

AGENDA PAPER

Item Number: 10
Date of Meeting: 25 June 2020
Subject: Update on the Parliamentary Inquiry into Audit Regulation

Action Required For Discussion For Noting For Information

Purpose

To provide the Board with an update on the Parliamentary Inquiry into Audit Regulation in Australia.

Background

On 1 August 2019, an inquiry into the regulation of the auditing profession in Australia was referred to the Parliamentary Joint Committee on Corporations and Financial Services (PJC Inquiry). The PJC sought submissions on the Terms of References with the comment period closing 28 October 2019. APESB held a roundtable on 30 September 2019 to discuss the PJC Inquiry and obtain stakeholder feedback to inform its Submission.

APESB made three submissions to the PJC Inquiry, as follows:

- APESB's [initial submission](#) summarised the *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code), including auditor independence requirements and provisions relating to Non-Assurance Services (NAS) and conflicts of interest;
- APESB's [clarifying comments](#) on the Code's mandatory status for audit firms in respect of *Corporations Act 2001* audits, the enhanced conceptual framework, prohibitions within the Code and the increased cooling-off requirements for engagement partner rotations; and
- APESB's [additional information relating to auditors and insolvency services](#) highlighting provisions in the Code and APES 330 *Insolvency Services* relevant to audit firms that also provide insolvency services.

APESB Chairman, Ms Nancy Milne OAM, and CEO, Mr Channa Wijesinghe, were called as witnesses to the PJC's hearing in Canberra on 7 February 2020, where they discussed the Code, APESB's role in setting professional standards in Australia and future international developments to the Code of Ethics.

The PJC Inquiry was initially due to issue its final report by 1 March 2020, however, on 12 February 2020 the Senate extended the time for the final report until 1 September 2020.

The PJC Inquiry issued an [interim report](#) in late February 2020 which included 10 recommendations, of which the following are particularly relevant to APESB:

- Establish defined categories and associated fee disclosure requirements in relation to audit and non-audit services [*part of recommendation 3*]
- Establish a list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity [*part of recommendation 3*]
- The auditor's independence declaration must specifically confirm that no prohibited non-audit services have been provided. [*Recommendation 4*]
- 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 [*Recommendation 5*]

A detailed update on the PJC Inquiry was provided at the [March 2020 Board Meeting](#).

April & May 2020 Update

As part of the roundtables APESB conducted on 1 and 2 April 2020 in relation to the IESBA proposals on Fees and NAS, Technical Staff sought feedback from participants on the interim recommendations relating to NAS and the APESB (recommendations 3-5 of the PJC interim report as noted in the background above).

Stakeholders noted that the Code already has prohibitions in respect of NAS. Stakeholders were supportive of the progress made by the IESBA in respect of further strengthening the provisions relating to the provision of NAS as set out in the NAS ED. Stakeholders noted that providing clarity in the Code about the types of NAS that are explicitly prohibited and also the types of NAS that auditors would be permitted to perform would be beneficial.

Stakeholders were supportive of having defined categories for fee related disclosures relating to audit and non-audit services. There was a strong view that this change should be reflected across the accounting standards, auditing and assurance standards, and the professional and ethical standards.

In relation to the additional safeguard relating to audit partner incentivisation, stakeholders noted that there is an existing requirement in the Code close to this recommendation. Stakeholders noted that the intent of the recommendation could be clearer and suggested APESB may need to provide further guidance on the proposed recommendation.

Technical Staff also noted that it was announced on 14 May 2020 that the PJC Inquiry reporting date has been re-extended from 1 September 2020 to 2 December 2020. While the Committee have not re-opened the call for submissions, it is likely that further public hearings will be held before the finalisation of the PJC Inquiry.

The IESBA projects on NAS and Fees are likely to be well advanced by September 2020 based on the expected timeline for completion of December 2020.

Way forward

Technical staff will continue to monitor developments in the PJC Inquiry and collaborate where necessary with stakeholders in relation to the PJC Inquiry recommendations. Subject to IESBA's progress on NAS and Fees projects, APESB may provide further updates to the PJC to make them aware of the global developments that will in time impact Australian Independence Standards.

Recommendation

The Board note the update on the PJC Inquiry into Audit Regulation in Australia.

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Date: 13 June 2020