

APESB Professional Standards Update

Central Queensland University

10 September 2024



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Agenda

- APESB's role and mandate
- Recent ethical failings in the accounting profession
- APESB's response to the ethical failings
- IESBA's Firm Culture and Governance Project
- Q & A

APESB's role and mandate



APESB's role and mandate

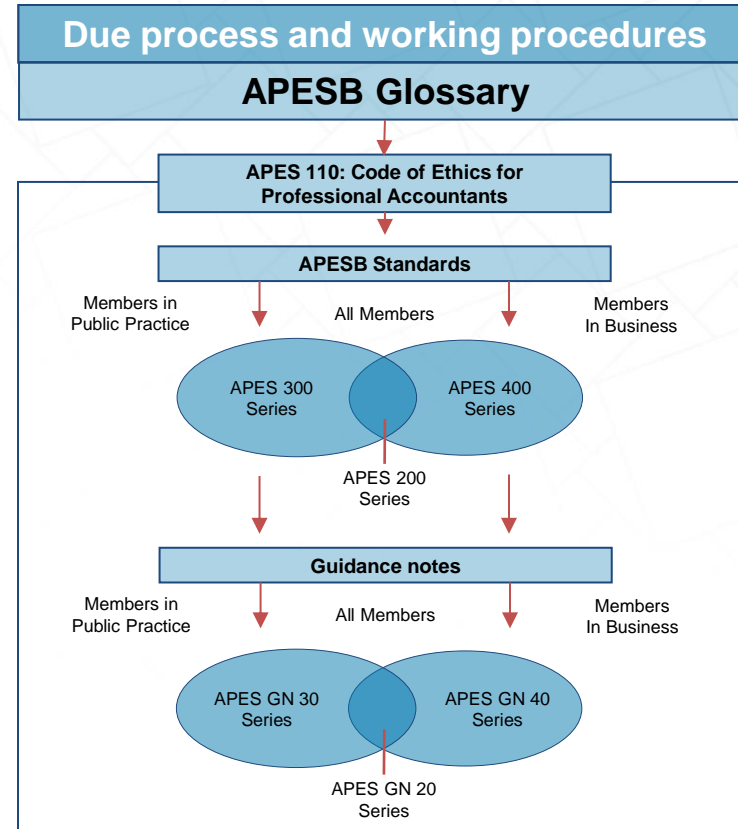
- Established in 2006 as an independent standard setter to develop professional & ethical pronouncements for the three professional accounting bodies
- Previously professional and ethical pronouncements developed by the professional accounting bodies
- Members' compliance and discipline overseen by professional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

APESB's role and mandate

- Influence international standards setting process:
 - IESBA's National Standards Setters group
 - Representation on the IESBA and IFAC Committees
- To date APESB has released 21 pronouncements consisting of 15 Standards and 6 Guidance Notes
- The critical role ethics plays in maintaining the public trust, reputation and good standing of the profession

Structure of APESB pronouncements

- **Conceptual Framework**
 - Principles based
 - Mandatory for professional accountants
- **Standard**
 - Introduces principles
 - Mandatory requirements in black letter
 - Guidance and/or explanation in grey letter
- **Guidance notes**
 - Do not introduce new principles
 - Guidance on a specific matter on which the Principles are already stated in a Standard
 - Guidance is only in grey letter



Recent ethical failings in the accounting profession



Recent global ethical failings

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

- Carillion – KPMG LLP fined £18.5m. Auditor fined £350k, banned for 10 yrs
- BHS – PwC fined £6.5m. Auditor fined £325k, banned for 15 yrs

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\$ 100M fine for EY
- US\$ 50M fine for KPMG

AU – Parliamentary inquiries on audit regulation, use of consultants and ethics and structural accountability

- PwC – Breach of Confidentiality (Multinational taxation schemes)
- KPMG - Conflict of interests (NSW Transport)





AUSTRALIAN SENATE HEARINGS

Ethics and Professional
Accountability: Structural
Challenges in the Audit,
Assurance and Consultancy
Industry – Parliament of Australia
(aph.gov.au)

Inquiry into management and
assurance of integrity by
consulting services – Parliament
of Australia (aph.gov.au)



Broad themes addressed in the Senate Inquiries:

- The partnership structure and the resulting lack of transparency in reporting and accountability
- Conflicts of interest
- The significant growth in consulting to the public sector
- The profession's obligation to act in the public interest
- The level of understanding of and level of compliance with the Code in the non-audit divisions of the firms
- The lack of a robust Code for other consultants
- Whistleblowing protections
- Monitoring and Enforcement

Ethical failings raised by NSW Inquiry Chair

- **PwC** tax advice scandal
- **KPMG** TAHE debacle
- **PwC** education investments issue
- **EY** Broderick report into workplace culture
- **KPMG** defence contracts issues
- **Deloitte's** misuse of confidential government information
- Relationship between the **Big 4 firms** and the TPB, including hosting TPB meetings in Big 4 offices
- **Deloitte's** failure to disclose a conflict of interest to Home Affairs and also with the Australian National Audit Office
- **EY** and the Santos conflict
- **Deloitte's** misuse of government information nine times last year and 18 times the year before
- **KPMG's** 88 internal complaints about staff conduct last year, majority classed as code of conduct breaches
- **Deloitte's** 121 instances of misconduct in the last financial year, with 13 including partners, and 78 instances the year before
- accusations during this inquiry by the Audit Office of "loss-leading" on auditing of local governments

Common themes

- Big 4 Firms
- Consulting Services



KPMG NSW TAHE Scandal

- TAHE, a statutory state-owned corporation, assumed ownership of NSW's rail assets in July 2020.
- In 2020, NSW Treasury and NSW Transport commissioned separate KPMG teams to assess the financial implications of TAHE's operating model.
- The KPMG team working for Transport concluded that TAHE would leave the state budget \$10 billion worse.
- A separate KPMG team, working for Treasury backed Treasury's assertion that TAHE would not have any effect on the state's budget.
- KPMG claimed that both reports are accurate and independent of client influence.
- KPMG had failed to properly manage the conflict of interests as two separate teams had conducted work on the same subject matter for two departments of the NSW Government.



Key shortcomings identified in Dr ZE Switkowski AO report :

- lack of independence and “external voices” within the ultimate governing body of PwC
- excessive power conferred to the PwC CEO
- disproportionate focus on revenue growth and market leadership as strategic imperatives
- decentralized business model without sufficient visibility of the enterprise view
- complexity and fragmentation contributing to ineffective structures and processes
- unclear responsibilities and accountabilities, creating gaps and risks
- overly collegial culture inhibiting constructive challenge

APESB's Response to the ethical failings



APESB response to Australian ethical failings

Media Statement on the PwC matter

- released 6 June 2023 – available on [APESB's website](#)
- APESB continue to monitor and assess impact on its standards

Focus on firm leadership and culture:

- Recommendations to IESBA's *CP Strategy & Work Plan for 2024-2027*:
 - IESBA currently working on a project on firm leadership and cultural issues
 - Assessment of need for requirements or guidance

APESB response to Australian ethical failings

Stakeholder engagement

- APESB Workshop (August 2023) – focus on ToR for the PJC Inquiry & potential enhancements to the current co-regulatory framework.
- Big 6 meetings on APESB recommendations held from 18 Aug - 1 Sept 2023

Submissions and attendance at Government Inquiries

- Senate Committee Inquiry into management & assurance of integrity by consulting services (April 2023) - [submission](#)
- NSW Government's use and management of consulting services (July 2023) - [submission](#) and [opening statement](#) from appearance at public hearing on 9 August 2023
- PJC Inquiry into Ethics & Professional Accountability (August 2023) – [submission](#) and scheduled to appear at a public hearing in early 2024

APESB's recommendations to the Government

Enhancement to the current regulatory framework:

- APESB consider developing:
 - a standard on the culture and governance of large professional services firms in Australia;
 - A specific standard on management consulting services;
- APESB, in conjunction with the IESBA, works towards strengthening the global Code on issues that impact firm culture and governance; and
- Encourage the enhancement of ethics modules of professional programs and mandatory continuing professional development.

APESB's recommendations to the Government

Transforming the existing regulatory landscape:

- Provide legislative backing for APESB's professional and ethical pronouncements;
- Move APESB under the oversight of the FRC (consistent with the Australian Accounting and Auditing standard setters);
- Require large professional service firms to prepare audited general purpose financial reports, including remuneration disclosures; and
- Establish an independent body to monitor all professional services firms that provide audit, assurance and consulting services.

APESB's recommendations to the Government

Enhancing ethical behaviours and public interest for all professions:

- Require financial statements disclosures on all fees paid by an entity to professional services firms on all services they have provided;
- The Government develop a rigorous Code of Ethics (such as APES 110) for any entity or persons that provide professional services to the Government;
- Extend the application of a Code of Ethics to all firms providing professional services; and
- APESB consider developing a professional agnostic APES 110 and management consulting standard that could apply to all professionals.

IESBA's Firm Culture and Governance Project



Outreaches (April to June 2024)

- The Standard Setting Boards' Stakeholder Advisory Council
- Firms
- Corporate governance community
- Professional accountancy organizations
- National standard setters
- Regulators
- Governments and parliamentarians
- Academia
- Other professional organizations with a nexus to the topic



IESBA Working Group's Preliminary Views: Key Themes





Q & A

Further Information

For more information visit www.apesb.org.au

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To download APESB's mobile app:



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