

# **Financial Reporting Panel**

**Annual Report**

**2006-2007**

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**Australian Government**  
**Financial Reporting Panel**

11 October 2007

The Hon Peter Costello MP  
Treasurer  
Parliament House  
Canberra ACT 2600

Dear Treasurer

**ANNUAL REPORT 2006-2007**

I have pleasure in presenting to you, in accordance with section 239 of the *Australian Securities and Investments Commission Act 2001*, the 2006-07 Annual Report on the operations of the Financial Reporting Panel (FRP) for presentation to the Parliament. The report has been prepared in accordance with section 70 of the *Public Service Act 1999*.

The report sets out the FRP's role as the primary adjudicator between ASIC and lodging entities in relation to the application of accounting standards in financial reports and gives an overview of the FRP's operational programme, membership, financial information and management.

A handwritten signature in cursive script, appearing to read 'Paul Shannon'.

Paul Shannon  
Chairman



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## INTRODUCTION AND GUIDE TO THE REPORT

The Financial Reporting Panel (FRP) was established under the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* and formally commenced its operations in July 2006. The FRP's primary function is to resolve disputes between the *Australian Securities and Investments Commission (ASIC)* and a company, disclosing entity or registered scheme over the applications of accounting standards in its financial reports.

The relevant legislation pertaining to the FRP is Chapter 2M Division 9 of the *Corporations Act 2001 (Cth) (Act)*, Part 13 and Division 2 of Part 7 of the *Australian Securities and Investments Commission Act 2001 (Cth) (ASIC Act)* and Part 6 and Part 8a of the *ASIC Regulations*.

This report gives an overview of the FRP's operational programme, membership, financial information and management.

### Other sources of information

The FRP publishes all its public documents on its website. These include media releases, determinations issued and annual reports.

The FRP website address is [www.frp.gov.au](http://www.frp.gov.au)

### Enquiries

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## REVIEW BY THE CHAIRMAN

### Background and Function of the Financial Reporting Panel (FRP)

Over several years, the Federal Government embarked on a comprehensive program of Corporate Law reform, known as the Corporate Law Economic Program. The objective of this program was to 'ensure that Australian Corporate Regulatory Framework remains effective and helps define world's best practice'. Significant reforms to the financial reporting and auditing framework resulted from the enactment of the Corporate Law Economic Reform Program (Audit Reform & Corporate Disclosure) Act on 30 June 2004.

Known as CLERP 9, these measures in the act included a number of reforms to strengthen the financial reporting framework within Australia, improve audit regulation and the wider corporate disclosure framework including:

1. changes to the continuous disclosure offence provisions;
2. a Management Discussion and Analysis disclosure in the Annual Report;
3. new provisions regarding auditor independence;
4. a requirement for both the Chief Executive Officer and Chief Financial Officer of a listed entity to make a declaration that:
  - the entity's financial records have been properly maintained in accordance with the Act;
  - the financial statements for the financial year comply with the accounting standards; and
  - the financial statements present a true and fair view of the financial position and performance of the entity.
5. the expansion of Financial Reporting Council's (FRC) responsibilities to oversee auditor independence requirements in Australia; and
6. the establishment of the Financial Reporting Panel (FRP).

Whilst the original CLERP 9 discussion paper did not make any recommendations regarding a Financial Reporting Panel, there was substantial support from stakeholders for a dispute resolution body to resolve disputes between ASIC and companies on whether a company's financial statements have been prepared in accordance with the accounting standards and represent a true and fair view.

The rationale for the creation of the FRP was to allow for disputes about the accounting treatment in the company's financial report to be resolved quickly and cost effectively in relation to accounting related disputes.

Prior to the Panel's existence, unresolved disputes on accounting between ASIC and corporations could only be referred to the judicial system for resolution. This was generally thought to be an unsatisfactory situation due to:

- (a) Judicial proceedings can be slow. This means that the market can be misinformed about the company's financial system for some time.
- (b) Judicial proceedings are costly for both disputants.
- (c) Courts may lack expertise to determine disputes dealing with the application of accounting standards, because they hear such matters infrequently. This may involve considerable time and expense for a court to assemble the necessary resources and decipher different expert opinions.

### *Purpose and role of the FRP*

The purpose of the FRP is to provide a forum where disputes between ASIC and an entity (listed and unlisted) that has lodged a financial report with ASIC can be reviewed.

The role of the FRP is to consider a financial report that has been referred to it, and prepare a report that states whether, in FRP's opinion, the financial report complies with the relevant financial reporting requirements.

### *Referral to the FRP*

Disputes between ASIC and an entity concerning a financial report can be referred to the FRP by:

- (a) ASIC, after giving the entity whose financial report is considered deficient 14 days to respond to a notice stating ASIC's intention to refer the matter to the FRP and the reason for doing so and any changes necessary to correct the financial report; or
- (b) an entity, where ASIC has informed the entity that its financial report does not comply with the *Corporations Act* and ASIC has consented to the referral to the FRP.

The FRP also has the power to dismiss a referral at any stage.

### *Status of an FRP report*

A report of the FRP on whether a financial report complies with the financial reporting requirements of the *Corporations Act* is not binding. However, ASIC has publicly stated that it will support the findings of the FRP and a Court may have regard to the FRP's report in determining whether the entity's financial report complied with the *Corporations Act*.

The FRP is required to give a copy of its report to ASIC and the entity. If the entity is listed, a copy must also be given to the relevant market operator (usually the Australian Securities Exchange – the ASX). ASIC also 'must take such steps as it considers reasonable and appropriate' to publicise the FRP's report and whether the entity has made the changes to its financial report (if any) recommended by the FRP.

### *Constituency of the FRP (The Panel)*

The Panel is comprised of part time members with knowledge or experience in one or more of the fields of:

- (a) accounting;
- (b) auditing;
- (c) business;

- (d) the administration of companies; or
- (e) law

Members of the Panel are appointed by the Minister.

### *Inaugural appointments*

In May 2006, Mr Paul Shannon was appointed as the inaugural Chairman of the FRP along with eight other inaugural members.

In July 2006, Mr Paul Power was appointed as Executive Director and the FRP formally commenced operations.

### *Accounting Standards*

Accounting Standards in Australia are issued by the Australian Accounting Standards Board (AASB). International Accounting Standards are collectively referred to as International Financial Reporting Standards (IFRS) and are set by the International Accounting Standards Board (IASB). In 2002, the FRC announced that Australia would adopt International Accounting Standards by 2005. This has occurred and for many reporting entities, 2007 will represent their second year of reporting under IFRS standards.

The AASB's overall approach is to adopt all of the content and wording of the IFRS. However, some amendments are made for the purpose of allowing adoption by not-for-profit entities, to remove options within IFRS that are considered as not appropriate for the Australian environment or to promote a higher standard of disclosure.

Part 2M.3 of the *Corporations Act 2001* sets out the requirement that all disclosing entities, public companies, large proprietary companies and registered schemes must prepare a report annually and that financial report must comply with the accounting standards and give a true and fair view of the entities financial position.

The Australian Securities and Investments Corporation (ASIC) administers the *Corporations Act 2001* and if it believes the financial report not to be in compliance with the accounting standards and failing to achieve agreement on the requested modifications may refer the matter to the Panel.

### *Panel activity*

The commencement of operation of the Panel was timely, with the adoption of IFRS having taken place, any regulatory disputes referred would be expected to involve the application of the new standards rather than the replaced Australian Accounting Standards.

The focus of the Panel has been the establishment and trial of its procedures, communication of its role within the business community and the professions.

During the year a number of potential disputes were settled by negotiation between ASIC and the disputants and in some cases the existence of the FRP may have assisted in hastening resolution of the matter.

The executive and membership of the Panel has been kept to a modest size until such time as a steady flow of cases occurs. It is considered that the buoyant economic conditions, the newness of the standards and the high level of compliance of Australian companies have all contributed to the lack of referrals during 2006-07. Based on both Australian and overseas experience regarding disputes on accounting standards it is reasonable to expect a significant increase in case referrals over time.

### *The year ahead*

In July 2007 the Panel received its first case referral. A sitting Panel was formed, research undertaken and preliminary meetings held but prior to a determination the matter was successfully resolved. In this instance the disputant chose to comply with ASIC's preferred approach with respect to the application of an accounting standard and the Panel dismissed the case. The Panel considers this to be a successful outcome and foresees that in a number of instances the matters will be resolved prior to the issuance of a determination. As no determination was issued, the disputant and details of the matter remain confidential.

The Panel will expand upon its activities in liaison and communication with the business community and the profession in order to improve awareness of the FRP and to facilitate the identification of any industry concerns in relation to the application of accounting standards.

The Panel will maintain its preparation and readiness to address any referrals it may receive in a timely and effective manner.

## *The Financial Reporting Panel's place in the Financial Reporting Framework*

ASIC is an independent Commonwealth Government body which administers the *Corporations Act 2001* and other legislation. It is responsible for enforcing and regulating company and financial services and the laws designed to protect consumers, investors and creditors. ASIC undertakes a surveillance program to ensure that companies and registered schemes that are required to lodge their financial accounts have prepared their accounts in compliance with applicable accounting standards. ASIC may seek further information from the entities concerned to obtain clarification of information in the accounts. If ASIC believes that there is non compliance with the accounting standards it will discuss how the accounts should be amended. If ASIC and the entity concerned fail to reach agreement then the matter may be referred to the FRP.

## *Financial Reporting Framework*

A brief description of the role of other institutions that play an important part in financial reporting in Australia are as follows:

The FRC has broad oversight of the accounting and auditing standard setting process and for monitoring auditing independence.

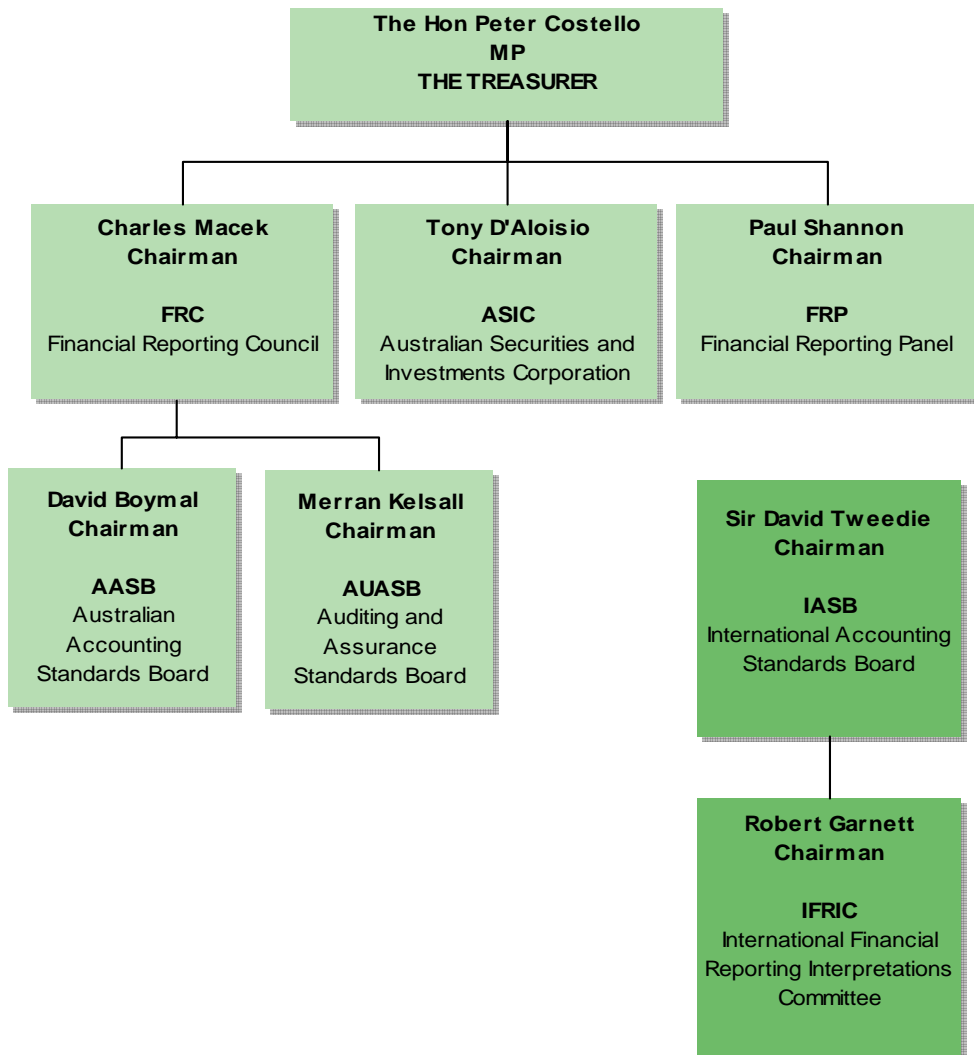
The AASB has responsibility for standard setting in the private and public sectors. The AASB issues Australian equivalent standards of the International Financial Reporting Standards provided by the IASB and undertakes joint research projects on specialist areas of accounting.

The Australian Auditing and Assurance Standards Board (AUASB) sets enforceable auditing standards and wherever possible uses International Standards on Auditing as a base for proposed auditing standards.

The International Accounting Standards Board (IASB) is an independent privately-funded accounting standard setter based in London, UK. It is responsible for developing a single set of enforceable global Accounting Standards and coordinates an initiative to achieve global convergence on Accounting Standards.

The International Financial Reporting Interpretations Committee (IFRIC) is the interpretive body of the IASB and provides guidance and interpretations on divergent or emerging accounting issues that are considered to have widespread importance.

**Chart 1: Overview of the institutional relationships in the setting, regulation and adjudication of Accounting Standards**



## *Alternate Dispute Resolution*

The FRP provides an Alternative Dispute Resolution (ADR) Service. ADR is about resolving disputes other than by court litigation. It has become an integral element of dispute resolution in the community, workplace and in business. Unlike the adversarial nature of court proceedings, ADR processes often provide the opportunity for resolution by consensus. There are a number of different types of ADR processes, ranging from prevention and mediation through to arbitration and administrative hearings. ADR processes can involve a third party providing facilitation such as mediation, advice such as to the range of outcomes or be determinative such as by adjudication from a tribunal or an expert determination. ADR processes are invariably faster and cheaper than court action and can provide greater satisfaction to the proponents.

It can be argued that there is a fundamental difference between disputes that are resolved through consensus of disputants and those where a third party provides adjudication. However, where the process involves adjudication it can still encompass a consensus-orientated philosophy where the decision maker seeks to lead the disputants to accept the validity of the decision. The FRP is a key player in the ADR landscape and as a body charged with the responsibility to adjudicate disputes over financial accounts of Australian companies, the FRP provides an expert determination in relation to the existing accounting standards. The dispute would arise where ASIC and a company fail to agree on the application of an accounting standard in the company's set of accounts. The matter would normally be heard by the FRP after negotiation between ASIC and the company has failed to reach a consensus. In the past, prior to FRP's existence, this dispute, if unresolved, would lead to an expensive foray into litigation for both parties. Whilst the FRP assesses the facts of the matter and interprets how they fit with the existing accounting standards, the FRP recognises the importance of the disputants being comfortable with the process and readily accepting the validity of its determination.

ADR processes are cheaper and faster.

Arbitration and other ADR processes have been an integral element of dispute resolution in Australia for a long time, have served the community well and are increasing in popularity. Tribunals such as the Commonwealth Administrative Appeals Tribunal have been functioning for many years and provide a valuable service to disputants who may not otherwise have the resources to access the court system. The existence of Tribunals and the

increased use of mediation have undoubtedly lowered the pressure on the court system. ADRs are allied to traditional court processes and should be used when it is cheaper or where they provide a more effective outcome. Even if ultimately unsuccessful in resolving a dispute, the mediation or specialist adjudication can often reduce or refine the issues involved so that less court time and cost needs to be expended on the dispute.

Whilst the cost of legal action may be prohibitive to some parts of the community, for the corporation there is also the opportunity cost of management resource time and the risk of the market being uncertain about the company's financial position whilst a matter is being considered. The complexity of particular matters can be very taxing for a court. Accounting standards and sophisticated financial transactions and their application may be matters that a Judge considers only infrequently and which will undoubtedly involve the engagement of expert witnesses who may have reasonable but divergent views that need to be deciphered. The possible focus on highly technical points in specialist fields might best be resolved outside a court setting.

With the advent of the FRP the process of dealing with a dispute on financial accounting standards represents world's best practice. The FRP comprises a panel of industry experts on financial accounting. This specialisation allows for points of a technical nature to be dealt with expeditiously and authoritatively. The matter is heard in private and the Panel must determine the matter quickly, thus minimising unnecessary delay and concern of the company's public reporting. The Panel's findings are not binding on the company which therefore maintains its rights to legal process and appeal.

Differing interpretations and obtaining clarity of the Law are two examples of situations that are often best addressed outside of court action.

Undertaking action to clarify the law is risky. There will always need to be an acknowledgement of the rights of the individual firm and the costly imposition that a legal case imposes. The engagement of relevant experts in the field in a more informal forum such as a tribunal would provide a faster, cheaper and more private conclusion to many such matters.

For the business sector and economy to thrive, company directors need to be confident that they can make sound business decisions without undue concern that the accounting treatment that may result from a transaction may not fully reflect its substance. The facility of an expert determination that the FRP provides over a dispute on the application of accounting standards should give some comfort in this regard.

The adoption of International Accounting Standards appears to have assisted in minimizing the number of potential disputes in relation to accounting standards in Australia. However, the principles based nature of the standards and some practices and industries which are peculiar or more prevalent in Australia could give rise to different interpretations or disputes.

There is always the danger that ADR processes will adopt more of the trappings of formal court process than are needed particularly when it involves complex disputes and the review of legal documentation. The FRP model is designed to be informal although rules and processes need to be followed in order to ensure fairness to all parties involved.

## OVERVIEW

The role of the FRP is to provide an independent expert determination in relation to the application of accounting standards in the financial accounts of a lodging entity.

### Role and functions

The FRP provides an alternative dispute resolution service when a matter is referred to it by either ASIC or a company, disclosing entity or registered scheme regarding a dispute on the financial accounts of the lodging entity.

The FRP comprises part time members appointed by the Minister. Members are drawn from throughout Australia on the basis of their experience and knowledge in accounting, auditing, industry, law and business administration. A list of members is provided on page 30.

Decisions of the FRP are not binding however ASIC have publicly stated that they will be supportive of the FRP's findings.

In the event of the FRP determining that the financial report of the lodging entity does not comply with the financial reporting requirements of the *Corporations Act 2001* the Panel sets out changes that in the Panel's opinion would need to be made to the financial report to ensure that it does comply with the requirement. Should the lodging entity in question fail to undertake the specified amendments or changes, ASIC may commence legal proceedings and a court may have regard to the FRP's report in determining whether the lodging entity has complied with its reporting requirements.

As the FRP began operations during the year there is a need for the existence and functions of the FRP to become more widely known in the business and financial community. A communication strategy has been developed and a systematic programme launched in order to communicate the valuable role the FRP can play in dispute resolution on the application of accounting standards across the corporate sector.

The FRP has also identified that it can provide a valuable role in supplementing communication between Government and industry in relation to concerns and issues in regards to accounting standards. An example of how this operates in practice is the facilitation of meetings between the Australian Accounting Standards Board (AASB) and industry

associations in relation to industry concerns regarding the Accounting Standard for Financial Instruments Recognition & Measurement (AASB 139).

To effectively undertake the role of possible adjudication on all of the forty plus accounting standards covering such diverse areas of accounting as leasing, intangibles and asset acquisitions, the Panel must have a broad composition of technical expertise, access to specialist industry knowledge and be in a position to anticipate the type of cases that may be forthcoming. It is important that the FRP actively research and identify possible areas where matters may be brought to the Panel so that preliminary work in relation to educating members and providing background research for potential cases is achieved. To assist the Panel in this regard, plans are underway to appoint a Technical Advisory Panel to undertake non-company specific research of an educational nature and be available as a source of expertise on particular case matters if and when needed.

Given that FRP decisions are non binding they are unlikely to be subject to judicial review.

## STRUCTURE, PERFORMANCE AND OPERATIONS

### Operations

On May 23 2006, the Parliamentary Secretary to the Treasurer, the Hon Chris Pearce, MP announced the appointment of the inaugural Chairman and members of the FRP.

On July 3 2006, Mr Paul Power the Executive Director of the FRP was appointed and took up his appointment in the Melbourne office of the FRP and the FRP commenced operations.

The focus of activity during the first part of the 2006-07 year was the establishment of the Panel procedures and induction of the newly appointed Panel members.

Several Panel meetings were held during the year, the agenda of which included adoption of procedures, updates of trends and activity in financial standards, a mock case study to refine procedures and processes and included representation from ASIC to discuss some referral issues.

Some communication activity, attendance at seminars and speaker's engagements also occurred. During the course of the year a number of possible referrals to the FRP arose although ASIC and the lodging entity were able to reach agreements prior to a formal referral to the Panel. It is considered that the existence of the FRP may have facilitated agreement by the lodging entities to the concerns raised by ASIC.

In July 2007, the FRP received its first case referral and a sitting Panel was established. The dispute was successfully resolved when both ASIC and the lodging entity agreed to changes to the disputed financial report.

An objective of the FRP is the resolution of the dispute, ideally by willing agreement as to how the accounting standards should apply to specific cases and facts.

The strong compliance culture of Australian companies, the newness of the Panel, the successful implementation of IFRS and the buoyant economic conditions leading to quality earnings growth by companies are all factors that may help explain the modest level of case load received to date.

With the increasing costs associated with legal action and possible reappraisals of some hereto accepted International Accounting Standards interpretations, the number of cases is expected to increase over time.

## Liaison

The FRP is an independent body established under the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004*.

Referrals to the Panel can be made by ASIC or by a lodging entity if ASIC consents to the referral.

The FRP has agreed a mutual Statement of Expectations with ASIC. This Statement of Expectations is published on the FRP website.

The FRP conducts discussions with a wide range of industry and regulatory bodies.

As this is the first year of existence for the FRP an important task is to communicate to the business community about the role and function of the FRP.

The FRP has undertaken a number of market liaison initiatives during the year by attending and speaking at industry meetings and seminars. The FRP will be increasing its attention to liaison meetings in the coming year with the aim of improving awareness of its role and place within the governance of financial markets.

## Confidentiality and informality

The rationale for the creation of the FRP is to provide a cost effective, informal and largely confidential process whereby disputes on financial statements can be heard. Whilst the cost of legal action may be prohibitive to some parts of the community, for the corporation or entity that is required to lodge a public set of accounts there is also the opportunity cost of management resource time and perhaps unnecessary publicity that could give rise to uncertainty regarding the entities financial position during a lengthy public court case. The FRP proceedings are undertaken in private until such time as a determination is made. This should assist in avoiding unnecessary concern of the company's public reporting whilst the matter is

undecided. However, listed corporations are still required to meet their continuous disclosure requirements.

## Website and announcements

The FRP's website <http://www.frp.gov.au> is a major mechanism by which the FRP communicates its decisions.

Panel meetings and hearings are held in private (unless requested and agreed to otherwise) but upon the release of a determination it will be published on the website and, as required by legislation, provided to all parties involved including the market operator usually the ASX.

The website also contains media releases and other announcements made by the FRP.

## Organisational structure

The Panel's funding is included in the Treasury budget and the Panel Executive staff are employees of Treasury. The Treasury provides administrative and information technology support services to the FRP.

## Panel members

Panel members are appointed by the Minister under section 239 of the *ASIC Act*. All members have been appointed on a part-time basis, usually for a term of three years. Members are nominated on the basis of their experience and knowledge in one or more of the fields of accounting, auditing, business, and law or company administration. The Panel seeks to have a combination of skills to allow it to address the wide range of industries and financial reporting issues that may arise and to have an appropriate mix of professional, business, geographical and gender representation.

As at 30 June 2007, the Panel had a membership of eight. The Chairman of the Panel is Mr Paul Shannon – a senior audit partner with KPMG. The other members are: Mr Allen Craswell, Emeritus Professor of Accounting at The University of Sydney; Ms Brigid Curran, a financial reporting consultant; Mr Greg Ward, Head of Corporate affairs and CFO of Macquarie Bank; Mr Ken McKenzie, Financial Controller at Coca-Cola Amatil Ltd;

Mr Martin Fensome, Partner at Bentleys MRI; Mr Michael Burgess, Adjunct Professor of Commerce at the University of South Australia and Mr Ted Rofe, previously a Director and Chairman of the Australian Shareholders Association.

During 2006-07, Ms Ruth Picker of Ernst and Young ceased her membership with the Panel.

## Executive

As at 30 June 2007, the executive of the FRP consisted of two full-time staff based in Melbourne. The modest size of the executive is seen as appropriate given that this is the first year of operation of the Panel and it will take some time to become fully established as the preferred medium for resolving disputes on financial reports. However, the wide range of potential issues that the Panel may have to opine on and the commitment of the Panel to issue a determination within two months of referral will present some logistical challenges. Future staffing levels will be dependent on the number of referrals and the complexity of issues going forward.

The Executive is required to provide research on case matters and to undertake a liaison and communication role with the business community and practitioners in the accounting profession.

## CORPORATE GOVERNANCE

### Chairman

The Panel is made up of part-time members appointed by the Minister. The Minister has appointed Mr Paul Shannon as Chairman. The Chairman's responsibilities include:

- liaising with the Minister, Government, Treasury and stakeholders;
- reviewing the performance of the Panel Executive;
- making Panel rules;
- appointing the Chairman for 'Sitting Panels'; and
- considering the interests of Sitting Panel members for possible conflicts of interest.

### Executive team

As at 30 June 2007, the members of the Executive team were:

- Mr Paul Power, Executive Director; and
- Ms Marilyn Dango, Office Manager and Executive Assistant.

### Panel members

#### ***Mr Paul Shannon, FRP Chairman***

Mr Paul Shannon is a partner at KPMG in Melbourne, having joined the firm in 1976 and been admitted to partnership in 1986. Mr Shannon has over 30 years experience in providing audit and assurance services to Australian corporations in the Consumer and Industrial market sector. During his time at KPMG, Mr Shannon has served on National and International accounting and auditing policy committees of KPMG as well as held operational management positions within the firm. He is the lead Partner for two of Australia's largest industrial market companies and has concurring review partner responsibilities for several others. Mr Shannon has been involved in numerous assignments concerning due diligence of major transactions

including those involving public listings and acquisitions. He has also previously been a member of the Auditing and Assurance Standards Board.

#### ***Professor Michael Burgess***

Mr Michael Burgess is an Adjunct Professor of Commerce at the University of South Australia and a consultant to KPMG in the areas of health and not-for-profit organisations. He was previously a senior partner at KPMG. Over a period of 25 years he was actively involved in providing audit and financial advisory services to clients in Australia, Canada and the United States of America in the areas of financial services, insurance retailing, health care and manufacturing. Mr Burgess is also a member of the Board of Medical Insurance and the Advisory Board of the Australian Broadcasting Corporation.

#### ***Mr Allen Craswell***

Mr Allen Craswell is Emeritus Professor at the University of Sydney. Mr Craswell has significant knowledge of accounting and auditing, having spent several decades in teaching and as the Head of Department in Accounting, both in Australia and abroad. Mr Craswell has held professorial appointments at the Universities of Sydney, Queensland and Melbourne.

Mr Craswell is a member of the Auditing Standards and Education Boards of the Institute of Chartered Accountants in Australia, and he has produced a number of books, articles and edited works in auditing and accounting.

#### ***Ms Brigid Curran***

Ms Brigid Curran is an independent financial reporting consultant. She has previously held positions as National Technical Partner for Coopers & Lybrand and was a board member of the AASB and a member of the Urgent Issues Group. She has had a long history of involvement in the development and issuance of accounting pronouncements during her employment with the Australian Accounting Research Foundation (AARF) which included a period of secondment as technical director of the International Accounting Standards Committee (IASC).

#### ***Mr Martin Fensome***

Mr Martin Fensome is a Partner with Bentleys MRI in Melbourne. He has over twenty years experience at a senior level in providing external and internal audit services to a broad range of clients in both the private and public sector. He was also previously a senior project manager with Australian Accounting Research Foundation (AARF)

***Mr Ken McKenzie***

Mr Ken McKenzie has industry experience in the manufacturing, distribution and markets industry. He is the Financial Controller at Coca-Cola Amatil Ltd and previously held the position of Corporate Planning Manager and has been extensively involved in mergers and acquisition and business reorganisation.

Recently he participated in the International Accounting Standards Group (a group that acted as an avenue for dialogue between the Government and other stakeholders on issues surrounding the adoption of International Accounting Standards)

Prior to joining Coca-Cola Amatil Ltd he worked with Reckitt and Colman in key positions as Finance and Planning Manager of various businesses.

***Mr Ted Rofe***

Mr Ted Rofe was a Director and Chairman of the Australian Shareholders Association. He has practiced as a solicitor in NSW and has lectured in Financial Accounting at the University of NSW. He has also been a member of the UIG, the AARF Legislation Review Board, the Corporations Law Simplification Consultative Group and the Australian Securities and Investments Commission Consumer Advisory Panel.

***Mr Greg Ward***

Mr Greg Ward is Head of Corporate Affairs and Chief Financial Officer at Macquarie Bank Limited and is a member of the Bank's Executive Committee. He has previously been a member of the AASB, is a chartered accountant and has nearly 20 years experience in finance and financial services.

## PERFORMANCE INFORMATION OUTCOME AND OUTPUT INFORMATION

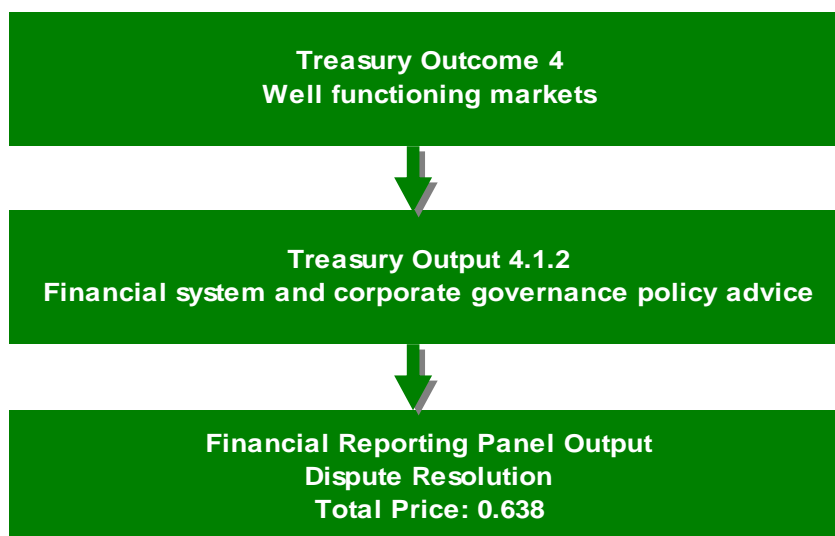
### Outcome and output structure

In 2006-07 the Panel's functions contributed to Treasury's Outcome 4. *'Well functioning markets'*

The Panel has characterised the output of its functions as being: dispute resolution (including industry liaison and consultation)

The best fit for Treasury's output to which the Panel's outputs contribute is the Treasury Output 'Financial System and Corporate Governance Policy Advice'.

**Chart 2: Outcome and Output flowchart**



**Table 1: Resources for outcomes and corporate governance.**

	<b>Budget Estimate 2006-07 (\$'000)</b>	<b>Actual 2006-07 (\$'000)</b>	<b>Variation</b>	<b>Budget Estimate 2007-08 (\$'000)</b>
Administered appropriations	0	0		0
Special appropriations				
Total administered appropriations	0	0		0
Output & Dispute resolution				
Total revenue from Government (appropriations) contributing to price of agency outputs	1,000	1,000	0	1,000
Total revenue from other sources	0	0		0
Total price of agency outputs	1,000	638	362	1,000
			<b>2006-07</b>	<b>2007-08</b>
Average staffing levels (number)			2	2

## Performance information

### Treasury output 4.1.2 — Financial system and corporate governance policy advice

Dispute resolution decisions are timely, consistent, procedurally fair and based on the correct application of accounting standards.

#### 2006-07 outcomes

The existence of the Panel as a fair, timely and inexpensive dispute resolution provider has contributed to well functioning markets by assisting in the resolution of disputes on accounting standards.

## Financial Reporting Panel — Financial information

**Table 2: Schedule of Revenues and Expenditures unaudited — for the year ended 30 June 2007**

	\$
<b>Appropriated revenues</b>	
Revenues from Government	1,000,000
<b>Total revenues</b>	1,000,000
<b>Employee expenses</b>	
Salaries	270,983
Employer superannuation	54,105
Other	56,748
<b>Total employee expenses</b>	381,836
<b>Operating expenses</b>	
Travel	43,306
Property operating expenses	74,251
Legal	25,657
Depreciation	56,076
Other expenses	57,285
<b>Total operating expenses</b>	256,575
<b>Total expenses incurred to 30 June 2007</b>	<b>638,411</b>
<b>Balance of allocation after operating expenditure</b>	<b>361,589</b>

## Notes to the schedule of revenue and expenditures for the year ended 30 June 2007

### Statement of Accounting Policies

The significant accounting policies, which have been adopted in the preparation of this financial information, are:

### Basis of preparation

The financial information is special purpose financial information, prepared for inclusion in the Financial Reporting Panel (the Panel) Annual Report for the year ended 30 June 2007. The financial information has been prepared on an accruals basis and on the basis of historical costs.

## **Revenue recognition**

### *Government appropriations*

Revenues from Government appropriations are recognised when received or declared by the Treasurer in the Federal Budget (Budget Paper No. 2, Part II Expense Measures, Treasury). Revenue appropriated from Government includes \$1.0 million as classified revenue.

## **Expenses**

Expenses are recognised as they accrue. The Panel's expenses for 2006-07 are also recorded in Treasury's audited financial statements for the period 1 July 2006–30 June 2007.

## **Balance of allocation after operating expenditure**

The balance of allocation after operating expenditure for the period 1 July 2006–30 June 2007 was a surplus of \$361,589.

## **Salaries and members annual sitting fees**

Salaries and members sitting fees are recognised as they accrue.

## **Acquisition of assets**

### *Assets*

All assets greater than \$2,000 including property, plant and equipment are initially capitalised at their cost at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

## MANAGEMENT AND ACCOUNTABILITY

### Governance

#### External scrutiny

The FRP's determinations are not binding on either the ASIC or on the lodging entity. However ASIC has publicly stated that it will support the determination made. Technically, the FRP's decisions are subject to review by the Federal Court under the *Administrative Decisions' (Judicial Review) Act 1977 (ADJR)* but such reviews are considered unlikely given the non-binding nature of the FRP's determinations.

The FRP is an alternative dispute forum which assesses the facts of a matter and interprets how they fit within the existing accounting standards. However, the FRP recognises the importance of the disputants being comfortable with the process and readily accepting the validity of its determinations. The approach adopted by the FRP, whilst not strictly allowing for a consensus-orientated approach is one of informality and information sharing with the goal of achieving agreement of the disputants to the determination.

#### Ethics

FRP staff are required to adhere to the *Australian Public Service* values and code of conduct under the *Public Service Act 1999*.

*Australian Public Service* values include performing functions impartially and professionally, the highest ethical standards, open accountability and delivering services fairly, effectively, impartially and courteously to the Australian public.

The requirements of the code of conduct include honesty, care and diligence, compliance with the Law and avoiding conflicts of interest.

#### Government scrutiny

The FRP was not subject to any reports by the *Australian National Audit Office* or any Parliamentary committees during 2006-07.

## Ombudsman

The FRP was not subject to any reports by the Commonwealth Ombudsman during 2006-07.

## Management of human resources

As at 30 June 2007, the FRP's Executive staff consisted of two ongoing permanent members of staff.

## Staffing information

The following table represents the number of staff employed by the FRP, by classification and gender as at 30 June 2007. Permanent staff are employed under the *Public Service Act 1999*.

**Table 3: Operative staff by classification and gender**

Classification	Permanent full time		Total
	Male	Female	
APS4		1	1
SEB1	1		1
<b>Total</b>	<b>1</b>	<b>1</b>	<b>2</b>

A description of each acronym used in the above table can be found in the Abbreviations and Acronyms.

## Australian Workplace Agreements

Treasury offers Australian Workplace Agreements (AWAs) to all Senior Executive Service (SES) and some non-SES staff. The SES member of staff on the FRP Executive was employed under an AWA. The FRP did not make any specific performance pay or bonus payments.

## Staff development

Staff attended workshops and training sessions during this financial year in the areas of financial accounting and office administration.

The FRP seeks to ensure that its staff continuously develop their core skills and keep up-to-date with developments in accounting standards and finance practices in the corporate sector.

## Remuneration for SES

The SES staff member of the FRP is employed under an individually negotiated Treasury AWA.

## Remuneration for non-SES

The Treasury Certified Agreement 2007-2009 determines the salary rates for non-SES staff of the FRP. Details and statistics on non-SES remuneration are included in the Treasury Annual Report, Part 3: Management and Accountability, Management of Human Resources.

## Workplace diversity

At 30 June 2007, the FRP Executive consisted of 2 staff members of which one was male and one female.

The FRP adopts Treasury's policies and procedures in relation to Equal Employment Opportunity (EEO). Details and statistics on operative and paid inoperative staff by EEO target group and EEO appointments to the FRP are included in the Treasury Annual Report, Part 3: Management and Accountability, Workplace Diversity.

## Industrial democracy

The FRP has adopted Treasury's Certified Agreement Performance Management System and Treasury Management Model.

Industrial democracy issues are dealt with by Treasury's Workplace Relations Committee.

## Occupational health and safety (OH&S)

As employees of Treasury, FRP staff and members have the benefit of Treasury's OH&S programmes and functions.

The FRP has adopted the Employee Assistance Program, an external service organised by Treasury for employees and their families.

The FRP encourages its staff to complete or maintain First Aid qualifications.

There were no accidents, injuries or dangerous occurrences notified to Comcare in 2006-07. One incident was reported to Treasury, which resulted in a compensation claim.

## Commonwealth disability strategy

The FRP adopts Treasury's policies and procedures in relation to the Commonwealth's disability strategy.

## Consultants and competitive tendering and contracting

During 2006-07, a consulting contract was entered into for the provision of services in relation to the development and implementation of a communication strategy which involved total actual expenditure in that period of \$6617.

An arrangement for the provision of legal services by the Australian Government Solicitor (AGS) was also undertaken as a direct tender. The total expenditure on legal advice for 2006-07 was \$28,222.

## Discretionary grants

The FRP made no discretionary grants in 2006-07.

## Advertising and market research

The FRP did not carry out any advertising or market research during 2006/07.

## Environmental performance

The FRP consciously undertakes energy saving and recycling on its premises by exercising the following:

- power save mode features on all office equipment;
- power on desktop computers turned off at the end of each business day;

- lights switched off in unused areas during business hours;
- paper and cardboard recycling; and
- the FRP does not operate any vehicles.

## Freedom of information

Given the commercially sensitive nature of matters being considered, and the time pressures imposed on the FRP by relevant legislation, proceedings are generally conducted in private. However, the FRP has the power to invite submissions from any person, to accept submissions made by interested persons who are not formal parties to specific proceedings, and to call for persons to make submissions in relation to specific proceedings.

## Freedom under section 8 of the *Freedom Information Act 1982*

The Financial Reporting Panel is an agency within the Treasury portfolio, and was established under section 239 of the *Australian Securities and Investments Commission Act 2001*.

## Organisation, functions and powers

The FRP's organisation, functions and powers are set out in previous sections of this report.

## Categories of documents held by the Panel

The Panel maintains the following categories of documents:

- lodged applications;
- correspondence, evidence and submissions relation to proceedings;
- independent expert advices;
- reasons for decisions;
- press releases;

- rules for proceedings;
- research relating to accounting issues and standards;`
- administrative and financial documents relation to the Panel's operations;
- general correspondence; and
- resources (that is, internet links to: Australian legislation and regulations; relevant Parliamentary reports; international regulators; Australian corporate law websites and professional associations websites).

The documents accessible to the public for viewing are the FRP's determinations, press releases and annual reports.

## Access to documents

The primary method of access to FRP documents is from the FRP website. The FRP seeks to ensure that all publicly available documents are on its website.

## Freedom of information activity in 2006-07

The FRP did not receive any applications for access to documents under the *Freedom of Information Act 1982* in 2006-07.

## Regulatory impact statements

The FRP did not submit any Regulatory Impact Statements in 2006-07.

## **PANEL MEMBERS**

### **Members of the Panel on 1 July 2006 were:**

Mr Paul Shannon – Chairman

Mr Allen Craswell

Ms Brigid Curran

Mr Greg Ward

Mr Ken McKenzie

Mr Martin Fensome

Mr Michael Burgess

Ms Ruth Picker

Mr Ted Rofe

The appointments for the Chairman and the members of the Panel are for three years expiring on 7 May 2009.

New Members appointed to the Panel in 2006-07:

No new appointments were made during the year.

Members who ceased their membership of the Panel in 2006-07 were:  
Ruth Picker.

## ABBREVIATIONS AND ACRONYMS

Act	<i>Corporations Act (Cth) 2001</i>
AARF	Australian Accounting Research Foundation
AASB	Australian Accounting Standards Board
ADR	Alternate Dispute Resolution
ADJR	<i>Administrative Decisions (Judicial Review) Act 1977</i>
AGS	Australian Government Solicitor
ANAO	Australian National Audit Office
APS	Australian Public Service
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange Limited
AUASB	Auditing and Assurance Standards Board
AWA	Australian Workplace Agreement
CLERP	Corporate Law Economic Reform Program
EEO	Equal Employment Opportunity
FRC	Financial Reporting Council
FRP	Financial Reporting Panel
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
OH&S	Occupational Health and Safety
SES	Senior Executive Service
UIG	Urgent Issues Group



