviser to Head of Deutsche Asset Management, Asia Pacific, Sydney Nominated by the Investment and Financial Services Association Appointed from 11 June 2003 to 10 June 2006
John Stanhope	Chief Financial Officer and Group Managing Director, Finance and Administration, Telstra Corporation Limited, Melbourne Nominated by the Group of 100 Inc Appointed from 6 March 2006 to 26 February 2009
Catherine Walter AM	Company Director and Solicitor, Melbourne, and Chair of the Business Regulation Advisory Group Nominated by the Australian Government Reappointed from 7 March 2006 to 6 March 2009
Jan West	Partner, Deloitte Touche Tohmatsu Nominated by The Institute of Chartered Accountants in Australia Appointed from 7 March 2005 to 6 March 2008
Lee White	Chief Accountant, Australian Securities and Investments Commission (ASIC), Melbourne Nominated by ASIC Appointed from 6 March 2006 to 26 February 2009
Klaus Zimmermann	Chief Executive Officer, Eldercare Incorporated and Director, National Institute of Accountants, Adelaide Nominated by the National Institute of Accountants Reappointed from 7 March 2006 to 6 March 2009

Appendix A: Members of the Financial Reporting Council

Alternate Members[#]

Roger Cotton	Chief Executive Officer, National Institute of Accountants, Melbourne Nominated by National Institute of Accountants Alternate to Mr Zimmermann Appointed from 7 March 2003 to 6 March 2006
Stephen Harrison AO	Chief Executive Officer, Institute of Chartered Accountants in Australia, Sydney Nominated by the Institute of Chartered Accountants in Australia Appointed as alternate to Mr Ting from 7 March 2003 to 6 March 2006. Resigned 31 December 2005.
Mike Rawstron	General Manager, Corporations and Financial Services Division, Department of the Treasury, Canberra Nominated by the Australian Government Alternate to Mr Murphy Appointed from 7 March 2003 to 6 March 2006

[#] Alternate members are no longer appointed as the FRC has provision for proxy members at meetings.

APPENDIX B

MEMBERS OF THE AUSTRALIAN ACCOUNTING STANDARDS BOARD AND THE URGENT ISSUES GROUP 1 JULY 2005 TO 30 JUNE 2006

Members of the Australian Accounting Standards Board (AASB) in 2005-06 are shown below:

Chairman (full-time appointment by the Treasurer)

David Boymal Chairman AASB
Appointed 5 November 2003 for 5 years

Members (part-time appointments by the FRC)

Glenn Appleyard	Economic Consultant, Hobart Reappointed 1 January 2006 for 3 years
Garth Campbell-Cowan	General Manager, Corporate Accounting, Telstra Corporation Limited, Melbourne. Appointed 2 July 2003 for 3 years
Bryce Denison	Consultant, Perth. Retired 31 December 2005
Brett Kaufmann	Assistant Secretary, Accounting and Policy Branch, Department of Finance and Administration, Canberra. Reappointed 15 February 2006 for 1 year
Ken Leo (appointed Deputy Chairman, 4 May 2005)	Professor of Accounting, Curtin University of Technology, Perth Reappointed 15 February 2005 for 2 years
Jan McCahey	Partner, PricewaterhouseCoopers, Melbourne Appointed 1 January 2006 for 3 years
Steve McClintock	Chief Financial Officer, Southcorp Limited, Sydney. Retired 14 February 2006

Appendix B: Members of the Australian Accounting Standards Board and the UIG

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

John O'Grady	Partner, Ernst & Young, Melbourne Appointed 1 January 2006 for 3 years
Frank Palmer	Director, Corporate Reporting Group, Macquarie Bank, Sydney Appointed 7 June 2005 for 3 years
Colin Parker	Principal, GAAP Consulting Services, Melbourne Appointed 15 February 2006 for 3 years
Kris Peach	Partner, KPMG, Melbourne Appointed 15 February 2005 for 2 years
Des Pearson	Auditor General of Western Australia, Perth Appointed 7 June 2005 for 3 years
Joanna Perry	Chairman, FRSB (New Zealand) Reappointed 1 January 2006 for 1 year
Bruce Porter	Partner, Deloitte Touche Tohmatsu, Melbourne Appointed 1 January 2005 for 3 years
Alice Williams	Director, Strategic Analytics (Aust) Pty Ltd, Melbourne Retired 31 December 2005

Observers

Wayne Cameron	Australian representative on the IPSASB
Warren McGregor	IASB member
Judith Downes	SAC member

MEMBERS OF THE URGENT ISSUES GROUP 1 JULY 2005 TO 30 JUNE 2006

Chairman

David Boymal	Chairman AASB
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Members

Fiona Balzer	Australian Shareholders' Association
James Beecher	Australian Institute of Company Directors
Mike Blake*	Australasian Council of Auditors-General
Paul Brunner	PricewaterhouseCoopers
Phil Hancock	Not-for-Profit Sector and Accounting and Finance Association of Australia and New Zealand
Elwyn Ingley	Local Government Sector
Alison Kitchen	KPMG

Appendix B: Members of the Australian Accounting Standards Board and the UIG

Members (*continued*)

Jeffrey Knott	Medium and small accounting firms
Frank Maguiness	Australasian Council of Auditors-General
Gerard Meade	Deloitte Touche Tohmatsu
John O'Grady [#]	Ernst & Young
Christopher Pidcock	Securities Institute of Australia
Mark Seddon	Ernst & Young
Keith Reilly	Professional Accounting Bodies
Geoff Steel	Group of 100
Robert Williams	Heads of Treasuries Accounting and Reporting Advisory Committee

Observer

Douglas Niven	Deputy Chief Accountant, ASIC
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[#] Mr O'Grady retired from the UIG on 31 December 2005 on being appointed to the AASB and was succeeded by Mr Seddon.

^{*} Mr Blake retired from the UIG on 31 December 2005 on being appointed to the AUASB and was succeeded by Mr Maguiness.

APPENDIX C

MEMBERS OF THE AUDITING AND ASSURANCE STANDARDS BOARD 1 JULY 2005 TO 30 JUNE 2006

Members of the Auditing and Assurance Standards Board (AUASB) in 2005-06 are shown below:

Chairman (part-time appointment by Treasurer)

Merran Kelsall Chairman AUASB
Appointed 10 August 2004 for 3 years

Members (part-time appointments by the FRC)

Dianne Azoor Hughes	National Technical Director Pitcher Partners, Melbourne Appointed 1 January 2005 until 31 December 2006
Mike Blake	Auditor-General of Tasmania, Hobart Appointed from 1 January 2006 until 31 December 2008
Chris Hall	Partner KPMG, Sydney Appointed from 1 January 2006 until 31 December 2008
Elizabeth Johnstone	Partner Blake Dawson Waldron, Sydney Appointed from 1 January 2006 until 31 December 2008
Christine Jubb	Professor of Accounting Deakin Business School, Deakin University, Malvern, Victoria Appointed 1 January 2005 until 31 December 2007
Ian McPhee (IAASB Member)	Auditor-General Australian National Audit Office, Canberra Appointed 12 August 2004 until 31 December 2005. Re-appointed from 1 January 2006 until 31 December 2008
Clive Mottershead	Partner Deloitte, Melbourne Appointed 12 August 2004 until 30 June 2005 Re-appointed on 1 July 2005 until 30 June 2007

Appendix C: Members of the Auditing and Assurance Standards Board

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

Kevin Neville	Managing Partner Moore Stephens, Melbourne Appointed 12 August 2004 until 31 December 2004 Re-appointed 1 January 2005 until 31 December 2007
Greg Pound	Consultant, Melbourne Appointed from 1 January 2006 until 31 December 2008
David Simmonds	Partner Ernst & Young, Sydney Appointed from 1 January 2006 until 31 December 2008
Kim Smith	Partner PricewaterhouseCoopers, Sydney Appointed 1 January 2005 until 31 December 2007
Jon Tyers	Head of Corporate Audit Services ING Group Australia, Sydney Deputy Chairman, AUASB from 1 January 2006 Appointed 1 January 2005 until 31 December 2007
William Edge	Partner PricewaterhouseCoopers, Melbourne Appointed 30 August 2004 until 31 December 2005
Keith Houghton	Dean and Professor of Business Administration, Faculty of Economics and Commerce The Australian National University, Canberra Appointed 12 August 2004 until 31 December 2005
Robert Sendt	Auditor-General New South Wales Audit Office, Sydney Deputy Chairman, AUASB to 31 December 2005 Appointed 12 August 2004 until 30 June 2005 Re-appointed 1 July 2005, until 31 December 2005

Observer

Roger Simnett	Professor, School of Accounting The University of New South Wales, Sydney Until 31 December 2005
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APPENDIX D

ATTENDANCE AT MEETINGS

Financial Reporting Council

The FRC met six times during 2005-06. Members' attendance is shown in the table:

Members	Number of meetings			Apologies
	Eligible to attend	Attended	Represented by alternate or proxy	
C Macek	6	6	0	0
E Alexander	6	5	0	1
B Brook	2	2	0	0
D Challen	6	6	0	0
J Gethin-Jones	1	1	0	0
R Humphry	6	3	0	3
W Hunt	6	5	0	1
D Jackson	6	6	0	0
G McGregor	6	6	0	0
E Mayne	2	1	1	1
J Murphy	6	4	0	2
T Pockett	4	3	0	1
P Prior	6	4	0	2
B Scullin	5	3	0	2
J Stanhope	2	1	0	1
C Walter	6	6	0	0
J West	6	5	0	1
L White	2	1	0	1
K Zimmerman	6	5	0	1
Alternates:				
R Cotton (a)				
S Harrison (b)				
M Rawstron (c)				

(a) Alternate for Mr Zimmerman

(b) Alternate for Ms West

(c) Alternate for Mr Murphy

Appendix D: Attendance at meetings

FRC Nominations Committee

The FRC Nominations Committee held three formal meetings in 2005-06, in addition to conducting interviews of candidates for the AASB and AUASB. Members' attendance is shown in the table below:

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
P Prior (Chairman)	3	3	0
D Challen	3	2	1
C Macek	3	1	2
J West	3	3	0
K Zimmermann	3	3	0

FRC Finance Committee AASB Audit Committee AUASB Audit Committee

The Finance Committee and the two Audit Committees held four combined meetings during 2005-06. Members' attendance is shown in the table below.

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
G McGregor AO (Chairman)	4	4	0
D Jackson	4	3	1
C Macek	4	4	0
B Scullin	3	3	0

Audit Independence Subcommittee

The Audit Independence Subcommittee formally met eight times during 2005-06. Members' attendance is shown in the table below.

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
E Alexander AM (Chairman)	8	8	0
D Jackson	8	6	2
C Macek	8	7	1
B Scullin	8	8	0
C Walter AM	8	7	1

Sector Neutral Standards Steering Committee

The Sector Neutral Standards Steering Committee was established to provide guidance to the consultant on their research. Members' attendance in 2005-06 is shown in the table below.

Members	Number of meetings		
	Eligible to attend	Attended	Apologies
P Prior (Chairman)	6	5	1
D Challen	6	6	0
C Macek	6	5	1
C Walter AM	6	2	4

Australian Accounting Standards Board

The AASB met 10 times during 2005-2006 for a total of 20 meeting days, including a one-day strategy meeting. Members' attendance is shown in the table below:

Members	Number of days eligible to attend	Number of days attended	Apologies (days)
D Boymal	20	20	0
G Appleyard	20	20	0
G Campbell-Cowan	20	18	2
B Denison	10	6	4
B Kaufmann	20	16	4
K Leo	20	16	4
J McCahey	10	8	2
S McClintock	13	13	0
J O'Grady	10	10	0
F Palmer	20	20	0
C Parker	7	6	1
K Peach	20	18	2
D Pearson	20	20	0
J Perry	20	17	3
B Porter	20	18	2
A Williams	10	8	2

Appendix D: Attendance at meetings

Urgent Issues Group

The UIG met seven times during 2005-2006. Members' attendance is shown in the table below:

Members	Number of days eligible to attend	Number of days attended	Alternate attended	Apologies (days)
D Boymal	7	5	0	2
F Balzer	7	6	0	1
J Beecher	7	6	1	1
M Blake	4	4	0	0
P Brunner	7	7	0	0
P Hancock	7	6	0	1
E Ingley	7	7	0	0
A Kitchen	7	6	1	1
J Knott	7	7	0	0
F Maguiness	3	3	0	0
G Meade	7	7	0	0
J O'Grady	4	4	0	0
C Pidcock	7	4	1	3
K Reilly	7	7	0	0
M Seddon	3	2	0	1
G Steel	7	7	0	0
R Williams	7	6	0	1

Auditing and Assurance Standards Board

The AUASB met 14 times during the financial year for a total of 20 meeting days. Members' attendance is shown in the table below:

Members	Number of days eligible to attend	Number of days attended	Apologies (days)
M Kelsall	20	20	
D Azoor Hughes	20	19	1
M Blake	8	8	
C Hall	8	8	
E Johnstone	8	8	
C Jubb	20	20	
I McPhee	20	12	8
C Mottershead	20	17	3
K Neville	20	19	1
G Pound	8	8	
D Simmonds	8	8	
K Smith	20	20	

Auditing and Assurance Standards Board (*continued*)

Members	Number of days eligible to attend	Number of days attended	Apologies (days)
J Tyers	20	19	1
W Edge	12	11	1
K Houghton	12	12	
R Sendt	12	10	2

APPENDIX E

AUSTRALIAN ACCOUNTING STANDARDS BOARD WORK PROGRAMME

PROGRESS MADE ON 2005-06 WORK PROGRAMME

The AASB's progress on its 2005-06 work programme is set out below:

IASB-related projects involving significant AASB input

Project	IASB status	Outcomes to 30 June 2006
Extractive Activities	IASB research project	AASB leads a team (Canada, Norway and South Africa) researching issues for consideration by the IASB and National Standard Setters (NSS). Education session held with IASB in July 2005.
Intangible Assets	IASB research project	Project program, issues and approach agreed by the IASB. AASB is researching issues for consideration by the IASB and NSS. Selected issues papers provided to IASB advisors for comment.
Insurance Contracts Phase 2	IASB active project	AASB contributes through Working Group and a staff member on IASB Project Team. Briefed Australian representative on Working Group.
Revenue and related Liabilities	IASB active project	AASB contributes through Working Group and a staff member on IASB Project Team.

IASB-related projects involving monitoring by the AASB

Project	IASB status	Outcomes to 30 June 2006
Business Combinations Phase 2	IASB active project	Exposure Draft (ED 139) issued. Commented on IASB Exposure Draft. Monitoring of project continues.
Non-financial Liabilities	IASB active project	Exposure Draft (ED 140) issued. Commented on IASB Exposure Draft. Monitoring of project continues.
Reporting Comprehensive Income	IASB active project	Exposure Draft (ED 148) of Stage A issued. Commented on IASB Exposure Draft. Monitoring of project continues.

IASB-related projects involving monitoring by the AASB (continued)

Project	IASB status	Outcomes to 30 June 2006
Joint Ventures	IASB active project	Formerly an IASB research project led by the AASB – now an IASB/FASB convergence project. Monitoring of project continues.
Post-employment Benefits (convergence)	IASB active project	Monitoring of project continues.
Measurement	IASB research project	Commented on IASB Discussion Paper. Monitoring of project continues.
Financial Instruments	IASB research project	Australia is represented on the IASB Working Group. Briefed Australian representative on Working Group. Monitoring of project continues.
Small and Medium-sized Entities	IASB research project	Provided input on second IASB questionnaire. Monitoring of project continues.

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

IPSASB-related projects involving monitoring by the AASB

Project	IPSASB status	Outcomes to 30 June 2006
Non-exchange Revenues	IPSASB active project	Exposure Draft (ED 147) issued. Commented on IPSASB Exposure Draft. Monitoring of project continues.
Social Policy Obligations	IPSASB active project	Australia is represented on the IPSASB Steering Committee. Briefed Australian representative on Steering Committee. Monitoring of project continues.
Budget Reporting	IPSASB active project	Monitoring of project continues.
GAAP/GFS convergence	IPSASB active project	Australia is represented on the IPSASB Technical Working Group. Monitoring of project continues. This project may affect the AASB's domestic work on GAAP/GFS convergence.
Amending IPSASs for IASB Improvements	IPSASB active projects	IPSASB Exposure Draft issued. Commented on IPSASB Exposure Draft. Monitoring of project continues.

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

New Zealand Convergence

The Boards have undertaken to work together to remove as many differences between the two sets of standards as possible, in keeping with the need for Trans-Tasman

Appendix E: Australian Accounting Standards Board work programme

cooperation on regulatory matters. This cooperation is reflected in the appointment of the Chairman of the New Zealand Financial Reporting Standards Board (FRSB) to the AASB and the AASB Chairman to the FRSB. In addition the Boards are implementing measures to share work and prepare common Board papers in respect of monitoring and involvement in IASB and IPSASB projects. The Boards met jointly in May 2006 and plan to meet jointly again in 2007.

Domestic GAAP/GFS Convergence Project

Project	Outcomes to 30 June 2006
GAAP/GFS convergence – Phase 1 – whole of government (including sector reporting). Reconciliation of government general purpose financial reporting with government finance statistics.	Exposure Draft ED 142 <i>Financial Reporting of General Government Sectors by Governments</i> issued. Comments have been analysed and consultation with key constituents continues.
GAAP/GFS convergence – Phase 2 – entities within the GGS (including government departments)	Consider flow on from Phase 1. See also the work on Government Department Review.
GAAP/GFS convergence – Phase 3 – other public sector entities (including local governments, universities and GBEs)	Consider flow on from Phases 1 and 2. See also the work on Local Government Review.

Other Domestic Projects

Project	Outcomes to 30 June 2006
Not-for-profit Entities. Develop guidance to assist constituents to distinguish between for-profit and not-for-profit entities	The AASB continues to issue transaction-neutral Standards to the extent feasible. The AASB has agreed in principle to issue the FRSB's guidance on defining public benefit entities in an Exposure Draft and seek comment on its suitability in the Australian environment for identifying not-for-profit entities.
Local Government review This project may be affected by GAAP/GFS harmonisation	Detailed paragraph-by-paragraph review of AAS 27 <i>Financial Reporting by Local Governments</i> and considered issues papers on key issues. Considered the need for issues-based standards and relocation of material so as to avoid leaving a vacuum in this area of reporting.
Government Department review (non-GAAP/GFS convergence issues) This project is expected to be affected by GAAP/GFS harmonisation	Detailed paragraph-by-paragraph review of AAS 29 <i>Financial Reporting by Government Departments</i> and considered issues papers on key issues, such as the distinction between controlled and administered items. Considered the need for issues-based standards and relocation of material so as to avoid leaving a vacuum in this area of reporting.
Whole of Government review This project may be affected by GAAP/GFS harmonisation	Detailed paragraph-by-paragraph review of AAS 31 <i>Financial Reporting by Governments</i> and considered issues papers on key issues. Considered the need for issues-based standards and relocation of material so as to avoid leaving a vacuum in this area of reporting.

Other Domestic Projects (continued)

Project	Outcomes to 30 June 2006
Revise AAS 25 <i>Financial Reporting by Superannuation Plans</i> to take account of the current environment in which plans operate	Agreed on the nature, scope and objective of the project.
Segment Reporting in the Public Sector. Examine the specific issues associated with the public sector in light of the IPSASB Standard on segment reporting and undertake the normal due process as currently scoped out of AASB 114	AASB considered input from public sector constituents on the suitability of the proposals in the IASB Exposure Draft (ED 145) on Segment Reporting to the public sector.
Revise AASB 124 <i>Related Party Disclosures</i> and AASB 1046 <i>Director and Executive Disclosures by Disclosing Entities</i> to ensure IFRS compliance	Following an Exposure Draft (ED 143) process, AASB 1046 has been withdrawn and the relevant disclosure requirements included in a revised AASB 124.

Urgent Issues Group Interpretation Projects

The UIG developed two domestic Interpretations and approved four IFRIC Interpretations for application in Australia. Pursuant to its Charter, the UIG continued to monitor the work programme of the IASB's IFRIC, making submissions on matters being considered by the IFRIC, including exposure drafts, and reviewing IFRIC Interpretations for adoption in Australia. The UIG also maintained its liaison with IFRIC on issues relating to inventory rebates and discounts, service concessions, electricity derivatives, employee share plan loans, presentation of employee entitlements as financial liabilities and petroleum production taxes.

Australian Accounting Standards Board work programme 2006-07

The Board held a strategy meeting in March 2006 and identified four strategic areas on which it should focus, and which should guide the content and timing of its work programme.

1. *The Board's international role* – to seek to influence the agenda, priorities and standards of the IASB and the IPSASB by:
 - participating in IASB research projects in a manner that our contribution is recognised;
 - providing staff to the IASB to work on selected standard-setting project teams and from time to time engage in staff secondments to the IASB;

Appendix E: Australian Accounting Standards Board work programme

- simultaneously issuing (to the extent feasible) Australian versions of Exposure Drafts and Invitations to Comment containing a tentative AASB view of the proposal(s);
 - responding to all significant Exposure Drafts of IASB and IPSASB in the name of the AASB or the AASB staff;
 - providing technical support to Australian representatives at IASB and IPSASB meetings and project meetings;
 - closely monitoring the progress of selected IASB and IPSASB projects with the objective of alerting the constituency to forthcoming significant issues and to indicate to the IASB and IPSASB information about Australian views on such issues at the earliest possible time; and
 - establishing and maintaining working relationships with other standard setters in our region, and in particular New Zealand, and also establish and maintain working relationships with equivalent organisations of high standing in other parts of the world.
2. **Interpretations** – promote globally consistent application and interpretation of accounting standards and continue to be involved in interpreting standards relating to a purely local standard or to a sector not covered by the IASB or where an international interpretation of an international standard is not forthcoming (this latter situation is expected to be rare) and including:
- on discovering unacceptable diversity of accounting treatments arising from differences in interpretation, in the first instance, attempt to have the matter resolved at an international level; and
 - making arrangements to have all international Implementation Guidance and Bases for Conclusions relating to international accounting standards freely available on its website to its Australian constituents.
3. **Communications** – to improve communication with constituents and the use of constituent input by:
- developing communications processes and policies to facilitate effective and timely engagement with stakeholders, stakeholder groups and with bodies we are seeking to influence; and
 - establishing a communication function and developing a broad communications strategy.
4. **Transaction neutrality** – to continue promulgating standards that deal with like transactions and events in a like manner by using IFRS as the core direction

Appendix E: Australian Accounting Standards Board work programme

for accounting treatments, but recognising that the IASB has written IFRS specifically for the for-profit sector. In view of the different business models in the other sectors, the AASB will amend the IFRS, where necessary in order that they are also appropriate for use in the not-for-profit private and not-for-profit public sectors.

Generally speaking, the above means that the AASB will be participating in and monitoring the projects of both the IASB/IFRIC and the IPSASB and progressing its own domestic projects, many of which relate mainly to the public sector.

The AASB work programme approved by the FRC includes:

1 IASB-related projects involving significant AASB input

Project	IASB status	Proposed actions
Extractive Activities	Research project	AASB leading a team (Canada, Norway and South Africa) to develop draft recommendations for consideration by the IASB.
Intangible Assets	Research project	AASB developing papers for consideration by the IASB. Includes implementation review of IFRS 3/AASB 3.
Insurance Contracts Phase 2	Active project	AASB contributing through Project Team membership.
Revenue Recognition	Convergence ¹ project	AASB contributing through Project Team membership.

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

Project	IASB status	Proposed actions	Board with prime responsibility
Non-financial Liabilities (Provisions)	Active project	Monitor closely.	AASB
Puttable Instruments	Active project	FRSB leading project and AASB monitoring closely.	FRSB
Borrowing Costs	Convergence project	ED 149 on issue for comment in Australia. Monitor closely.	AASB
Financial Statement Presentation Phase 1	Convergence project	ED 148 on issue for comment in Australia. Monitor closely.	AASB
Joint Ventures	Convergence project	Monitor passively.	AASB
Segment Reporting	Convergence project	ED 145 on issue in Australia. Monitor closely.	AASB
Impairment	Convergence project	Monitor passively.	AASB
Income Tax	Convergence project	Monitor passively.	AASB/FRSB
Earnings per Share	Convergence project	Monitor passively.	AASB

¹ 'Convergence' denotes a project aimed at achieving greater convergence between the IASB and the FASB.

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

Project	IASB status	Proposed actions	Board with prime responsibility
Business Combinations Phase 2	Convergence project	Monitor closely.	FRSB
Fair Value Measurement Guidance	Convergence project	Monitor closely.	AASB
Small and Medium Sized Entities	Active project	Monitor closely.	AASB/FRSB
Consolidation (including Special Purpose Entities)	Active project	Monitor passively.	FRSB
Conceptual Framework	Active project	Monitor closely ² .	AASB/FRSB
Post-employment Benefits	Research project	Monitor passively.	AASB
Measurement	Research project	Monitor passively.	AASB
Leases	Research project	Monitor passively.	FRSB
Financial Instruments	Research project	Monitor passively.	AASB
Financial Statement Presentation Phase 2	Research project	Monitor closely. Australia represented on IASB Working Group.	AASB
Management Commentary	Research project	Monitor passively.	FRSB

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

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

2 The IASB and the FASB are jointly progressing a project on the Conceptual Framework that focuses on for-profit entities. The AASB is monitoring this project closely in conjunction with the FRSB, the United Kingdom Accounting Standards Board, the Canadian Accounting Standards Board and the International Public Sector Accounting Standards Board with a view to providing input to the IASB that might make its Framework more widely relevant and in the interests of identifying areas in which modifications may need to be made to suit not-for-profit entities.

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

Project	IPSASB status	Proposed actions	Board with prime responsibility
Non-exchange Revenues	Active project	ED 147 incorporating the IPSASB ED issued for comment in Australia – monitor project closely. Australia is represented on IPSASB Steering Committee.	AASB
Social Policy Obligations	Active project	Monitor closely. Australia is represented on IPSASB Steering Committee.	FRSB
GAAP/GFS convergence	Active project	Monitor closely. This project may affect the AASB's domestic work on GAAP/GFS convergence. Australia is represented on IPSASB Technical Working Group.	AASB
Heritage Assets	Active project	Monitor closely. AASB commenting on Discussion paper in cooperation with FRSB.	FRSB
Budget Reporting	Active project	Monitor closely.	AASB
Amending IPSASs for IASB Improvements	Active project	Monitor passively.	AASB/FRSB
Conceptual Framework	Research project	Monitor closely.	AASB/FRSB
Service Concessions	Research project	Monitor closely.	AASB

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

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

4 New Zealand Convergence Exercise

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

The Boards have undertaken to work together to remove as many differences as possible in keeping with the need for Trans-Tasman cooperation on regulatory matters.

Appendix E: Australian Accounting Standards Board work programme

The AASB and the FRSB have also agreed to share resources to the extent feasible and in most cases have allocated one or other of the Boards to be the prime Board responsible for monitoring the work of the IASB and the IPSASB.

5 Domestic GAAP/GFS Convergence Project

Project	Status	Proposed actions
General Government Sector reporting [Part 1 of Phase 1]	ED 142	Consider draft ED and issue Standard.
Whole of Government Sector reporting [Part 2 of Phase 1]	—	Consider flow on from GGS work. See also the work on Whole of Government (withdrawal project).
PNFC and PFC Sectors [Part 3 of Phase 1]	—	Consider flow on from GGS work.
Entities within the GGS (including government departments) [Phase 2]	—	Consider flow on from GGS work. See also the work on Government Department Review (withdrawal project).
Other public sector entities (including local governments, universities and GBEs) [Phase 3]	—	Consider flow on from above projects. See also the work on Local Government Review (withdrawal project).

6 Other Domestic Projects

Project	Status	Proposed actions
Superannuation Plans	AAS 25 (1993)	Develop an ED and revise AAS 25 to take account of the current environment in which plans operate. Have regard to IAS 26 and other IFRS.
Definition of Not-for-Profit Entities	Definition used in existing AASB standards	Develop guidance to assist constituents to distinguish for-profit and not-for-profit entities. ED to make use of New Zealand guidance on Public Benefit Entities.
Review of Local Government, Government Departments and Whole of Government	AAS 27, AAS 29 and AAS 31	Issue ED proposing withdrawal of AAS 27, AAS 29 and AAS 31 and re-locating existing requirements/guidance in topic based Standards. Consider implications of GAAP/GFS convergence. Likely longer term spin-off projects include Control in the Public Sector, Administered Items, and aspects of the Reporting Entity/GPFR/SPFR project.
Review of Reporting Entity and GPFR/SPFR distinction	SAC 1 and SAC 2	Consider SAC 1 and SAC 2 definitions and guidance on reporting entities and on General Purpose Financial Reports versus Special Purpose Financial Reports in light of current developments, including GAAP/GFS convergence, the IASB's SMEs project, and the review of the need for parent entity reports.
Related Party Disclosures in the Public Sector	Currently scoped out of AASB 1017, AAS 22 and AASB 124	Examine the specific issues associated with the public sector in light of existing practice in the Australian public sector and the IPSASB Standard on related parties and undertake the normal due process.
Segment Reporting in the Public Sector	Currently scoped out of AASB 114	Examine the specific issues associated with the public sector in light of existing practice in the Australian public sector and the IPSASB Standard on segment reporting and undertake the normal due process.
Administered Items	AAS 29	Consider the definition and presentation of administered items.
KMP disclosures – AASB 124 and section 300A convergence	AASB 124 Section 300A	In conjunction with Treasury staff, examine avenues for rationalising the disclosure requirements for compensation and other related disclosures currently set out in AASB 124 and section 300A of the Corporations Act 2001.

7 AASB/IFRIC Interpretations

Project	Status	Proposed actions
Service Concessions	IFRIC Draft Interpretations	Closely monitor the project.
IFRIC projects	Draft Interpretations as they arise	Issue for comment in Australia and develop submissions.
IFRIC projects	Active projects as they arise	Monitor.
Domestic projects	Active projects as they arise	Carry out revised interpretations process.

IFRIC projects will be monitored as closely as possible by AASB staff, who will report issues of concern to the AASB's Interpretations Agenda Committee and provide briefings to the Australian and New Zealand members of the IFRIC prior to IFRIC meetings.

APPENDIX F

AUDITING AND ASSURANCE STANDARDS BOARD WORK PROGRAMME

STATUS OF AUDITING AND ASSURANCE STANDARDS BOARD'S 2005-06 WORK PROGRAMME

Highest priority projects

Project	Project description	Output to 30 June 2006
Review and reissue of Auditing Standards (by 31 March 2006)	Reviewing and reissuing Auditing Standards as Legislative Instruments using ISAs as a base;	35 legally enforceable standards, <i>Foreword to AUASB Pronouncements</i> and <i>AUASB Glossary</i> issued on 28 April 2006 for application to audits from 1 July 2006. Standards developed as 'ISA plus' to meet or exceed the standard required in the equivalent ISA.
	Developing a communication plan specific to this project;	Communication plan prepared; Executive briefings with stakeholders held in Melbourne and Sydney; Media releases issued; presentations conducted to CPA, ICAA and NIA members and other forums for stakeholders.
	Restructuring the audit framework.	Foreword to AUASB pronouncements and <i>ASA 100 Preamble to AUASB Standards</i> issued to reflect restructured audit framework.
IAASB Projects	Monitoring the activities of the IAASB including the progress of the IAASB Clarity Project;	AUASB Board member and Executive Director attended IAASB meetings and reported to AUASB at each Board meeting. Committed to participate in the redrafting of ISA 210, ISA 250 and ISA 520 in clarity format.
	Providing comment on IAASB outputs (such as Exposure Drafts);	Formal submission made on every IAASB exposure draft. Verbal comments provided on IAASB meeting papers and Task Force papers.
	Attendance at IAASB meetings; Staff briefings to the AUASB on IAASB meeting papers.	Representation at all IAASB meetings. Staff briefings either written or verbal provided to AUASB Board on selected IAASB papers.

Appendix F: Auditing and Assurance Standards Board work programme

Other projects

Project	Project description	Output to 30 June 2006
Communications strategy	<p>Finalisation of a Communications Strategy;</p> <p>Developing and ongoing maintenance of the AUASB website;</p> <p>Liaising with regulators, constituents and media groups.</p>	<p>Communications plan prepared; implementation of strategy ongoing..</p> <p>Website maintained and updated throughout the year</p> <p>Attendance at meetings with stakeholders; other liaison specific to issue of legally enforceable standards</p>
Review and reissue of other auditing standards (not issued as legislative instruments) and guidance statements	<p>Reviewing and reissuing other auditing standards and guidance statements (liaising with working parties and experts where appropriate);</p> <p>Developing and issuing new auditing standards or guidance statements (for example, compliance auditing).</p>	<p>AGS 1038 and AGS 1046 reviewed and reissued following stakeholder consultation; Guidance note issued on Auditor's Report on AASB 1046; Guidance note on Auditor's Report on AASB 124 in final draft;.</p> <p>Working party established to develop AGS 1070 on <i>Special considerations in the audit of risk management requirements for registrable Superannuation Entities and Licensees</i>. Final draft completed</p>
Monitoring of other international standard setters	Monitoring and reviewing the activities of other international standard setting bodies, including the PCAOB, and subsequent reporting to the Board.	<p>Chairman and Principal Executive attendance at Annual IAASB National Standard Setters' Meeting, Trans-Tasman Audit Working Group and regular meetings with equivalent Auditing Standard setters from USA, UK, France, Canada, NZ and EU. Report to the Board at each meeting on the activities of other standard setters.</p>
Monitoring auditing research undertaken in Australia and internationally	<p>Establishing a Research Committee;</p> <p>Monitoring auditing research undertaken in Australia and internationally;</p> <p>Facilitating auditing research in Australia in order to maximise funding opportunities for research that are of interest to or have an impact on the AUASB work plan.</p>	<p>Established but not yet met.</p> <p>Regular updates presented to the Board at each meeting.</p> <p>Research to be considered in 2006/2007.</p>
Other ad hoc projects	Participating in and responding to developments or changes initiated by regulators (for example, ASIC and APRA).	<p>Made submissions on Accounting Professional and Ethical Standards Board (APESB) ED 2/06 <i>Quality Control for Firms</i> and ED 3/06 (revision of APS1.1) <i>Conformity with Auditing and Assurance Standards</i>.</p> <p>AGS 1070 being developed in response to changes to the APRA regulations.</p>

Auditing and Assurance Standard Board 2006-07 work programme

The AUASB's work program for 2006-07 is aligned to its broad corporate strategies, which are to:

- formulate legally enforceable Auditing Standards;
- formulate other auditing and assurance standards;
- formulate guidance pronouncements;
- international: participate in the standard-setting activities of the International Auditing and Assurance Standards Board (IAASB) and liaise with other standard setters (such as United States of America, Canada, United Kingdom, New Zealand); and
- local: participate in the standard-setting activities of relevant Australian organisations.

Formulate legally enforceable Auditing Standards

The AUASB plans to formulate new as well as revise legally enforceable Auditing Standards issued on 28 April 2006, under the AUASB's Phase 2 program, in order to responsibly address stakeholder expectations. As part of this process, the AUASB plans to:

- conduct market research to monitor the impact of legally enforceable Auditing Standards in Australia; and
- assess the requirements for additional standards to enable both practitioners and regulators to enhance financial reporting and corporate governance frameworks in Australia.

Formulate other auditing and assurance standards

The AUASB plans to undertake the following projects to formulate new or revised auditing and assurance standards other than legally enforceable standards.

Projects

Assurance (ASAE)

Assurance Engagements: Revision of AUS 108 Framework for Assurance engagements and AUS 110 Assurance engagements Other Than Audits or Reviews of Historical Information

Internal Controls: Revision of AUS 810 Special Purpose Reports on the Effectiveness of Control Procedures, including AGS 1006 Expression of an Opinion on Internal Control

Formulate other auditing and assurance standards (*continued*)

Projects

Performance Audit: Revision of AUS 806 Performance Auditing and AUS 808 Planning Performance Audits

Compliance Auditing Engagements: New Standard

Revision of AUS 804 The Audit of Prospective Financial Information

Review Engagement (ASRE)

Revision of ASRE 2400 Review Engagements

Related Services (ASRS)

Revision of AUS 904 Engagements to Perform Agreed-upon Procedures

Formulate guidance pronouncements

The AUASB plans to undertake the following projects to formulate new or revised auditing and assurance guidance pronouncements or withdraw existing guidance. Guidance will be revised or formulated in consultation with a Working Party of stakeholders where necessary, but generally without public exposure. Proposed actions for each project will include preparation of a project plan, establishment of a working party if needed, updates and draft pronouncements for consideration by the AUASB and issuance of finalised guidance.

Projects

Framework and Drafting Principles

Auditing Guidance Statements — General

Revision and re-issuance as Auditing Guidance Statements:

- AUS 524 The Auditor's Use of the Work of the Actuary and the Actuary's Use of the Work of the Auditor in Connection with the Preparation and Audit of a Financial Report
- AUS 522 Audit Evidence Implications of Externally Managed Assets of Superannuation, Provident or Similar Funds and AGS 1026 Superannuation Funds - Auditor Reports on Externally Managed Assets
- Appendices 3 and 5 of AUS 702 relating to Concise Financial Reports

Revision and re-issuance of the following Auditing Guidance Statements:

- AGS 1050 Audit Issues Relating to the Electronic Presentation of Financial Reports
 - AGS 1044 Audit Reports on Information Provided Other than in a Financial Report (including current issues in AGS 1040 Franchising Code of Conduct)
 - AGS 1002 Bank Confirmation Requests
 - AGS 1014 Privity Letter Requests
 - AGS 1028 Uncertainty
 - AGS 1030 Auditing Derivative Financial Instruments
 - AGS 1042 Reporting on Control Procedures at Outsourcing Entities
-

Formulate guidance pronouncements (*continued*)

Projects

- AGS 1048 The Special Considerations in the Audit of Small Entities
- AGS 1066 Reporting by Auditors on Compliance with International Financial Reporting Standards
- AGS 1036 The Consideration of Environmental Matters in the Audit of a Financial Report
- AGS 1054 Auditing Revenue of Charitable Entities
- AGS 1062 Reporting in Connection with Proposed Fundraisings
- AGS 1056 Electronic Commerce - Effect on the Audit of a Financial Report
- AGS 1038 Access to Audit Working Papers (revised in 2006)
- AGS 1046 Responding to Questions at an Annual General Meeting (revised in 2006)

Auditing Guidance Statements - Related to Other Regulatory Bodies

Revision and re-issuance of the following Auditing Guidance Statements:

- AGS 1064 Audit Implications of Prudential Reporting Requirements for General Insurers
- AGS1008 Audit Implications of Prudential Reporting Requirements for Authorised Deposit-taking Institutions (ADIs)
- AGS 1068 Audit Requirements for Australian Financial Services Licensees under the Corporations Act 2001
- AGS 1024 Life Insurance Act 1995 - Audit Obligations
- AGS 1052 Special Considerations in the Audit of Compliance Plans of Managed Investment Schemes and AGS 1058 Auditing Mortgage Investment Schemes
- AGS 1070 Risk Management Statements

Guidance on Emerging Issues as required

International: Participate in the standard-setting activities of the International Auditing and Assurance Standards Board (IAASB) and liaise with other national standard setters (such as United States of America, Canada, United Kingdom, France, New Zealand)

The AUASB plans to continue to maintain its international profile by committing significant AUASB resources to:

- involvement with IAASB meetings;
- contributing directly to IAASB projects by taking a leadership role in redrafting ISAs in the clarity format and providing comments on exposure drafts; and
- reflecting international developments in AUASB pronouncements.

Local: Participate in the standard-setting activities of relevant Australian organisations

The AUASB plans to monitor emerging issues in the Australian regulatory and business environment and responsibly address significant audit issues that arise from such developments. In addition, the AUASB plans to continue to commit AUASB resources to consider the audit implications of the activities of other related regulatory bodies and the AASB.

The AUASB also plans to provide input into the development of professional standards, including commenting on exposure drafts issued by the Accounting Professional and Ethical Standards Board (APESB) and the activities of the Audit Quality Review Board (AQRB) in relation to ethics and quality control.

APPENDIX G

PRONOUNCEMENTS OF THE STANDARD SETTING BODIES AS AT 30 JUNE 2006

AUSTRALIAN ACCOUNTING STANDARDS BOARD AND URGENT ISSUES GROUP PRONOUNCEMENTS AS AT 30 JUNE 2006

Statements of accounting concepts

No	Title	Issued (re-issued#)
SAC 1	<i>Definition of the reporting entity</i>	8/90
SAC 2	<i>Objective of general purpose financial reporting</i>	8/90
SAC 3*	<i>Qualitative characteristics of financial information</i>	8/90
SAC 4*	<i>Definition and recognition of the elements of financial statements</i>	# 3/95
Framework	<i>Framework for the Preparation and Presentation of Financial Statements</i>	7/04

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

Policy statements

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

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

AASB and AAS-series of accounting standards

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

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

Appendix G: Pronouncements of the standard setting bodies

AASB and AAS-series accounting standards (continued)

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

AASB and AAS-series accounting standards (continued)

AASB series	AAS series	Title	Issued (re-issued#)
—	31	<i>Financial reporting by governments</i>	6/98
—	31A	<i>Amendments to the transitional provisions in AAS 31</i>	12/99
1046		<i>Director and executive disclosures by disclosing entities</i>	1/04
1046A		<i>Amendments to Accounting Standard AASB 1046</i>	9/04
1047		<i>Disclosing the impacts of adopting Australian equivalents to international financial reporting standards</i>	4/04

AASB series — Post 2005

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

Number	Title	Issue date
AASB 1	<i>First-time Adoption of Australian Equivalents to International Financial Reporting Standards</i> (July 2004)	7/04
AASB 2	<i>Share-based Payment</i> (July 2004)	7/04
AASB 3	<i>Business Combinations</i> (July 2004)	7/04
AASB 4	<i>Insurance Contracts</i> (July 2004)	7/04
AASB 5	<i>Non-current Assets held for Sale and Discontinued Operations</i> (July 2004)	7/04
AASB 6	<i>Exploration for and Evaluation of Mineral Resources</i> (December 2004)	12/04
AASB 7	<i>Financial Instruments: Disclosures</i>	8/05
AASB 101	<i>Presentation of Financial Statements</i> (July 2004)	7/04
AASB 102	<i>Inventories</i> (July 2004)	7/04
AASB 107	<i>Cash Flow Statements</i> (July 2004)	7/04
AASB 108	<i>Accounting Policies, Changes in Accounting Estimates and Errors</i> (July 2004)	7/04
AASB 110	<i>Events after the Balance Sheet Date</i> (July 2004)	7/04
AASB 111	<i>Construction Contracts</i> (July 2004)	7/04
AASB 112	<i>Income Taxes</i> (July 2004)	7/04
AASB 114	<i>Segment Reporting</i> (July 2004)	7/04
AASB 116	<i>Property, Plant and Equipment</i> (July 2004)	7/04
AASB 117	<i>Leases</i> (July 2004)	7/04
AASB 118	<i>Revenue</i> (July 2004)	7/04
AASB 119	<i>Employee Benefits</i> (July 2004)	7/04
AASB 119	<i>Employee Benefits</i> (December 2004)	7/04
AASB 120	<i>Accounting for Government Grants and Disclosure of Government Assistance</i> (July 2004)	7/04
AASB 121	<i>The Effects of Changes in Foreign Exchange Rates</i> (July 2004)	7/04
AASB 123	<i>Borrowing Costs</i> (July 2004)	7/04

Appendix G: Pronouncements of the standard setting bodies

AASB series — Post 2005 (continued)

Number	Title	Issue date
AASB 124	<i>Related Party Disclosures</i>	7/04
AASB 124	<i>Related Party Disclosures</i>	12/05
AASB 127	<i>Consolidated and Separate Financial Statements</i> (July 2004)	7/04
AASB 128	<i>Investments in Associates</i> (July 2004)	7/04
AASB 129	<i>Financial Reporting in Hyperinflationary Economies</i> (July 2004)	7/04
AASB 130	<i>Disclosures in the Financial Statements of Banks and Similar Financial Institutions</i> (July 2004)	7/04
AASB 131	<i>Interests in Joint Ventures</i> (July 2004)	7/04
AASB 132	<i>Financial Instruments: Disclosure and Presentation</i> (July 2004)	7/04
AASB 133	<i>Earnings per Share</i> (July 2004)	7/04
AASB 134	<i>Interim Financial Reporting</i> (July 2004)	7/04
AASB 136	<i>Impairment of Assets</i> (July 2004)	7/04
AASB 137	<i>Provisions, Contingent Liabilities and Contingent Assets</i> (July 2004)	7/04
AASB 138	<i>Intangible Assets</i> (July 2004)	7/04
AASB 139	<i>Financial Instruments: Recognition and Measurement</i> (July 2004)	7/04
AASB 140	<i>Investment Property</i> (July 2004)	7/04
AASB 141	<i>Agriculture</i> (July 2004)	7/04
AASB 1004	<i>Contributions</i> (July 2004)	7/04
AASB 1023	<i>General Insurance Contracts</i> (July 2004)	7/04
AASB 1031	<i>Materiality</i> (July 2004)	7/04
AASB 1038	<i>Life Insurance Contracts</i> (July 2004)	7/04
AASB 1039	<i>Concise Financial Reports</i>	5/05
AASB 1045	<i>Land Under Roads: Amendments to AAS 27A, AAS 29A and AAS 31A</i>	2/02
AASB 1046	<i>Director and Executive Disclosures by Disclosing Entities</i>	1/04
AASB 1046A	<i>Amendments to Accounting Standard AASB 1046</i>	9/04
AASB 1047	<i>Disclosing the Impacts of Adopting Australian Equivalents to International Financial Reporting Standards</i>	4/04
AASB 1048	<i>Interpretation and Application of Standards</i> (April 2006)	4/06
AASB 2004-1	<i>Amendments to Australian Accounting Standards [AASB 1, AASB 116 and AASB 138]</i>	12/04
AASB 2004-2	<i>Amendments to Australian Accounting Standards [AASB 1, AASB 121, AASB 131, AASB 134, AASB 139 and AASB 141]</i>	12/04
AASB 2004-3	<i>Amendments to Australian Accounting Standards [AASB 1, AASB 101 and AASB 124]</i>	12/04
AASB 2005-1	<i>Amendments to Australian Accounting Standard [AASB 139]</i>	5/05
AASB 2005-2	<i>Amendments to Australian Accounting Standard [AASB 1023]</i>	6/05
AASB 2005-3	<i>Amendments to Australian Accounting Standards [AASB 119]</i>	6/05
AASB 2005-4	<i>Amendments to Australian Accounting Standards [AASB 1, AASB 132, AASB 139, AASB 1023 and AASB 1038]</i>	6/05
AASB 2005-5	<i>Amendments to Australian Accounting Standards [AASB 1 and AASB 139]</i>	6/05
AASB 2005-6	<i>Amendments to Australian Accounting Standards [AASB 3]</i>	6/05
AASB 2005-7	<i>Amendments to Australian Accounting Standards [AASB 134]</i>	6/05

AASB series — Post 2005 (continued)

Number	Title	Issue date
AASB 2005-8	<i>Amendments to Australian Accounting Standards [AASB 1]</i>	6/05
AASB 2005-9	<i>Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 132 and AASB 139]</i>	9/05
AASB 2005-10	<i>Amendments to Australian Accounting Standards [AASB 1, AASB 4, AASB 1023, AASB 1038, AASB 101, AASB 114, AASB 117, AASB 132, AASB 133 and AASB 139]</i>	9/05
AASB 2005-11	<i>Amendments to Australian Accounting Standards [AASB 101, AASB 112, AASB 132, AASB 133, AASB 139 and AASB 141]</i>	9/05
AASB 2005-12	<i>Amendments to Australian Accounting Standards [AASB 1023 and AASB 1038]</i>	12/05
AASB 2005-13	<i>Amendments to Australian Accounting Standards [AAS 25]</i>	12/05
AASB 2006-1	<i>Amendments to Australian Accounting Standards [AASB 121]</i>	1/06
AASB 2006-2	<i>Amendments to Australian Accounting Standards [AASB 1]</i>	3/06

AAS series

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

Accounting Interpretations

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

Number	Title	Issued
AI 1	<i>Amortisation of identifiable intangible assets</i>	6/99
AI 2	<i>Transition to AASB equivalents of IASB standards and applying the hierarchy of pronouncements in AASB 1001 and AAS 6</i>	5/03

Urgent Issues Group Abstracts

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

Abstract	Title	Issued (re-issued#)
1	<i>Lessee accounting for surplus leased space under a non-cancelable operating lease</i>	6/95
3	<i>Lessee accounting for lease incentives under a non-cancelable operating lease</i>	8/95
4	<i>Disclosure of accounting policies for restoration obligations in the extractive industries</i>	8/95
7	<i>Accounting for non-current assets — derecognition of intangible assets and change in the basis of measurement of a class of assets</i>	3/96
9	<i>Accounting for acquisitions — recognition of acquired tax losses</i>	6/96
10	<i>Accounting for acquisitions — gold mining companies</i>	11/96
11	<i>Accounting for contributions of, or contributions for the acquisition of, non-current assets</i>	12/96
13	<i>The presentation of the financial report of entities whose securities are 'stapled'</i>	#5/00
14	<i>Directors' remuneration</i>	6/97
16	<i>Accounting for share buy-backs</i>	1/98
17	<i>Developer and customer contributions in price regulated industries</i>	5/98
19	<i>The superannuation contributions surcharge</i>	7/98
20	<i>Equity accounting — elimination of unrealised profits and losses on transactions with associates</i>	10/98
21	<i>Consistency — different cost formulas for inventories</i>	10/98
22	<i>Accounting for the buy-back of no par value shares</i>	11/98
23	<i>Transaction costs arising on the issue or intended issue of equity instruments</i>	#6/00
24	<i>Equity accounting — carrying amount of an investment in an associate</i>	11/98
25	<i>Redesignation of hedges</i>	#12/00
27	<i>Designation as hedges — sold (written) options</i>	7/99
28	<i>Consolidation — special purpose entities</i>	7/99
29	<i>Early termination of interest rate swaps</i>	#12/00
30	<i>Depreciation of long-lived physical assets, including infrastructure assets : condition-based depreciation and other related methods</i>	1/00
31	<i>Accounting for the goods and services tax (GST)</i>	1/00
32	<i>Designation as hedges — rollover strategies</i>	#12/00
33	<i>Hedges of anticipated purchases and sales</i>	5/00
34	<i>Acquisitions and goodwill — first-time application of accounting standards</i>	6/00
36	<i>Non-monetary contributions establishing a joint venture entity</i>	12/00
37	<i>Accounting for website costs</i>	1/01
38	<i>Contributions by owners made to wholly-owned public sector entities</i>	1/01

Urgent Issues Group Abstracts (continued)

Abstract	Title	Issued (re-issued#)
39	<i>Effect of tax consolidation proposals on deferred tax balances</i> [revised] [revised]	7/01 #9/02 #12/02
40	<i>Non-reciprocal transfers within an economic entity for monetary or noconsideration</i>	9/01
41	<i>Fair value of equity instruments issued as purchase consideration</i>	9/01
42	<i>Subscriber acquisition costs in the telecommunications industry</i>	10/01
43	<i>Classification of financial instruments with conversion options</i>	11/01
44	<i>Acquisition of in-process research and development</i>	3/02
45	<i>Subsidiary becomes a joint venture entity or an associate</i>	4/02
46	<i>Initial foreign currency translation for redomiciled entities</i>	4/02
47	<i>Professional indemnity claims liabilities in medical defence organisations</i>	6/02
49	<i>Revenue — barter transactions involving advertising services</i>	8/02
50	<i>Evaluating the substance of transactions involving the legal form of a lease</i>	9/02
51	<i>Recovery of unfunded superannuation of universities</i>	12/02
52	<i>Income tax accounting under the tax consolidation system</i> [revised] [revised]	12/02 #5/03 #12/03
53	<i>Pre-completion contracts for the sale of residential development properties</i>	4/03
54	<i>Defined benefit superannuation disclosures by employers</i>	8/03
55	<i>Accounting for road earthworks</i>	5/04

Australian Interpretations corresponding to International Financial Reporting Interpretations Committee Interpretations — Post 2005

Interpretation	Title	Application date (annual reporting periods)	Issue date
1	<i>Changes in Existing Decommissioning, Restoration and Similar Liabilities</i>	(beginning) 1 January 2005	7/04
2	<i>Members' Shares in Co-operative Entities and Similar Instruments</i>	(ending) 31 December 2005	3/05
4	<i>Determining whether an Arrangement contains a Lease</i>	(beginning) 1 January 2006	6/05
5	<i>Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds</i>	(beginning) 1 January 2006	6/05

**Australian Interpretations corresponding to International Financial Reporting Interpretations Committee Interpretations — Post 2005
(continued)**

Interpretation	Title	Application date (annual reporting periods)	Issue date
6	<i>Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment</i>	(beginning) 1 December 2005	10/05
7	<i>Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies</i>	(beginning) 1 March 2006	2/06
8	<i>Scope of AASB 2</i>	(beginning) 1 May 2006	3/06
9	<i>Reassessment of Embedded Derivatives</i>	(beginning) 1 June 2006	4/06
107	<i>Introduction of the Euro</i>	(beginning) 1 January 2005	7/04
110	<i>Government Assistance – No Specific Relation to Operating Activities</i>	(beginning) 1 January 2005	7/04
112	<i>Consolidation – Special Purpose Entities</i>	(beginning) 1 January 2005	12/04
113	<i>Jointly Controlled Entities – Non-Monetary Contributions by Venturers</i>	(beginning) 1 January 2005	7/04
115	<i>Operating Leases – Incentives</i>	(beginning) 1 January 2005	7/04
121	<i>Income Taxes – Recovery of Revalued Non-Depreciable Assets</i>	(beginning) 1 January 2005	7/04
125	<i>Income Taxes – Changes in the Tax Status of an Entity or its Shareholders</i>	(beginning) 1 January 2005	7/04
127	<i>Evaluating the Substance of Transactions Involving the Legal Form of a Lease</i>	(beginning) 1 January 2005	7/04
129	<i>Disclosure – Service Concession Arrangements</i>	(beginning) 1 January 2005	7/04
131	<i>Revenue – Barter Transactions Involving Advertising Services</i>	(beginning) 1 January 2005	7/04
132	<i>Intangible Assets – Web Site Costs</i>	(beginning) 1 January 2005	7/04

Other Australian Interpretations

Interpretation	Title	Application date (annual reporting periods)	Issue date
1001	<i>Consolidated Financial Reports in relation to Pre-Date-of-Transition Dual Listed Company Arrangements</i>	(ending) 31 December 2005	7/05
1002	<i>Post-Date-of-Transition Stapling Arrangements</i>	(ending) 31 December 2005	12/05
1013	<i>Consolidated Financial Reports in relation to Pre-Date-of-Transition Stapling Arrangements</i>	(ending) 31 December 2005	4/05
1017	<i>Developer and Customer Contributions for Connection to a Price-Regulated Network</i>	(beginning) 1 January 2005	11/04
1019	<i>The Superannuation Contributions Surcharge</i>	(beginning) 1 January 2005	9/04
1030	<i>Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation and Related Methods</i>	(beginning) 1 January 2005	9/04
1031	<i>Accounting for the Goods and Services Tax (GST)</i>	(beginning) 1 January 2005	7/04
1038	<i>Contributions by Owners Made to Wholly-Owned Public Sector Entities</i>	(beginning) 1 January 2005	9/04
1039	<i>Substantive Enactment of Major Tax Bills in Australia</i>	(beginning) 1 January 2005	7/04
1042	<i>Subscriber Acquisition Costs in the Telecommunications Industry</i>	(beginning) 1 January 2005	12/04
1047	<i>Professional Indemnity Claims Liabilities in Medical Defence Organisations</i>	(beginning) 1 January 2005	11/04
1052	<i>Tax Consolidation Accounting</i>	(ending) 31 December 2005	6/05
1055	<i>Accounting for Road Earthworks</i>	(beginning) 1 January 2005	9/04

AUDITING AND ASSURANCE STANDARDS BOARD PRONOUNCEMENTS AS AT 30 JUNE 2006

Foreword and glossary

The following pronouncements were issued by the Auditing and Assurance Standards Board (AUASB).

Title	Issued
Foreword to AUASB Pronouncements	28 April 2006
AUASB Glossary	28 April 2006

Auditing Standards — legislative instruments

The Auditing and Assurance Standards Board (AUASB) made the following Auditing Standards, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001* and section 336 of the *Corporations Act 2001*. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003* and are operative for financial reporting periods commencing on or after 1 July 2006.

No	Title	Issued
ASA 100	Preamble to AUASB Standards	28 April 2006
ASA 200	Objective and General Principles Governing an Audit of a Financial Report	28 April 2006
ASA 210	Terms of Audit Engagements	28 April 2006
ASA 220	Quality Control for Audits of Historical Financial Information	28 April 2006
ASA 230	Audit Documentation	28 April 2006
ASA 240	The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report	28 April 2006
ASA 250	Consideration of Laws and Regulations in an Audit of a Financial Report	28 April 2006
ASA 260	Communication of Audit Matters with Those Charged with Governance	28 April 2006
ASA 300	Planning an Audit of a Financial Report	28 April 2006
ASA 315	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement	28 April 2006
ASA 320	Materiality and Audit Adjustments	28 April 2006
ASA 330	The Auditor's Procedures in Response to Assessed Risks	28 April 2006

Auditing and Assurance Standards Board Standards (continued)

No	Title	Issued
ASA 402	Audit Considerations Relating to Entities Using Service Organisations	28 April 2006
ASA 500	Audit Evidence	28 April 2006
ASA 501	Existence and Valuation of Inventory	28 April 2006
ASA 505	External Confirmations	28 April 2006
ASA 508	Enquiry Regarding Litigation and Claims	28 April 2006
ASA 510	Initial Engagements – Opening Balances	28 April 2006
ASA 520	Analytical Procedures	28 April 2006
ASA 530	Audit Sampling and Other Means of Testing	28 April 2006
ASA 540	Audit of Accounting Estimates	28 April 2006
ASA 545	Auditing Fair Value Measurements and Disclosures	28 April 2006
ASA 550	Related Parties	28 April 2006
ASA 560	Subsequent Events	28 April 2006
ASA 570	Going Concern	28 April 2006
ASA 580	Management Representations	28 April 2006
ASA 600	Using the Work of Another Auditor	28 April 2006
ASA 610	Considering the Work of Internal Audit	28 April 2006
ASA 620	Using the Work of an Expert	28 April 2006
ASA 700	The Auditor's Report on a General Purpose Financial Report	28 April 2006
ASA 701	Modifications to the Auditor's Report	28 April 2006
ASA 710	Comparatives	28 April 2006
ASA 720	Other Information in Documents Containing Audited Financial Reports	28 April 2006
ASA 800	The Auditor's Report on Special Purpose Audit Engagements	28 April 2006
ASRE 2410	Review of an Interim Financial Report Performed by the Independent Auditor of the Entity	28 April 2006

Auditing Standards — interim legal endorsement

The following Auditing Standards (AUSs), issued by the former Auditing and Assurance Standards Board (AuASB) of the Australian Accounting Research Foundation, were given interim legal endorsement under the *Corporations Act 2001* for financial reporting periods ending on and prior to 29 June 2007.

No	Title	Issued (re-issued)
AUS 104	Glossary of Terms	July 2002
AUS 202	Objective and General Principles Governing an Audit of a Financial Report	July 2002 (February 2004)

Appendix G: Pronouncements of the standard setting bodies

Auditing Standards — interim legal endorsement (continued)

No	Title	Issued (re-issued)
AUS 204	Terms of Audit Engagements	June 2002
AUS 206	Quality Control for Audits of Historical Financial Information	July 2002 (June 2004)
AUS 208	Documentation	July 2002
AUS 210	The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report	January 2002 (June 2004)
AUS 212	Other Information in Documents Containing Audited Financial Reports	October 1995
AUS 214	Auditing in a CIS Environment	October 1995
AUS 218	Consideration of Laws and Regulations in an Audit of a Financial Report	January 2002
AUS 302	Planning	October 1995
AUS 304	Knowledge of the Business	July 2002
AUS 306	Materiality and Audit Adjustments	June 2001
AUS 402	Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatements	February 2004
AUS 404	Audit Implications Relating to Entities Using a Service Entity	July 2002
AUS 406	The Auditor's Procedures In Response to Assessed Risks	February 2004
AUS 502	Audit Evidence	October 1995
AUS 504	External Confirmations	July 2002
AUS 506	Existence and Valuation of Inventory	July 2002
AUS 508	Inquiry Regarding Litigation and Claims	July 2002
AUS 510	Initial Engagements - Opening Balances	July 2002
AUS 512	Analytical Procedures	October 1995
AUS 514	Audit Sampling and Other Selective Testing Procedures	April 1998
AUS 516	Audit of Accounting Estimates	October 1995
AUS 518	Related Parties	July 2002
AUS 520	Management Representations	July 2002
AUS 522	Audit Evidence Implications of Externally Managed Assets of Superannuation, Provident or Similar Funds	October 1995
AUS 524	The Auditor's Use of the Work of the Actuary and the Actuary's Use of the Work of the Auditor in Connection with the Preparation and Audit of a Financial Report	July 2002
AUS 526	Auditing Fair Value Measurements and Disclosures	September 2002
AUS 602	Using the Work of Another Auditor	July 2002
AUS 604	Considering Work of Internal Auditing	October 1995
AUS 606	Using the Work of an Expert	July 2002
AUS 702	The Audit Report on a General Purpose Financial Report	March 2002
AUS 704	Comparatives	July 2002
AUS 706	Subsequent Events	October 1995
ASU 708	Going Concern	July 2002
AUS 710	Communication with Management on Matters Arising from an Audit	May 1999
AUS 802	Communication with Management on Matters Arising from an Audit	May 2002
AUS 902	Review of Financial Reports	July 2002

Auditing Standards — other

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

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

Auditing and Assurance Guidance Statements

The following Auditing and Assurance Guidance Statements were issued or re-issued by the Auditing and Assurance Standards Board.

No	Title	Issued (re-issued)
AGS 1038	Access to Audit Working Papers	(February 2006)
AGS 1046	Responding to Questions at an Annual General Meeting	(October 2005)
AGS 1068	Audit Requirements for Australian Financial Services Licensees under the <i>Corporations Act 2001</i>	October 2004

Appendix G: Pronouncements of the standard setting bodies

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

No	Title	Issued (re-issued)
AGS 1002	Bank Confirmation Requests	October 1995
AGS 1004	Transitional Arrangements on Changes in Audit Appointments under the <i>Corporations Act 2001</i>	July 2002
AGS 1006	Expression of an Opinion on Internal Control	October 1995
AGS 1008	Audit Implications of Prudential Reporting Requirements for Authorised Deposit-taking Institutions (ADIs)	July 2002
AGS 1014	Privity Letter Requests	July 2002
AGS 1016	Audit and Review Reports on Half-Year Financial Reports of Disclosing Entities Under the <i>Corporations Act 2001</i>	October 2003
AGS 1024	<i>Life Insurance Act 1995</i> - Audit Obligations	December 2002
AGS 1026	Superannuation Funds - Auditor Reports on Externally Managed Assets	February 1999
AGS 1028	Uncertainty	July 1997
AGS 1030	Auditing Derivative Financial Instruments	July 2002
AGS 1032	The Audit Implications of Accounting for Investments in Associates	July 2002
AGS 1036	The Consideration of Environmental Matters in the Audit of a Financial Report	July 2002
AGS 1040	Franchising Code of Conduct	November 2002
AGS 1042	Reporting on Control Procedures at Outsourcing Entities	July 2002
AGS 1044	Audit Reports on Information Provided Other than in a Financial Report (May 1999)	May 1999
AGS 1048	The Special Considerations in the Audit of Small Entities (March 2004)	March 2004
AGS 1050	Audit Issues Relating to the Electronic Presentation of Financial Reports	July 2002
AGS 1052	Special Considerations in the Audit of Compliance Plans of Managed Investment Schemes	July 2002
AGS 1054	Auditing Revenue of Charitable Entities	July 2002
AGS 1056	Electronic Commerce - Effect on the Audit of a Financial Report	May 2002
AGS 1058	Auditing Mortgage Investment Schemes	July 2002
AGS 1062	Reporting in Connection with Proposed Fundraisings	August 2002
AGS 1064	Audit Implications of Prudential Reporting Requirements for General Insurers	March 2003
AGS 1066	Reporting by Auditors on Compliance with International Financial Reporting Standards	July 2003

Guidance Note

This Guidance Note was issued by the Auditing and Assurance Standards Board.

Title	Issued
Auditor's Report on AASB 1046 Remuneration Disclosures contained in the Annual Directors' Report	August 2005

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

Title	Issued
Improving Communication between Auditors and Shareholders	July 2003

Audit and Assurance Guides

This supplement to Audit Guide No. 4 was issued by the Auditing and Assurance Standards Board.

Title	Issued
2005 Supplement to Audit Guide No.4 The Audit of Superannuation Funds	October 2005

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

No	Title	Issued
Audit Guide No. 4	The Audit of Superannuation Funds	2004 edition current as at 15 June 2004

Audit and Assurance Alerts

This Audit and Assurance Alert was issued by the Auditing and Assurance Standards Board.

No	Title	Issued (re-issued)
AAA 14	The Implications for Auditors on the Transition to Australian equivalents to IFRS	October 2004

Appendix G: Pronouncements of the standard setting bodies

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

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