

Accounting Ethics and Regulation in Australia

The Institute of Chartered Accountants of Sri Lanka – Australia Chapter
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Agenda

- Critical role of accounting ethics
- Accounting co-regulatory environment in Australia
 - APESB's role and mandate
- Impact of Fees and Non-Assurance Services on Auditor Independence
- PJC Inquiry into Audit Regulation
- Determination of what is a Public Interest Entity
- Q & A

Critical role of Accounting ethics

Critical role of accounting ethics

UK – Kingman and CMA Reviews, Brydon Report, FRC overhaul and Big 4 operational separation as a result:

- Carillion – KPMG faces £250m Official Receiver's claim and FRC investigations ongoing
- BHS – PWC fined £6.5m. Auditor fined £325k and banned for 15 years

EU - Wirecard collapse in Germany 2020 – €1.9b fictitious assets, unqualified audit reports and alleged audit failures

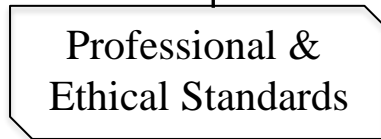
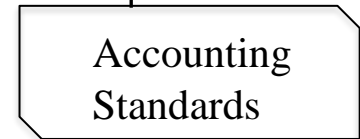
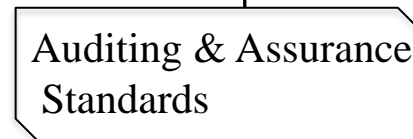
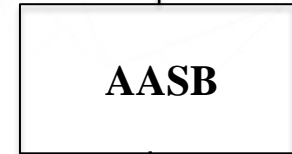
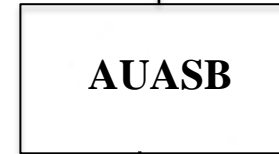
USA – US SEC & PCAOB Independence and ethics breaches

- US\$ 10 million fine for EY
- US\$ 450K fine for KPMG Australia



Accounting co-regulatory environment in Australia

Accounting co-regulatory environment in Australia



APESB's role and mandate

- Established in 2006 as an independent standard setter to develop professional & ethical pronouncements for the three professional accounting bodies
- Previously professional and ethical pronouncements developed by the professional accounting bodies
- Members' compliance and discipline – professional bodies & regulators
- APESB's structure is globally unique
- A comprehensive suite of 21 accounting professional pronouncements developed during the first decade of operations

APESB's role and mandate

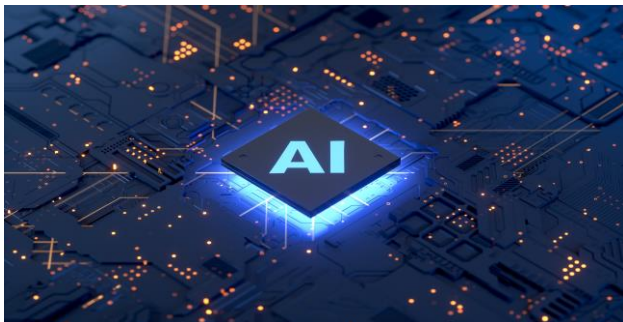
- Engage with stakeholders to socialize APESB's work program
- Influence international standards setting process:
 - IESBA's National Standards Setters group
 - Representation on the IESBA and IFAC Committees
- Raise awareness on the critical role ethics plays in maintaining the public trust, reputation and good standing of the profession

Strategy 2021-25

APESB Strategic Plan 2021-2025

We will promote professionalism and ethical behaviour and maximise the integrity of the accounting profession by

Standards	Engagement	Influence	Ethics Outreach
Issuing professional and ethical standards that are relevant to members of the Professional Accounting Bodies while serving the public interest	Effectively engaging our key stakeholders, including professional accountants, the public, government bodies, regulators and the Professional Accounting Bodies	Influencing and responding to the national and international agenda in relation to professional and ethical standards	Promoting that professionalism and ethical conduct drive the behaviour of accountants and conducting outreach activities in collaboration with key stakeholders



Impact of Fees and Non-Assurance Services on Auditor Independence

Background to NAS and Fees Projects

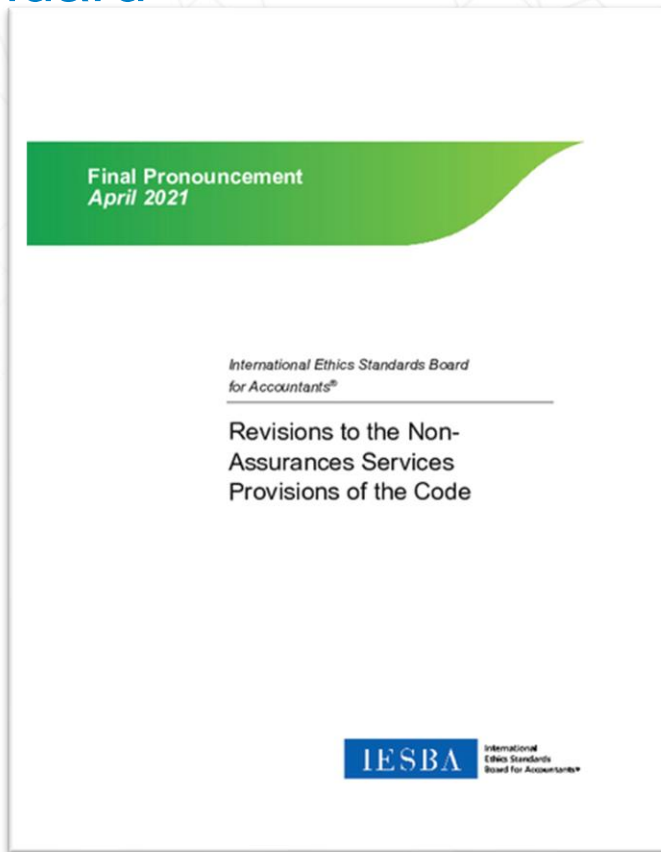
- Code provides a strong foundation, but more work was needed to strengthen the Independence Standards for audits of public interest entities (PIEs):
 - Changing public expectations about auditor independence
 - Changes in laws, regulations and firm policies
 - Projects informed by research, public consultation & global outreach
- NAS and Fees projects were a key strategic priority of the IESBA
- NAS and Fees Projects were closely coordinated due to interrelated material/concepts

High-level overview of IESBA NAS Standard

IESBA issued the final NAS pronouncement in April 2021, with an effective date of 15 December 2022.

Key Revisions

- New self-review threat prohibition for Public Interest Entity (PIE) audit clients
- Materiality qualifier for NAS withdrawn
- New requirements for firms to communicate and obtain concurrence of Those Charged with Governance
- Assuming management responsibilities provisions moved to Section 400



Self-review Threat – All Audit Clients

Before providing a NAS, Firms must evaluate whether there is a risk that:

- a) The results of the NAS will form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion; **and**
- b) In the course of the audit of those financial statements on which the firm will express an opinion, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm when providing the service.

For non- PIE audit clients, it may be possible to implement safeguards in certain circumstances.

Self-review Threat Prohibition - PIE Audit Clients

- For PIE audit clients, a NAS that **might create** a self-review threat is **prohibited** because the threat:
 - cannot be eliminated, and
 - safeguards are not able to reduce the threat to an acceptable level

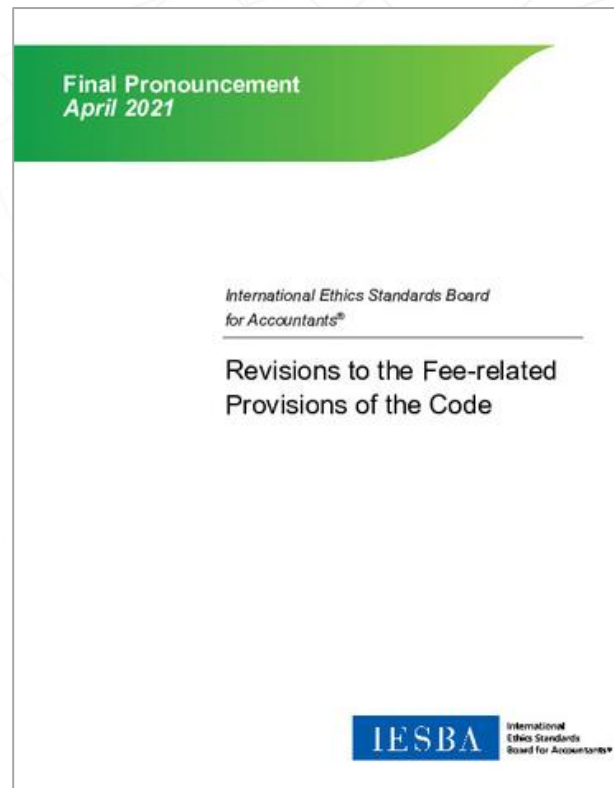


High-level overview of IESBA Fees Standard

IESBA issued the final Fees pronouncement in April 2021, with an effective date of 15 December 2022.

Key Revisions

- New guidance on evaluating threats caused by existing fee paying model
- Prohibition on firms allowing the provision of services other than audit to influence the level of the audit fee
- Fee dependency thresholds for Auditors set at:
 - 15% for PIE audit clients
 - 30% for Non-PIE audit clients



High-level overview of IESBA Fees Standard

Key Revisions

- Guidance to help firm determine what would constitute a large proportion in specific circumstances (no specific cap)
- For PIE audit clients – transparency of fee information for audit and other services and if applicable fee dependency to TCWG and the public
- Enhanced communication with TCWG



PJC Inquiry into Audit Regulation

PJC Inquiry into the Regulation of Auditing in Australia

Led by Parliamentary Joint Committee on corporations and financial services.



PJC Inquiry recommendations relating to NAS & Fees

- **Recommendation 3**

- Establish defined categories and associated fee disclosure requirements in relation to audit and non-audit services
- Establish a list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity

Recommendation 4

- The auditor's independence declaration must specifically confirm that no prohibited non-audit services have been provided

Recommendation 5

- Consider revising APES 110 to include a safeguard that no audit partner can be incentivised, through remuneration advancement or any other means or practice, for selling non-audit services to an audited entity

High-level overview of APESB NAS Project

APESB revisions to address PJC recommendations.

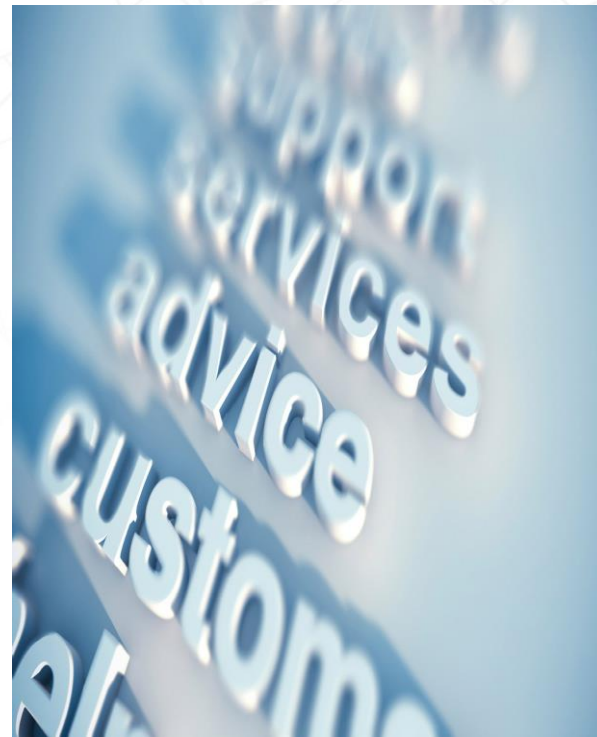
Proposed revisions being considered:

- Prohibition on advocacy threats for tax planning & advisory services for PIE audit clients
- Strengthening the term 'likely to prevail'
- Prohibition on providing advice & recommendations on financial products to audit clients.

Further stakeholder engagement being undertaken

Exposure Draft to be considered by Board in mid 2022.

Pronouncement expected to be issued by the end 2022.



High-level overview of APESB Fees Project

APESB revisions to address PJC recommendations & regulatory request:

- Requirement to review independence if audit referral source > 20%
- Strengthening prohibitions on compensation of audit partners
- New guidance on categories of services based on UK FRC's ethical standard (2019)

ED issued May 2021; comment period closed August 2021

Board considering approval of amending standard March 2022

Pronouncement expected to be effective from 1 January 2023



Identification of Public Interest Entities

IESBA's Project - definition of Listed Entity and PIE

Broader definition of PIE, globally applicable and accepted, with roles for NSS and firms

Lead NSS to define PIEs
as IESBA expects

Global baseline
definition not
feasible

NSS best placed to
determine PIEs

Extant

- Only 1 specific category
- No guidance for NSS
- Minimal guidance for firms

Revised

- Expanded list of categories
- Framework of “runway lights” for NSS
 - An overarching objective
 - More comprehensive list of public interest factors
 - Additional factors for firms’ consideration

Australian extant PIE requirement

- Australian extant definition of PIE captures:

Listed Entities

Entities defined as
PIEs under laws and
regulations

Entities where audit must meet
Listed Entity Independence rules

- APES 110 mandates Firms to determine whether additional entities are PIEs (para AUST R400.8.1).
- Determination based on whether there is a large number/wide range of stakeholder considering 3 key factors:

Number of employees

Size

Nature of the Business

- APES 110 requirement higher than the IESBA Code which 'encourages' firms to determine PIEs.

Supporting Australian application material on PIEs

The following entities will generally be considered as PIEs (AUST 400.8.1 A1):

- Authorised deposit-taking institutions and authorised non-operating holding companies (NOHCs) regulated by APRA
- Authorised insurers and authorised NOHCs regulated by APRA
- Life insurance companies and registered NOHCs regulated by APRA
- Private Health Insurers regulated by APRA
- Disclosing Entities
- Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeships that have five or more members regulated by APRA
- Other issuers of debt and equity instruments to the public

Timeline for revision to definition of PIE/Listed Entity

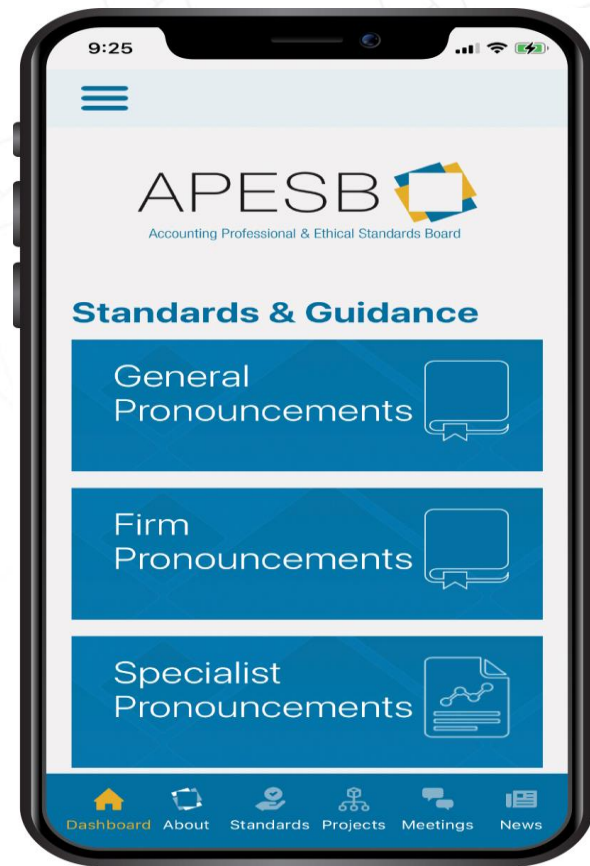
Key milestone	Date
IESBA approved pronouncement	December 2021
APESB to commence Australian due process	March 2022
Release of IESBA final standard	April 2022
IAASB project - consideration of project - proposed exposure draft	June 2022 September 2022
IESBA pronouncement expected to be effective	15 December 2024

Further Information

For more information visit www.apesb.org.au

Follow the APESB [LinkedIn page](#) for timely updates,

To download APESB's mobile app:



Questions ?

Purpose & Disclaimers

This set of PowerPoint slides has been developed by APESB Technical Staff using some of the resources developed by the IESBA Technical Staff for National Standards Setters on the final standards relating to the Non-Assurance Services and fees provisions of the *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

These slides provide only an *overview* of the final standards and do not purport to present all the detailed changes. The slides should be read in conjunction with the proposed new Code, the text of which alone is authoritative. The slides do not form part of the Code.

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