

The University of Sydney Business School: Pacioli Society Dinner Event Keynote Address

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Good evening, ladies and gentlemen,

Thank you, Professor Jane Andrew and Dr Cary Di Lernia, for inviting me to deliver this year's first Pacioli Society Address at the University of Sydney.

Also, thank you to Nicole Orth and her team for organising this great evening.

It is a great honour to address you on the topic of

“Ethics and the Accounting Profession: Global and Australian Perspectives on Contemporary Developments.”

As we navigate an era marked by significant ethical challenges and heightened public scrutiny in the digital age, the role of ethical standards in the accounting profession has never been more critical.

Tonight, my speech will be in three parts.

- First, I have the privilege of taking you on a journey through the creation and evolution of the Accounting Professional and Ethical Standards Board (APESB). APESB was born out of a vision to create an independent national standard setter with a public interest mandate.
- Second, I will touch on the recent high-profile scandals, such as the PwC Tax confidentiality breach and various international ethics exam cheating scandals involving major firms, that have rocked the global accounting profession. I will also share some insights into APESB's engagement with the current Parliamentary inquiries.
- Third, I will discuss the global mandate of the International Ethics Standards Board for Accountants (IESBA) and the key global projects underway that will aim to address these ethical failings and provide instruments to elevate ethics in accounting.

As I explore these topics, it is my hope that we can reaffirm our collective commitment to maintaining and enhancing the integrity of the accounting profession, both in Australia and globally.

Part 1: APESB Journey

APESB was established as an independent body 18 years ago in February 2006 by the Australian professional accounting bodies.

Its primary purpose is to develop, issue, and maintain high-quality professional and ethical pronouncements for the Australian accounting profession, encompassing individual accountants and accounting firms. The Board operates independently, with the mission to achieve

“Exemplary levels of professionalism and ethical behaviour in the accounting profession.”

APESB’s formation was inspired by the accounting profession’s vision to create an independent body. At the time, after the HIH Royal Commission and the demise of Andersen, the Australian Government created the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB) as statutory bodies.

APESB was created to demonstrate to the government and the public that the accounting profession can act independently and develop professional and ethical standards in the public interest. This structure ensured that, if needed, the Government could take over the role of setting professional and ethical standards with an established entity. Similar to the AASB and AUASB, APESB has no role in monitoring and enforcement.

At its formation, APESB inherited a suite of professional pronouncements from CPA Australia and the Institute of Chartered Accountants in Australia (now CA ANZ). This series was progressively revised and relaunched as the APES series in APESB’s first eight years of operations.

Since then, APESB has grown significantly, broadening our standards to over 20 pronouncements covering various services, including forensic accounting, valuation, taxation, insolvency and financial planning. This broad reach ensures that nearly all aspects of services delivered by the profession are covered.

Key achievements include the development of APES 110 *Code of Ethics for Professional Accountants (Including Independence Standards)*, the issuance of APES 320 *Quality Management for Firms that provide Non-Assurance Services* and APES 325 *Risk Management for Firms*. These standards have set benchmarks for ethical conduct and professional excellence within the accounting profession and represent global best practice.

What sets APESB apart globally today is its unique structure. Operating as a single National Standard Setter, APESB issues professional pronouncements for the three Australian professional accounting bodies: CA ANZ, CPA Australia, and the Institute of Public Accountants. This unified approach ensures a consistent framework of ethical standards across the Australian accounting profession and assists the accounting bodies in complying with their membership obligations to the International Federation of Accountants (IFAC).

APESB's governance is also unique in that our Board consists of seven (originally six) part-time independent non-executive directors. Drawing on independent non-executive directors has been a cornerstone of the Board's independence.

In addition, to maintain independence from the profession, APESB's constitution mandates that the Chair cannot be an accountant. APESB has been led by three lawyers: Kate Spargo, the Honourable Nicola Roxon and now Nancy Milne OAM. Interestingly, at the global level, IESBA appointed its first independent chair, the late Jorgen Holmquist, in 2012 and its first Chairwoman, Gabriela Figueredo Dias, in 2022, while APESB was ahead of its time in having an independent Chair since its inception, and coincidentally, it has always been a woman.

At the global level, APESB has been a member of IESBA's National Standards Setters group since its formation in 2009 and contributes to IESBA's work program, which influences the development of the global code that forms the basis for APES 110 in Australia.

Ensuring that Australian accountants adhere to the highest ethical standards benefits the accounting profession and serves the broader public interest. By setting these standards in the public interest, APESB not only plays a significant role in creating public trust in the accounting profession, but it also underpins the credibility and reliability of accountants' work for clients and employers.

Of course, APESB's work is not done in isolation. The establishment and success of APESB can be likened to the saying, "It takes a village to raise a child." Just as a child's upbringing requires the collective efforts of an entire community, APESB's journey over the past 18 years has depended on the dedication and collaboration of many stakeholders.

From the three accounting bodies that founded us and provide ongoing funding to the committed Board members who have brought their diverse perspectives and extensive professional experience to the Board table, current and former staff, 107 volunteer taskforce members, regulatory bodies, firms, local and international standards setters and the broader business community, each has played a crucial role in shaping and supporting APESB's mission.

Globally, APESB's suite of professional standards is only matched by the suite of professional and ethical standards issued by the American Institute of CPAs (AICPA). However, in comparison, the AICPA has vast resources that dwarf the limited resources of APESB. You could say that, in Australia, we are punching well above our weight division in this regard.

To fill this resource gap, we have been fortunate to be served by the 107 volunteer taskforce members I just mentioned. These volunteers have generously provided hundreds of hours of their time for the betterment of the Australian accounting profession, including contributing to 144 separate taskforce meetings.

They were subject matter experts in the relevant area and, in some cases, were acknowledged Australian experts in that area of practice. APESB gratefully

acknowledges their selfless and wonderful contribution to the profession in the public interest.

Part 2: Recent Controversies and Parliamentary Inquiries

Despite APESB's progress in creating a suite of professional standards to foster a culture of integrity and professionalism, recent controversies, such as the PwC Tax scandal, the KPMG exam cheating and the NSW TAHE scandals, highlight ongoing challenges.

We understand the public outrage over these ethical failings in large firms and share these concerns—particularly since these failings have occurred within firms that are required to comply with our standards, which also include a duty to serve the public interest. We believe our standards are clear, especially regarding fundamental ethical obligations such as maintaining confidentiality and dealing with conflicts of interest.

The PwC tax scandal serves as a strong reminder of the importance of ethical standards. Senior partners at PwC misused confidential Australian government information to help multinational corporations. This breach of trust led to significant consequences: the resignation of the CEO, the 'exiting' of eight senior partners, the sale of PwC's government business, with annual sales of 600 million for \$1, the launch of several Senate Inquiries and ongoing investigations by the Australian Federal Police and the Tax Practitioners Board. The resulting reputational damage and loss of business will mean that PwC will go from being the largest to the smallest of the big four in Australia.

Furthermore, Senate inquiries have painted a damning picture of multiple instances of ethical and cultural failures in the profession and cast a shadow over the entire profession.

Unfortunately, similar controversies have plagued the Big Four firms globally, highlighting systemic issues needing urgent attention and pointing to firm culture and governance issues currently being explored in an IESBA project, which I will get to shortly.

For instance, Deloitte faced significant scrutiny over its role in the Steinhoff International scandal, where it failed to detect extensive accounting irregularities that led to a massive corporate collapse. Deloitte also recently had an exam cheating scandal in Indonesia and the Philippines involving the sharing of exam solutions, leading to a US \$2 million fine from the US Public Company Accounting Oversight Board (PCAOB).

KPMG has faced exam cheating scandals in Australia and the Netherlands. The Netherlands scandal resulted in a record US\$25 million fine and even involved the Head of Assurance, who received a personal fine of US\$150,000 and a lifetime ban from performing US Company audits. KPMG UK was fined 20 million Pounds for its audit and ethics failures regarding the collapse of Carillion

EY has had its share of controversies, including an exam cheating scandal in the US that resulted in a US\$100 million fine and the Wirecard scandal in Germany, where EY failed to detect fraudulent activities over multiple years and had a non-existent cash balance of Euro 1.9 billion, resulting in one of the biggest financial collapses in Europe, despite repeated concerns expressed by journalists and whistleblowers.

PwC China also got into trouble this year with its audit of property developer Evergrande, and due to this controversy, they have recently lost a significant number of audit clients in China. PwC also experienced an exam cheating scandal in China and Hong Kong, which resulted in a US\$7 million fine by the PCAOB.

Unfortunately, the list could go on.

The researchers and educators in the room may have some insights into why accounting professionals appear to be experiencing a crisis of integrity.

These scandals reflect a troubling trend where revenue, profit considerations or client satisfaction sometimes overshadow ethical considerations and professional responsibilities. The Big Four's revenue composition in Australia, with nearly 80% from consulting clients, and audit only accounting for around 15 percent of revenue on average, raises questions about the use of the audit 'brand name' for consulting services.

This revenue composition also demonstrates why operational separation is unlikely to be successful in Australia. The sale of non-audit services to audit clients is only 5-6% of the firm's revenue, and most of the recent ethical failures in Australia have involved consulting clients. Additionally, both the regulator and the firms have provided evidence to the parliamentary inquiries that the audit service line is profitable in its own right.

This growth in consulting services also contributes to another key issue: non-accountants' involvement with the delivery of services and the challenges of complying with the requirements of the accounting profession's Code and ethical standards. Recent developments, such as CA ANZ introducing training requirements for affiliate members (that is, partners in CA firms who are not accountants), is a step in the right direction to address this issue.

Overall, these scandals remind us of the responsibilities that come with being professionals. Accountants are not just service providers; we are servers to the public interest and custodians of public trust.

This leads me to the ongoing parliamentary inquiries scrutinising the professional conduct of accountants and consultants. These inquiries are not just about assigning blame but understanding the root causes that allowed these scandals to occur. APESB has played an important role in these inquiries, providing insights and recommendations to actively help shape the future regulatory landscape by ensuring that professional and ethical standards receive their due consideration as part of the solution.

APESB's recommendations to the parliamentary inquiries can be grouped into three areas:

First, **enhancements to the current regulatory framework.**

APESB proposed developing a new standard based on the UK Financial Reporting Council's Audit Firm Governance Code. This standard would specifically target the governance and cultural practices of large firms operating in Australia.

It is possible that outcomes from IESBA's firm culture and governance project will supersede some aspects of this recommendation made to the Senate inquiries in August 2023.

Additionally, we advocated for a dedicated standard focusing on management consulting services. This standard would set stringent requirements regarding confidentiality, conflicts of interest, financial disclosures, and business relationships, applicable across all professional services firms.

We also recommended enhancing the existing ethics module of the accounting bodies' professional year programs and increasing the coverage of APESB Standards.

A provocative question for educators to think about: How, and to what extent, are the requirements of APESB standards incorporated into Undergraduate University accounting programs? Do they receive the same coverage, emphasis and depth as accounting and auditing standards? Do you have a module dedicated to APESB standards?

The largest corporate collapses or failures in firms generally relate to ethical failures more than compliance with accounting and auditing standards. Still, sadly, ethical standards don't appear to receive the same attention in the accounting curriculum at university or professional year programs. Education is key—there is little point in the existence of APESB's suite of high-quality standards if current and potential future accountants are not fully educated on them.

Universities have an important role in educating future accountants on the ethical requirements of APESB standards. Education at the postgraduate program level by professional bodies is also necessary, but that should not be the first in-depth interaction accountants have with APESB standards.

The earlier we ingrain the breadth and depth of APESB standards in future accountants, the better.

The second pillar of APESB's recommendations is **transforming the existing regulatory landscape.**

APESB believes that increasing the prominence of the ethical standards and providing legislative backing would improve compliance, effectiveness and enforceability of the standards. The Financial Reporting Council (FRC), in its November 2023 Report *Oversight of Audit Quality in Australia – A Review*, similarly recommended that the ethical standards be given the force of law and subject to compliance by a regulator.

We also believe that to enhance public perception of the independence of APESB, it should be moved to be under the oversight of the FRC, which is consistent with the other standard setters for the accounting profession – the AASB and the AUASB.

In addition, APESB recommended that an independent body be established to monitor all firms that provide audit, assurance and consulting services. This would broaden oversight from just focusing on accounting firms to also capturing those firms and entities currently not subject to statutory regulatory oversight who provide consulting services, such as Accenture, BCG or McKinsey.

This independent body could also undertake enforcement actions and prepare public annual reports of its monitoring and enforcement activities. In the FRC's November 2023 Audit Quality report, they were also critical of the current scope and extent of work undertaken by ASIC (for audits) and the professional bodies (for other services) with respect to monitoring and enforcement. However, we acknowledge that these monitoring and enforcement activities need to be appropriately resourced to make them effective and accountable.

The third pillar of APESB's recommendations is to focus on **enhancing ethical behaviours in the public interest for all professions**.

APESB recommended extending financial statement disclosures to include all fees paid to professional services firms, not just those related to audit and non-audit services, to the external auditor. This aims to bolster transparency in the provision of all consulting services to public interest entities and government bodies.

We also urged the government to impose a rigorous Code of Ethics similar to APES 110 on all consulting firms engaging with public entities. This would uphold ethical standards across all firms or those that contract with or provide any form of consulting services to the Government.

In addition, I want to touch on global and national firm structures, particularly the use and oversight of partnerships.

Addressing firm structures and governance is crucial for greater transparency. The partnership structure in many large Australian accounting firms presents unique governance challenges. While these structures offer operational flexibility and align with historical norms, they are the source of concerns about transparency, accountability, and effective governance.

However, instead of mandating a shift to corporate structures, APESB proposed categorising large firms as Public Interest Entities (PIEs) for financial reporting purposes. This would require large firms to prepare general-purpose financial reports, be subject to audits, and adopt remuneration and accountability practices similar to those of listed entities. A potential solution is to consider the limited liability partnership model that operates in the UK.

This measure could also be applied more broadly to all firms that provide consulting services to the government.

Part 3: IESBA's global mandate and projects

This brings me to the global landscape of ethical standards and the role of the IESBA. I am a board member of IESBA, acting in the public interest and providing an Australian perspective on IESBA's work.

The Global Code of Ethics issued by IESBA has been adopted and is used in over 140 jurisdictions worldwide. IESBA's primary mandate is to serve the public interest by developing and promoting high-quality international ethics standards, including independence requirements for auditors.

Tonight, I will highlight three key IESBA projects: the recently released tax planning standards, the proposed ethics and independence standards for sustainability reporting and assurance and the firm culture and governance project. I am a taskforce member of IESBA's tax planning and sustainability projects and the Chair of the Firm Culture and Governance project.

(1) Tax planning

Introduced in April 2024, these standards are the first comprehensive suite of global standards on ethical considerations in tax planning. This initiative addresses public concerns about tax avoidance schemes highlighted by global scandals such as the Paradise and Pandora Papers.

Historically, tax planning has been contentious, often associated with aggressive strategies that can undermine public trust and corporate accountability. These new standards offer a robust framework for professional accountants to have a credible basis for the provision of tax planning advice, which will be crucial for rebuilding public trust.

The core objective of the standards is to develop a principles-based framework that sets a global ethical benchmark for tax planning. Moving beyond mechanical and legalistic methods, the new standards emphasise public interest, corporate reputation, and economic stability. By shifting the focus from mere compliance to a holistic approach that considers ethical dimensions and societal impact, the standards aim to align with societal expectations.

By adopting these standards, IESBA is setting a precedent for responsible tax planning and advisory services. It marks a significant step forward in IESBA's global mission to uphold the highest standards of professionalism in tax planning services. As Gabriela Figueiredo Dias, Chair of IESBA, recently stated, "Professional accountants have a dual responsibility—to their clients and to the public interest."

APESB has issued IESBA's Tax Planning framework as an Exposure Draft in Australia for public comment. Adoption and strict adherence to this standard are likely to avoid the recurrence of the recently observed tax scandals globally and in Australia.

(2) Sustainability reporting and assurance

The demand for sustainability information has surged dramatically across markets worldwide. As regulators and standard setters move quickly to develop new standards, IESBA is committed to ensuring that assurance practitioners who perform work on public reports uphold the same high bar with respect to ethics and independence standards as financial statement auditors, regardless of their professional background.

To meet this need, IESBA launched two critical projects related to sustainability reporting and assurance, which are scheduled for completion by the end of this year.

These initiatives are part of IESBA's vision to create a robust ethical framework that completes the global infrastructure for corporate sustainability disclosures alongside sustainability reporting and assurance standards. By setting high ethical and independence standards, we aim to ensure that sustainability information is reliable, transparent, and trustworthy.

A key element of the project is extending ethical standards beyond professional accountants. This extension recognises the significant role that various professionals play in the sustainability assurance process, enhancing the credibility of the information.

The involvement of non-accountants is also relevant to the second project, which is developing a framework for evaluating the work of external experts. This framework will ensure that their competence, capabilities, and objectivity are thoroughly assessed before their work is used in sustainability assurance.

These initiatives by IESBA are a critical step forward and support a more sustainable and responsible global economy.

(3) Firm culture and governance

The third IESBA project is the Firm Culture and Governance project. Recent challenges in jurisdictions such as the US, UK, South Africa and Australia within global firms have emphasised the critical importance of **firm culture and governance** in promoting ethical behaviour. Given the significant public interest consequences when unethical behaviour occurs in firms, IESBA has determined to take a leadership role as the global ethics standard-setter in addressing firm culture and governance as a strategic priority in its current 2024-27 Strategy.

The primary objective of this project is to strengthen ethical behaviour within firms by addressing the root causes of ethical lapses and reviewing the current IESBA Code, as the Code currently only deals with firm culture and governance in a limited way.

The Australian Tax Office has raised with IESBA the systemic importance of large firms that reach a certain size due to their impact on the industry or economy of a particular jurisdiction. If a firm is systemically important, then public interest becomes a key consideration, as does society's greater demand for transparency and public accountability of that firm.

We recognise that firm culture impacts not only the reputation of individual firms and the public's trust in the accountancy profession but also the attraction and retention of talent. This issue goes to the heart of the quality-of-service delivery and the longer-term sustainability of the profession.

IESBA's global stakeholder outreach has identified eight broad themes:

1. the role of the accountancy profession in acting in the public interest – to address the tension between revenue generation and the overriding obligation to the public interest
2. the critical importance of ethical leadership, the accountability of leadership and having appropriate quantitative and qualitative performance metrics in place
3. Governance frameworks and whether they incorporate independent thinking
4. the appropriate design of rewards and recognition to reward positive professional and ethical behaviour as well as penalise when warranted
5. transparency – of the firms' operations, financial disclosures and remuneration of key personnel
6. education – the importance of continuous ethics education and training across all personnel
7. "speak-up" culture- fostering a culture and mindset of challenge and curiosity and having appropriate whistleblowing policies and procedures
8. the ecosystem - the role of other stakeholders, such as regulators, those charged with governance, investors, standards setters, and professional accountancy organisations, in enabling firms to foster a strong culture within their governance framework.

The Working Group's preliminary report will be considered at IESBA's September 2024 Board meeting. We believe that firms need to develop a mindset that emphasises how ethical culture is not a burden but a critical element of their future success—Ethical behaviour can protect and build a firm's reputation - it is, in effect, an 'ethical dividend.'

Conclusion

In conclusion, maintaining high ethical standards in the accounting profession is paramount. As they say, never waste a crisis, and let's use this opportunity to enhance our existing regulatory framework. The role of professional and ethical standards in this reform is critical, as they are the cornerstone of the accounting profession.

First and foremost, the education of ethical standards for current and future professional accountants is fundamental. Universities play a crucial role in engraining ethical principles in the mindset of future accountants. Ethical standards must be emphasised as much as accounting and auditing standards, integrated at the

university level, and further enhanced in professional year programs of the accounting bodies and, after that, in continuing professional development.

Second, IESBA's Firm Culture and Governance project is likely to lead to the development of Non-Authoritative Material and enhancements to the Global Code to strengthen firm culture and governance. These enhancements will eventually be incorporated into APESB's framework in Australia.

Third, firms need to focus on service quality in both audit services (where much of the historical focus has been) and, as importantly, consulting services (where the future focus should be as it is 80% of the Big Four's revenue).

In Australia, we have a quality management standard (ASQM 1) and AUASB performance standards for the delivery of audit services and a quality management standard (APES 320) and APESB professional standards for all other services delivered by a firm. Firms should develop a strong commitment to audit and consulting quality, with appropriate quality indicators, and incorporate ethical considerations that are at the forefront of every decision and action.

Fourth, effective external monitoring and enforcement are critical elements of the future regulatory framework. Adherence to standards must be rigorously monitored, and processes must be enacted to ensure compliance.

Without stringent oversight, there is little incentive for adherence and compliance with the applicable standards. ASIC is responsible for audits and insolvency, the Tax Practitioners Board (TPB) for tax practitioners, and professional bodies for the remainder of the services delivered by accounting firms, with a potential gap in the broader 'consulting' space.

It is essential that the relevant "monitoring bodies" provide robust and uncompromising monitoring and oversight. Weaknesses in effective monitoring and oversight, as identified in FRC's 2023 Audit Quality Report, will invariably lead to poor conduct and ethical failures, which undermine the integrity of the profession.

Finally, global developments, such as the adoption of IESBA's Tax Planning Services standard in Australia, will ensure that professional accountants develop a credible basis for tax planning advice, considering the commercial, reputational and economic risks. These developments will also influence the future behaviour of accountants involved in tax planning services.

While the road ahead may be challenging, it is also filled with opportunities for growth and improvement. By reaffirming our collective commitment to ethical standards and embracing national and global reforms, we can rebuild public trust and confidence in the accounting profession.

We all have a responsibility to uphold the highest standards of professionalism, serving the interests of our clients, employers and stakeholders as well as the greater public good.

As I mentioned earlier, it takes a village to raise a child and to achieve success in our mission. It is the collective effort of all our stakeholders, collaboration with international and national bodies, and dedication to ethical principles that will enable us to navigate these challenges and emerge stronger. By working together, we can ensure that the accounting profession not only survives but thrives, building a legacy of public trust, integrity, and professional excellence for future generations.

Thank you.

