

Forensic & Financial Investigations Discussion Group

CPA Australia

25 September 2024



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Agenda

- Revisions to:
 - APES 215 *Forensic Accounting Services*
 - APES 225 *Valuation Services*
- Recent ethical failings in the accounting profession
- APESB's response to the ethical failings
- IESBA's Firm Culture and Governance Project
- Q & A

Revisions to
APES 215 Forensic Accounting Services
&
APES 225 Valuation Services



Revisions to APES 215 and APES 225

- Project commenced in 2024 to update all APESB pronouncements to align with APES 110 (the Code)
- Key amendments to APES 215 *Forensic Accounting Services* & 225 *Valuation Services* include:
 - New Definition of **Confidential Information** (from the Amending Standard on [Technology-related revisions](#)) :

Confidential Information means any information, data or other material in whatever form or medium (including written, electronic, visual or oral) that is not publicly available.
 - Updated cross references to the Code & other editorials.
- Revised standards will be released in October 2024.
- Effective for engagements commencing on or after 1 January 2025; early adoption permitted.

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 in the red.
- 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



IESBA Firm Culture & Governance Project – Key inputs



**Key
Observations**
from Global
Engagement



**Academic
Report**
by
Dr. Tsahuridu



Presentations
on
ISQM 1 &
UK FRC AFGC

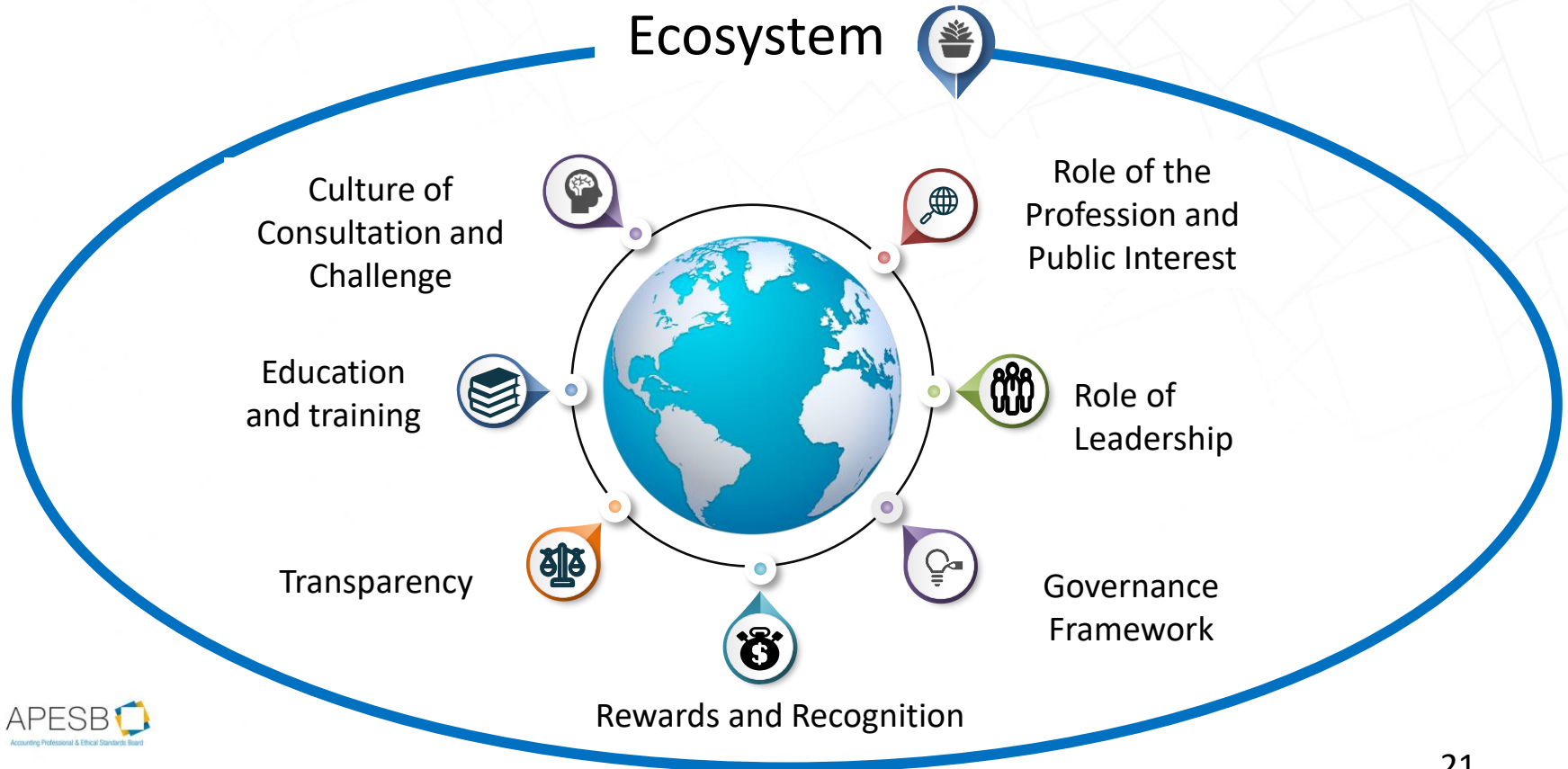
Global Stakeholder Engagement

- 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



Key Themes From Global Stakeholder Engagement

Ecosystem



Working Group's Recommendations

**WG
recommendations
aim to address
importance of
leadership and
governance
framework**



Leaders committed to and responsible for the promotion and monitoring of ethical values and behavior within the firm



A firm-wide governance framework that supports ethical behavior



Independent Non-Executives



Performance management policies that incentivize ethical behavior, including rewards and recognition



Being transparent to regulators and other stakeholders about its ethical performance



Policies and procedures to promote and facilitate consultation and challenge

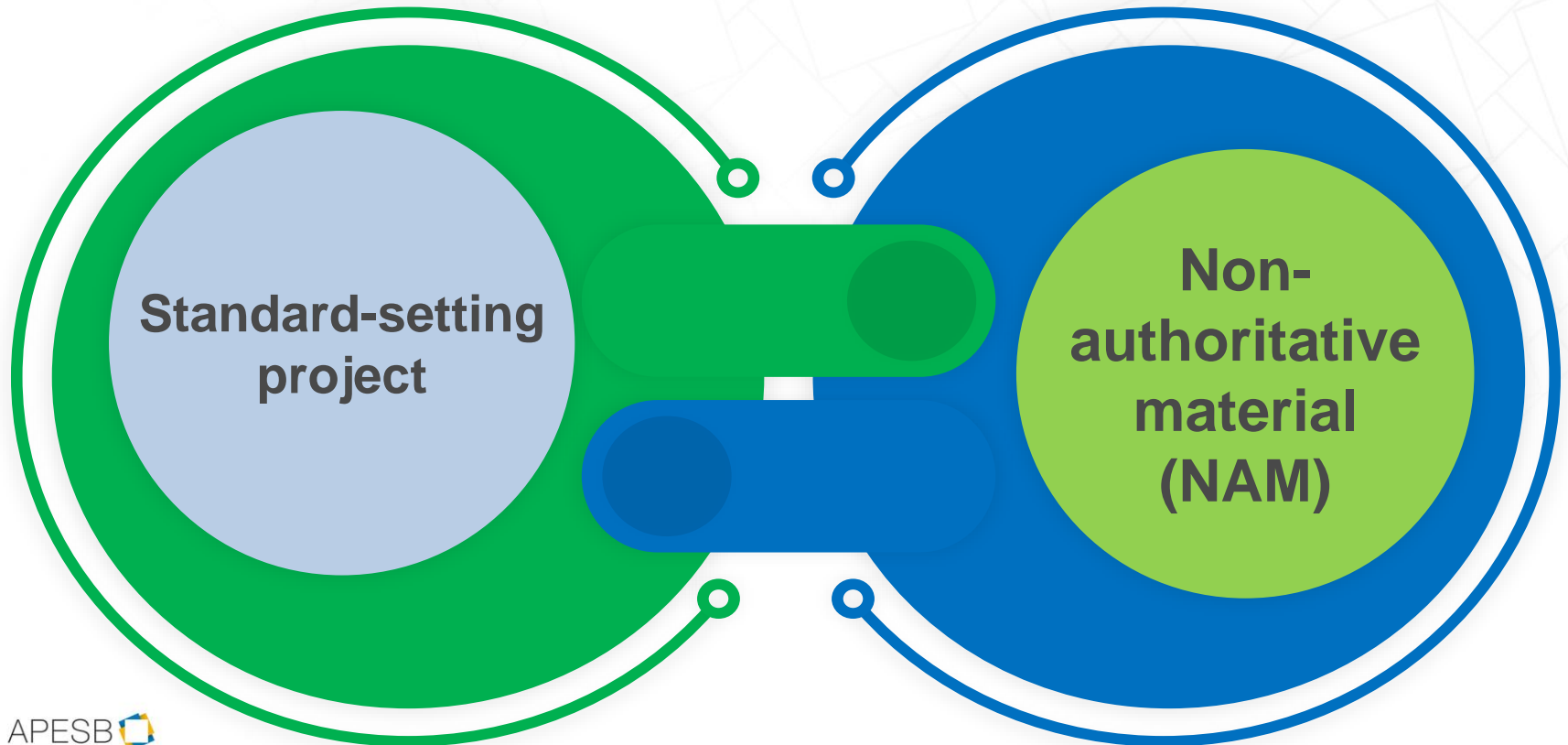


Education and training programs



Procedures and procedures to monitor ethical behavior

Working Group's Recommendations



Working Group's Recommendations

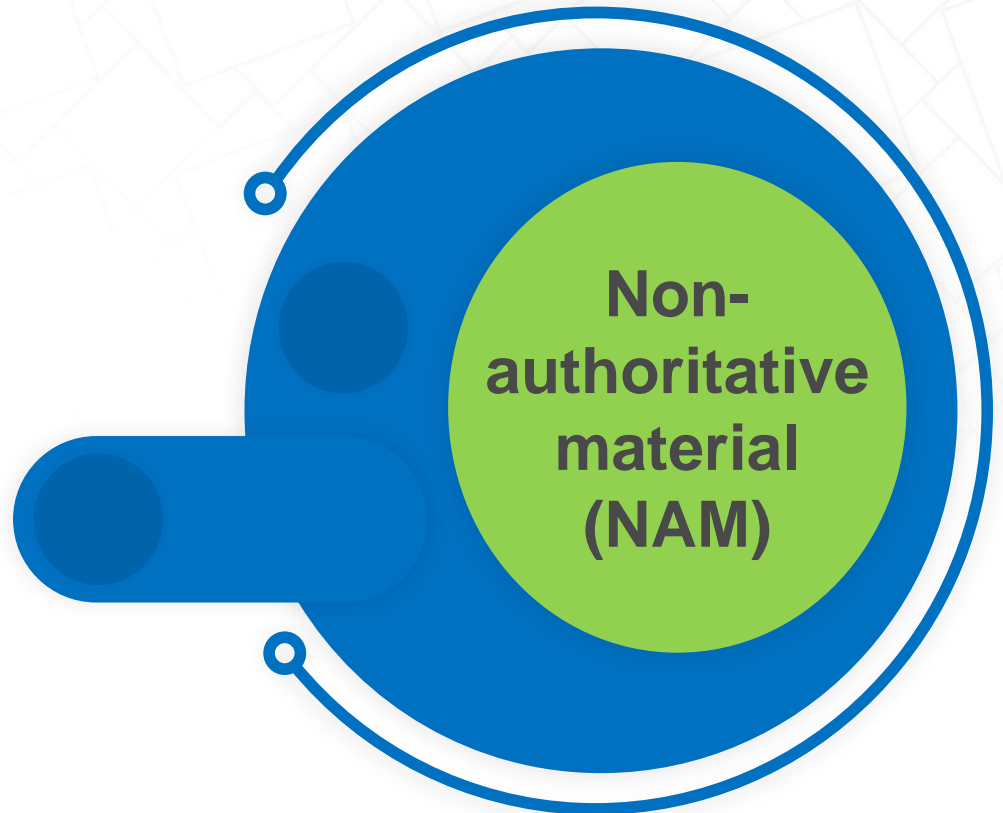


Standard-setting project

- Develop provisions to address leadership and governance framework matters that will promote ethical firm culture
- The proposed project aims to assist firms with mitigating the risk of unethical behavior and becoming an ethical firm
- Scope:
 - provisions apply across all service lines
 - principles-based and allow firms the flexibility to develop their governance framework
 - scalable

Working Group's Recommendations

- Explain the importance of ethical culture in driving ethical behavior within firms
- What does good look like for a firm
- Develop an ethics framework that raises awareness about the role of each key stakeholder within the ecosystem that will lead to strong ethical behavior within firms





Q & A

Further Information

For more information visit www.apesb.org.au

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