

# The roles and objectives of aasb



“ The AASB is hardly an independent standard setting body. Its policies and activities are subjected to the dictation and supervision by at least two big brothers – the IASB and the FRC, not to mention the ASIC.”

A critical evaluation of this statement has been done in the light of the present accounting regulatory environment in Australia. This study had a detailed analysis within the concerned Government websites of Australia, annual reports, journal and documents.

This paper will discuss the various roles and objectives of AASB as an accounting standard setting body and its relationship to FRC, IASB and ASIC in achieving its task. Finally helps to reach a conclusion whether agree or not to agree with the above statement.

The Australian Accounting Standard Board (AASB)

AASB is an independent Australian Government agency under the Australian Securities and Investments Commission Act 2001. It has responsibility for the development of accounting standards for application by companies and by other entities in the private and public sectors, and for the development of Statements of Accounting Concepts. (Lundqvist k, 2003)

AASB (2009, pp 23-24) in the Annual report 2009, describes the function, mission, vision and objectives of AASB

### **Statutory functions of AASB:**

To develop a conceptual framework for the purpose of evaluating proposed standards;

To make accounting standards under section 334 of the Corporations Act 2001;

To formulate accounting standards for other purposes;

To participate in and contribute to the development of a single set of accounting standards for worldwide use;

To advance and promote the main objects of Part 12 of the ASIC Act, which include reducing the cost of capital, enabling Australian entities to compete effectively overseas and maintaining investor confidence in the Australian economy.

### **Vision of AASB**

To be recognised as a global centre of excellence, delivering a truly distinctive contribution to the development of high-quality financial reporting standards.

### **Mission of the AASB**

To develop and maintain high-quality financial reporting standards for all sectors of the Australian economy

To contribute, through leadership and talent, to the development of global financial reporting standards and to be recognised as facilitating the inclusion of the Australian community in global standard setting.

The major standard-setting objectives of the AASB, as set out in its 2006-07 annual report, are to:

issue Australian versions of International Accounting Standards Board documents;

produce standards that treat like transactions consistently;

significantly influence the development of International Financial Reporting Standards;

identify areas requiring fundamental review and introduce standards to cover those areas; and

promote globally consistent application and interpretation of accounting standards.

## **The Standard-Setting Process**

The following diagram is a simplified view of the standard-setting process.

## **Organisational Structure**

The following diagram shows the relationships between other bodies and the AASB.

Source: Adapted from AASB (2009)

As an independent standard setting body, AASB is responsible for the development of accounting standards for application by companies and by other entities in the private and public sectors, and for the development of Statements of Accounting Concepts.

(Lundqvist k, 2003)

The policies and activities of AASB are subject to the supervision of an advisory body, FRC. AASB implemented the broad strategic direction from FRC to adopt International Accounting Standards Board (IASB) standards for financial reporting

## **Financial Reporting Council (FRC)**

FRC (2009) in its website makes a broad understanding on its responsibilities, functions and objectives.

The Financial Reporting Council (FRC) is a statutory body under the Australian as amended

by the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure)

Act 2004.

FRC is responsible for providing broad oversight of the process for setting 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.

## **Responsibilities of FRC on accounting standard setting functions:**

appointing the members of the AASB (other than the Chairmen);

approving and monitoring the AASB's priorities; business plans; budgets; and staffing arrangements (including level, structure and composition of staffing);

determining the AASB's broad strategic directions;

giving the AASB directions, advice or feedback on matters of general policy and on the AASB's procedures;

monitoring the development of international standards that apply in major international financial centres;

furthering the development of a single set of accounting standards for world-wide use with appropriate regard to international developments;

promoting the continued adoption of international best practice accounting standards in the Australian accounting 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 operation of accounting 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;

the effectiveness of the consultative arrangements used by the AASB

seeking contributions towards the costs of the Australian accounting standard setting processes;

monitoring and periodically reviewing the level of funding, and the funding arrangements, for the AASB

## **Objectives of the FRC in relation to Accounting standards**

The FRC operates within a framework set out in the ASIC Act.

Main objectives are:

Accounting standards should require the provision of information that:

allows users to make and evaluate decisions about allocating scarce resources;

assists directors to discharge their obligations in relation to financial reporting;

is relevant to assessing performance, financial position, financing and investment;

is relevant and reliable;

facilitates comparability; and

is readily understandable.

Accounting standards should facilitate the Australian economy by reducing the cost of capital and enabling Australian entities to compete effectively overseas.

Accounting should facilitate the Australian economy by having accounting standards that are clearly stated and easy to understand.

Accounting standards should maintain investor confidence in the Australian economy, including its capital markets.

Functions and Objectives of FRC clarifies its limitations on standard setting.

According to Leo et. al (2008, pp 16) FRC has the power to do all things necessary to perform its functions, including establishment of committees and advisory groups. In particular FRC has to ensure that standards set by AASB are in harmony with standards established in international level so that there is no competitive disadvantage overseas for Australian businesses.

To ensure that AASB as an independent standard setter there is a provision under the ACT that expressly limits the FRC's ability to become involved in the technical deliberations of the AASB. It provides that the FRC does not have power to direct the AASB in relation to the development, or making, of a particular standard, or to veto a standard formulated or recommended by the AASB .(FRC, 2009)

Bowrey G (2007) in his article has a significant argument on the independence of AASB. In ASIC Act 2001 the role of the FRC could be summarised as providing broad oversight for setting accounting standards in Australia. Indeed section 225 of the ASIC Act 2001 outlines that the FRC does <https://assignbuster.com/the-roles-and-objectives-of-aasb/>



not have the ability to become involved in the technical deliberations of the AASB, nor does it have power to direct the AASB in the development of a particular standard and nor does the FRC have the power to veto a standard made or recommended by the AASB. These limitations placed on the FRC are to ensure the independence of the standard setter.

The notion of independence of the AASB is eroded by the fact of direct control on the appointment of the members. The notion of independence is even further eroded because the FRC sets the AASB's priorities, its business plans, budgeting and even its staffing arrangements. The government through department, Treasury, has financial and operational control of the FRC and in turn the AASB.

In this article again question of independence arises where, the budgets of all government organisations go through a significantly in-depth evaluation process through the Senate Estimates. So even though the FRC sets the AASB's budget, before any money is provided the budget estimates need to go through the senate for approval. So how is it possible for the AASB to be independent? The fact that current and potential government (opposition) members have the power to decide for what and how much to fund the board certainly supports the argument about the lack of independence. There doesn't appear to be any independence on the contrary the AASB seems to be highly dependent on both FRC and the Parliament.

The argument in this article ended without reaching a specific conclusion as there is specific legislation this government has enacted to ensure there is independence in the accounting standard setting process.

Hockey J (1999) in his speech addressing to the Group of 100 Executive Dinner Meeting in Sydney suggested that the FRC might have too much power and too much control over the standard setter. He said that even though 225 of the ASIC Act 2001 placed some limitation over FRC the new AASB, though independent, will be fully accountable to the FRC in much the same way that the UK Accounting Standards Board is to the UK Financial Reporting Council and the US Financial Accounting Standards Board is to the US Financial Accounting Foundation.

“ Under a strategy adopted by the Financial Reporting Council [1] in July 2002, the Australian Accounting Standards Board (AASB) is obliged to work towards the full implementation of the International Accounting Standards (IAS) (now known as International Financial Reporting Standards (IFRS) [2]) in Australia.”(Hay A, 2004).

The primary objective of the new accounting standards is the expected efficiency of the capital markets that will arise from the existence of a set of globally acceptable accounting standards that result in high quality comparable and transparent financial reporting. In short, an objective of the harmonisation of international accounting standards is a worldwide effort to restore confidence in corporate reporting and create a free flow of capital worldwide. A second objective is the facilitation of cross border comparison of accounts by investors, leading to a reduced cost of capital for Australian companies and assisting them to raise capital or list overseas.

From this it is clear that IASB is not directing to adopt any standard but it is for the efficiency of capital market and for a reduced cost of capital AASB does so.

In an article, Brown AM et. al (2007) consider AASB, as one of the operating bodies of FRC which does the functions of FRC. In this article it is said that FRC oversees the activities of AASB and has no technical role on the standard setting .

In adoption of international accounting standards when started from 2005 FRC said that the Australian Accounting Standards Board would decide the appropriate time at which future amendments to those standards would be made law in Australia. (Tom, R 2006). This also an indication of the AASB's independence in standard setting and the amendments of those standard set.

### **The International Accounting Standards Board (IASB)**

“ The International Accounting Standards Board (IASB) is an independent, privately-funded accounting standard-setter based in London, England. The IASB is committed to developing in the public interest, a single set of high quality , understandable and enforceable global accounting standards that require transparent and comparable information in general purpose financial statement . In addition IASB cooperates with national accounting standard setters o achieve convergence in accounting standards around the world”.

( Leo et. al (2008, pp 21))

IASB as an independent, private-sector body develops and approves International Financial

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Reporting Standards. The IASB operates under the oversight of the International Accounting

Standards Committee Foundation. The IASB was formed in 2001 to replace the International

Accounting Standards Committee.

IAS Plus International Accounting Standards, explains the objectives of IASB

To develop, in the public interest, a single set of high quality, understandable and enforceable global accounting standards that require high quality, transparent and comparable information in financial statements and other financial reporting to help participants in the world's capital markets and other users make economic decisions;

To promote the use and rigorous application of those standards;

To fulfil the above objectives and, to take account of, as appropriate, the special needs of small and medium-sized entities and emerging economies; and

To bring about convergence of national accounting standards and International Accounting Standards and International Financial Reporting Standards to high quality solutions.

### **Adoption of IASB Standards by AASB**

Adoption of IASB Standards by AASB is explained by AASB(2009) in its website.

AASB made Australian equivalents to International Accounting Standards Board

(IASB) standards on 15 July 2004. The overall approach of AASB is to adopt the content and words of IASB standards, accommodating the Australian legislative environment with only the words being changed.

Main focus of IASB is on for-profit entities whereas AASB is responsible for setting accounting standards for all types of reporting entities. Suitably identified additional text, is included in the AASB standards to deal with those limited cases where there is a need to have different or additional requirements for not-for-profit entities. These additions do not impact on the requirements in relation to for-profit entities

There are circumstances in which a not-for-profit entity complying with the Australian

equivalents to the IASB standards will not be able to simultaneously comply with the IASB

standards because the additional requirements for not-for-profit entities are inconsistent with the IASB requirements.

In some cases, existing AASB standards contain helpful commentary that is not included in

the equivalent IASB standards. The AASB retains this commentary as guidance that is not

part of the standards where it is considered to be of benefit to users of AASB standards and

provided it does not contradict the content of Australian equivalents to IASB standards.

Thus AASB is aiming for the highest quality financial reporting in adopting IASB standards.

### **Australian Securities and Investments Commission (ASIC)**

According to ASIC(2009) , ASIC is Australia's corporate, markets and financial services regulator, which is an independent Commonwealth Government body set up under and administer the Australian Securities and Investments Commission Act (ASIC Act), and carry out most of work under the Corporations Act.

ASIC ensures that Australia's financial markets are fair and transparent, supported by confident and informed investors and consumers.

ASIC regulate Australian companies, financial markets, financial services organisations and professionals who deal and advise in investments, superannuation, insurance, deposit taking and credit.

### **ASIC's Statutory Role and Responsibilities**

Cameron A (2000) discuss the role and responsibilities of ASIC

ASIC's role in the financial reporting system is not well understood

Responsibilities and Obligations in regard to financial reporting imposed on ASIC by the Corporations Law are as follows

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Monitoring and enforcing compliance with financial reporting requirements of the Law, including the accounting standards.

Powers to exempt companies from the requirements of Accounting Standards and other provisions of the Law, and to modify the application of the Law.

## **Relationship Between ASIC and the AASB**

ASIC is in full support of the AASB's standard setting process. Both agencies share

information and regulatory concerns. ASIC gives information of concerns of accounting practices that come to their attention under their activities and ensures that the Board is aware of the views on their proposals for new standards and revisions to existing ones, as

market regulator. All contributions made by ASIC have to be considered by the Board on making a final decision on Standards. (Cameron A, 2000)

ASIC's role is to contribute to the development of high quality standards to promote market integrity generally, and to enforce the individual Standards made by the Board.

Even though ASIC does not have authority to establish or veto accounting standards, ASIC does have the power to exempt or modify them.

ASIC also develops policy on applying financial reporting requirements of the Law in

new and problem areas. For example, development of transitional reporting requirements of building societies, credit unions and friendly societies.

## **Functions under Australian Securities and Investments Commission Act 2001 (ASIC, 2009)**

Maintain, facilitate and improve the performance of the financial system and entities in it

Promote confident and informed participation by investors and consumers in the financial system

Administer the law effectively and with minimal procedural requirements

Enforce and give effect to the law

Receive, process and store, efficiently and quickly, information that is given to us

Make information about companies and other bodies available to the public as soon as practicable.

## **Conclusion**

To conclude the above statement can be agreed only to some extent . The statement specifies the activities of AASB are under the supervision of FRC, and it is the function of FRC to oversee the process of setting accounting standards, but the Act has placed limitations on FRC to ensure the independence of the standard setter. AASB aims for the high quality financial reporting in adopting IASB standards. The role of ASIC is to contribute towards the development of standards by AASB. In short, the combined



effort of the bodies will help develop and maintain high-quality financial reporting standards for all sectors of the Australian economy