Directors and financial reporting

This information sheet explains your financial reporting responsibilities as a director. It covers:

- your general duties
- your company’s duty to keep proper books and records
- what you should consider when preparing a financial report
- your financial knowledge obligations, and
- your relationship with the auditor.

Your general duties

Directors have a duty of care and diligence under both general law and the Corporations Act 2001 (Corporations Act).

A director is an essential component of corporate governance. Each director is placed at the apex of the structure of direction and management of a company.

What you must do

As a director, you have a core, irreducible requirement of involvement in the management of the company. You must take reasonable steps to place yourself in a position to guide and monitor the management of the company.

Your responsibilities are not limited by your particular background knowledge and experience. You must become familiar with the business of your company and how it is run, and ensure that your company is being properly run by management.

If you take on a role with special responsibilities, such as the chair of an audit committee or the role of an executive director, you must discharge the increased responsibilities expected of directors in such positions with appropriate care and diligence.

You must take reasonable steps to comply with, or secure compliance with, the financial reporting and audit requirements of the Corporations Act, including the requirement to keep proper books and records.
Your company’s duty to keep records

Your company must keep written financial records that:

- correctly record and explain the company’s transactions and its financial position and performance, and
- enable true and fair financial statements to be prepared and audited.

Your obligation extends to ensuring that your company’s records are complete and accurate through the adoption of appropriate accounting policies and the design and implementation of appropriate controls and processes. This obligation exists regardless of whether books and records are maintained in-house or outsourced to a third party, or whether they are electronic or hard copy records.

For more information, see Information Sheet 76 *What books and records should my company keep?* (INFO 76).

Your financial reporting obligations

Your company must lodge financial reports with ASIC and the reports must include a directors’ declaration that includes:

- whether, in the directors’ opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due
- whether the financial statements and notes comply with accounting standards, and give a true and fair view of the financial position and performance of the company and any consolidated entity, and
- if your company is listed, whether the directors have been given the declarations required by the chief executive officer (CEO) and chief financial officer (CFO).

What you must consider

Each director has a duty of skill, competence and diligence in the understanding of the financial report that is to be disclosed to the public.

You must read, understand and focus on the contents of the financial report. You must apply your own mind to, and carry out a careful review of, the financial report and directors’ report, determine that the information they contain is consistent with your knowledge of the company’s financial position and affairs, and ensure that material matters known to you, or that should be known to you, are not omitted.

In reading the financial report, you should:

- ensure, as far as possible and reasonable, that the information included is accurate
- question the accounting treatments applied, and
- examine the adequacy of disclosures and whether any matters have not been disclosed that should be disclosed.

When reviewing the financial report, you should inquire further into the matters revealed by that financial report.

Using external advice and information

You are entitled to delegate to others the preparation of books and financial reports. However, you are expected to take a diligent and intelligent interest in the information available to you, to understand that information, and apply an inquiring mind.

In making inquiries, you might request that management obtains professional accounting advice on whether treatments to be applied in the financial report comply with accounting standards and give a true and fair view. You must ensure that any such advice is provided by
a suitably qualified accountant with an appropriate level of expertise and knowledge of the accounting standards, and that such advice is unbiased and objective.

You should also read and focus on the content of any market announcements of results, presentations to investors or briefings to analysts.

Financial reporting quality
To ensure that financial reports are of high quality, and that useful and meaningful information is provided to users of financial reports, entities should:

- have a culture focused on quality financial reporting
- have appropriate governance arrangements, and processes and controls
- ensure the financial knowledge of directors is adequate
- apply the accounting standards
- apply appropriate experience and expertise to financial reporting, and the underlying processes supporting the information in the financial report, including engaging external experts where appropriate, and
- consider accountability and internal incentives for company management that are focused on financial reporting quality.

Audit committees
An audit committee plays an important role in ensuring financial reporting and audit quality. However, the existence of an audit committee does not diminish your responsibility in relation to the company’s financial report.

See also Information Sheet 196 Audit quality: The role of directors and audit committees (INFO 196).

CEO and CFO declarations
You must ensure that the CEO and CFO have sufficient qualifications, knowledge, competence, experience and integrity to undertake their roles.

If your company is listed, you must receive declarations from the CEO and CFO concerning the financial records of the company, and whether the financial report complies with accounting standards and the requirement to give a true and fair view. These declarations in no way reduce your responsibility as a director for ensuring that the financial report complies with the requirements of the Corporations Act.

Your financial knowledge
Directors are important gatekeepers in the financial system in the provision of meaningful and useful information through financial reports. The quality of the financial report is key to ensuring confident and informed markets and users.

What you should know
You are required to have sufficient knowledge of accounting principles and practices. You should ensure that you are appropriately educated and up-to-date on the current accounting standards and financial reporting requirements of the Corporations Act, particularly where these are relevant to your company and any changes affecting your company’s financial report.

What you must do
You must have an appropriate level of financial knowledge, understand your company’s business and how it is reflected in the financial report, and apply your knowledge of transactions and events to the financial report.
Financial knowledge includes knowledge of matters such as financial reporting, financial products or instruments, financial assessments for capital and funding decisions, financial processes and controls, and how decisions can impact on the future financial health of a company. The extent and areas of financial knowledge required may vary depending upon the companies of which you are a director and factors such as the industry and the use of complex financial products.

Even if you are not an accounting expert, you can challenge the accounting treatments applied in the financial report, seek explanations and seek appropriate professional advice supporting the accounting treatments chosen, particularly where the treatment does not reflect your understanding of the substance of an arrangement (e.g. financial instruments classified as equity where the intent is to borrow).

For example, although calculations supporting impairment or valuation of significant assets can be complex, you should review the cash flows and assumptions used in the calculations prepared by management or experts, bearing in mind your knowledge of the business, the assets and the future prospects of the business.

Your relationship with the auditor

The external auditor provides an independent opinion on the financial report. You are responsible for the financial report and cannot rely on the external auditor in forming your own opinion on the financial report. Doing so would undermine the objective of an independent audit.

You should ensure a quality audit to support the quality of financial reporting to the market and users.

What you must do

Directors, management and other officers must provide auditors with all explanations and information that they require in connection with the audit. Transactions, risks and difficult accounting judgements that may affect the financial report should be brought to the auditor’s attention.

You should ensure that the independence of the auditor is not compromised in fact or appearance. The Corporations Act requires the audit committee of a listed company to review non-audit services and whether they affect auditor independence. The Act also requires a declaration by the auditor on independence to be included as a part of the directors’ report.

Your company must pay the reasonable fees of the auditor. You should ensure that the fees are adequate and do not have the potential to adversely affect the quality of the audit.

Financial reporting quiz

A quiz that may assist you in obtaining an indication of your general competence relating to financial reporting is available at www.asic.gov.au/financial-reporting-quiz.

Useful contacts for financial knowledge information

The following organisations may be able to offer financial knowledge courses, publications and other resources. Any courses, publications and resources are not approved or endorsed by ASIC, and the contacts are provided for information purposes only.

The Institute of Chartered Accountants in Australia

The Institute of Public Accountants

The Financial Reporting Council (see directors’ financial literacy media release and survey at

For more information
- See Corporations Act, s180(1), 286(1), 295, 295A, 296(1), 297, 298(1AA), 300(11A), 300(11B), 300(11C), 312 and 331.
- Download Regulatory Guide 22 Directors’ statement as to solvency (RG 22) at
- Download copies of Information Sheet 76 What books and records should my company keep? (INFO 76) and Information Sheet 196 Audit quality: The role of directors and audit committees (INFO 196) at www.asic.gov.au/infosheets.
- Contact ASIC on 1300 300 630.

Important notice
Please note that this information sheet is a summary giving you the basic information that you need. It does not cover the whole of the relevant law and is not a substitute for professional advice.

You should also note that, because this information sheet avoids legal language wherever possible, there may be some generalisations about the application of the law. Some provisions of the law referred to have exceptions or important qualifications. In most cases, your particular circumstances need to be taken into account when determining how the law applies to you.