

# **Financial Reporting Panel**

**Annual Report**

**2007-2008**

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

3 October 2008

Senator the Hon Nick Sherry  
Minister for Superannuation and Corporate Law  
Parliament House  
Canberra ACT 2600

Dear Minister

**ANNUAL REPORT 2007-2008**

I have pleasure in presenting to you, in accordance with section 239AM of the *Australian Securities and Investments Commission Act 2001*, the 2007-08 Annual Report on the operations of the Financial Reporting Panel (FRP) for presentation to the Parliament.

The report has been prepared in accordance with the *Requirements for Annual Reports for departments, executive agencies and FMA ACT bodies*, approved by the Joint Committee of Public Accounts and Audit in June 2008.

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 program, membership, financial information and management.

Yours sincerely

A handwritten signature in black ink, 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 application of accounting standards in its financial reports.

The relevant legislation pertaining to the FRP is Division 9 of Part 2M.3, 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)*.

This report gives an overview of the FRP's operational program, 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

The contact officer to whom enquiries regarding this report may be directed is:

Stephen Powell  
Executive Director  
Financial Reporting Panel  
Australian Treasury, Langton Crescent  
PARKES ACT 2600

Telephone: 02 6263 3167  
Facsimile: 02 6263 2770

[stephen.powell@treasury.gov.au](mailto:stephen.powell@treasury.gov.au)

## REVIEW BY THE CHAIRMAN

### Activities during the year

During the period, 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 between ASIC and the company. 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. This is consistent with the FRP's policy objective of assisting in the timely resolution of financial reporting disputes between ASIC and an entity. As this case was successfully resolved between the parties, no determination was issued.

The Panel's other focus during the period was to continue its liaison activities with key stakeholders. In particular, FRP members met with officers of the Australian Securities and Investments Commission to discuss financial reporting surveillance in Australia and ASIC's surveillance priorities. The Panel also met with the Minister for Superannuation and Corporate Law, Senator the Hon Nick Sherry, to provide him with a briefing on the Panel's activities. In addition, the Panel continued its liaison with industry to promote knowledge and awareness of the FRP.

During the period, Mr Greg Ward resigned from the Panel. Mr Ward had been with the Panel since its inception, and I thank him for his contribution to the development of the FRP.

### Outlook for 2008-09

The increased financial market volatility witnessed during 2007-08, along with the tightening of credit conditions, are likely to have a significant impact on the 2007-08 financial reports of many Australian companies. This has already been witnessed with some companies announcing significant earnings downgrades following the recognition of impairment losses.

ASIC has announced their financial reporting surveillance priorities for the 2008-09 financial year. Areas of interest include asset impairment, the classification of debt, off-balance sheet arrangements, fair value measurement, foreign currency, disclosure of significant judgements and the going concern assumption. These priorities reflect the financial market conditions facing Australian companies.

The FRP's main focus for 2008-09 will be ensuring that it is ready to resolve any disputes emanating from ASIC's current surveillance program. The FRP also expects to continue its liaison activities with key stakeholders.

## OVERVIEW OF THE FRP

### Role and functions of the FRP

The FRP commenced operations in July 2006. The Panel is established under the *Corporations Act 2001* and provides an alternative dispute resolution mechanism to determine contested issues between ASIC and entities concerning the application of accounting standards and the true and fair view requirement in financial reports.

Prior to the establishment of the FRP, the only method for resolving these disputes was through legal action between ASIC and the entity, which has the potential to be both a costly and lengthy process. The FRP provides a more timely avenue for resolving these cases (the Corporations Act requires the FRP to determine cases within 60 days of the matter being referred to the Panel). In addition, matters referred to the FRP are considered by people experienced in accounting matters rather than lawyers/judges helping to reduce the cost of handling these disputes and facilitate more appropriate outcomes. Following consideration by the FRP either ASIC or the company may elect to process the matter through the courts.

A similar regime is also in place in the UK where accounting disputes are heard by the Financial Reporting Review Panel (FRRP) in the first instance rather than the courts.

### Referrals 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 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 complies 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.

## Panel members

The Panel is comprised of part-time members with knowledge or experience in accounting, auditing, business, company administration or law. All appointments are made by the responsible Minister.

As at 30 June 2008, the Panel comprised seven members including the Chairman (details below). During the period one member (Mr Greg Ward) resigned from the Panel. No new appointments were made during the period. The terms of all appointments expire on 7 May 2009.

### ***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. Mr Shannon 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 PricewaterhouseCoopers 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 the Partner in Charge of the Audit and Assurance division of Bentleys Melbourne. He has over twenty-five years experience, both within Australia and overseas, in providing external and internal assurance services to a broad range of clients in both the private and public sector and has made numerous presentations at various forums on financial reporting. He was previously a senior project manager with the Australian Accounting Research Foundation (AARF).

***Mr Ken McKenzie***

Mr Ken McKenzie has substantial experience in the manufacturing, distribution and marketing of consumer products industry. He is the Chief Financial Officer – Statutory & Compliance at Coca-Cola Amatil Ltd and

previously held the positions of Group Controller and Corporate Planning Manager. He 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). He is also current Chairman of the ASIC Standing Committee.

Prior to joining Coca-Cola Amatil Ltd, he worked with the Reckitt & Colman Group in key senior financial positions across 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.

## Organisational structure

The Panel's funding is included in the Treasury budget, and the Panel executive are employees of Treasury.

## PERFORMANCE INFORMATION OUTCOME AND OUTPUT INFORMATION

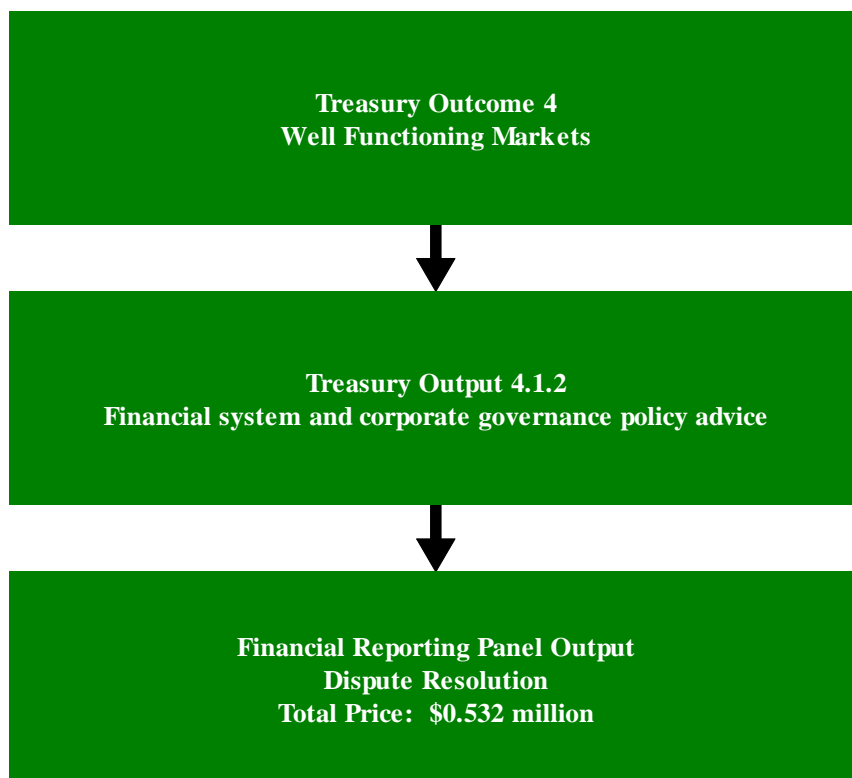
### Outcome and output structure

In 2007-08 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 1: Outcome and Output flowchart**



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

	<b>Budget Estimate 2007-08 (\$'000)</b>	<b>Actual 2007-08 (\$'000)</b>	<b>Variation</b>	<b>Budget Estimate 2008-09 (\$'000)</b>
Financial Reporting Panel				
Total revenue from Government (appropriations) contributing to price of agency outputs	1,000	1,000	0	980
Total revenue from other sources	0	0		0
Total price of agency outputs	1,000	532	468	980
			<b>2007-08</b>	<b>2008-09</b>
Average staffing levels (number)			2	1

## 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.

#### **2007-08 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 2008**

	<b>\$</b>
<b>Appropriated revenues</b>	
Revenues from Government	1,000,000
<b>Total revenues</b>	<b>1,000,000</b>
<b>Employee expenses</b>	
Salaries	214,839
Employer superannuation	42,072
Other	109,235
<b>Total employee expenses</b>	<b>366,146</b>
<b>Operating expenses</b>	
Travel	12,933
Property operating expenses	73,454
Legal	7,388
Depreciation	35,498
Other expenses	36,929
<b>Total operating expenses</b>	<b>166,202</b>
<b>Total expenses incurred to 30 June 2007</b>	<b>532,348</b>
<b>Balance of allocation after operating expenditure</b>	<b>467,652</b>

## Notes to the schedule of revenue and expenditures for the year ended 30 June 2008

**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 2008. The financial information has been prepared on an accruals basis.

*Revenue recognition*

## Government appropriations

Revenues from Government appropriations are recognised when received.

*Expenses*

Expenses are recognised as they accrue. The Panel's expenses for 2007-08 are also recorded in Treasury's audited financial statements for the period 1 July 2007 to 30 June 2008.

*Balance of allocation after operating expenditure*

The balance of allocation after operating expenditure for the period 1 July 2007 to 30 June 2008 was a surplus of \$467,652.

*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, GOVERNANCE AND ACCOUNTABILITY

### 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 2008, the members of the Executive team were:

- Mr Stephen Powell, Executive Director; and
- Ms Marilyn Dango, Office Manager and Executive Assistant.

During the period, Mr Paul Power resigned from the position of Executive Director.

### Governance

#### External scrutiny

The FRP's determinations are not binding on either ASIC or on the lodging entity. However, ASIC has publicly stated that it will support the determinations made. Technically, the FRP's decisions are subject to review by the Federal Court under the *Administrative Decisions (Judicial Review) Act 1977* 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 2007-08.

### **Ombudsman**

The FRP was not subject to any reports by the Commonwealth Ombudsman during 2007-08.

## **Management of human resources**

As at 30 June 2008, 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 2008. 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
EL1	1		1
<b>Total</b>	<b>1</b>	<b>1</b>	<b>2</b>

## Australian Workplace Agreements

The EL1 member of staff on the FRP Executive was employed under an AWA. The AWA expires on 6 September 2009. The FRP did not make any specific performance pay or bonus payments.

## Staff development

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.

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

## Remuneration

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

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.

At 30 June 2008, the FRP Executive consisted of two staff members of which one was male and one female.

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

There were no accidents, injuries or dangerous occurrences notified to Comcare in 2007-08.

## 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

The consulting contract entered into in 2006-07 for the provision of services in relation to the development and implementation of a communication strategy continued during 2007-08. Total expenditure during 2007-08 on this contract was \$26,433.

## Discretionary grants

The FRP made no discretionary grants in 2007-08.

## Advertising and market research

The FRP did not carry out any advertising or market research during 2007-08.

## 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.

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

The Financial Reporting Panel is an agency within the Treasury portfolio in relation to the application of the Freedom of Information Act, 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.

Alternatively, formal freedom of information requests can be sent to:

The Freedom of Information Officer  
Australian Treasury  
Langton Crescent  
PARKES ACT 2600

### **Freedom of information activity in 2007-08**

The FRP did not receive any applications for access to documents under the *Freedom of Information Act 1982* in 2007-08.

### **Regulatory impact statements**

The FRP did not submit any Regulatory Impact Statements in 2007-08.



## ABBREVIATIONS AND ACRONYMS

Act	<i>Corporations Act (Cth) 2001</i>
AARF	Australian Accounting Research Foundation
AASB	Australian Accounting Standards Board
ADJR	<i>Administrative Decisions (Judicial Review) Act 1977</i>
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
EEO	Equal employment opportunity
FRP	Financial Reporting Panel
OH&S	Occupational health and safety
UIG	Urgent Issues Group



