

## AGENDA PAPER

**Item Number:** 8  
**Date of Meeting:** 6 March 2020  
**Subject:** Update on the Parliamentary Inquiry into Audit Regulation

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Action Required     For Discussion     For Noting     For Information

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### Purpose

To provide the Board with an update:

- on the current status of the Parliamentary Inquiry on audit regulation in Australia; and
- APESB's evidence at the PJC Hearing on 7<sup>th</sup> February in Canberra.

### 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.

To inform its submission, APESB held a roundtable on 30 September 2019 to discuss the PJC Inquiry and obtain stakeholder feedback on the effectiveness of APESB pronouncements and international developments. Mr. Ian McPhee AO PSM, a Board Member of the International Ethics Standards Board for Accountants (IESBA), presented on the current IESBA projects that fall within the PJC's Terms of Reference.

APESB's [submission](#) to the Parliamentary Inquiry, in summary, noted the following key matters for the Committee's consideration:

- the Australian Code (APES 110), including the auditor independence requirements, aligns with the International Code of Ethics issued by the IESBA which facilitates global commerce;
- APES 110 and the International Code of Ethics are global best practice;
- the Australian professional standards framework that applies at the firm level and in respect of various professional services is a global leader and is only replicated in a handful of jurisdictions which does not include the UK;

- there are existing professional and ethical requirements for professional accountants on conflicts of interest and the provision of non-assurance services that should be well-understood by the Australian corporate sector. APESB is not aware of empirical evidence to suggest that there are significant weaknesses with our pronouncements;
- proposed global developments by the IESBA relating to the provision of non-assurance services and fees will drive change and enhancements to the way professional accountants address conflicts of interest and ensure that standards continue to meet changing global regulatory and community expectations;
- implementing more prescriptive disclosures for the different types of fees received by auditors (for example, audit, audit-related services, and non-assurance services) and fees paid to consultants/firms other than the entity's auditor may inform the public and enhance the transparency of an entity's use of the services provided by accounting firms;
- any amendments to strengthen the current regulatory arrangements should carefully consider the existing professional standards framework in place and the uniqueness of the Australian regulatory and professional standards environment in comparison to other jurisdictions such as the UK; and
- we acknowledge that non-compliance with existing legislative, regulatory and professional standards obligations does occur. In these instances, we strongly support the regulators and monitoring bodies, taking appropriate enforcement and disciplinary action.

APESB also prepared two additional submissions to the PJC to clarify the mandatory nature of the Code and its prohibitions and to highlight the existing prohibitions on Insolvency Services.

In summary, APESB's additional submissions to the PJC are noted as follows:

[Clarification of comments at Public hearing for the Inquiry – 27 November 2019](#)

- The APESB's Code of Ethics is mandatory for auditors and audit firms in respect of Corporations' Act Audits
- The threats and safeguard approach of the Code of Ethics has been strengthened with the 'enhanced conceptual framework'
- APESB's Code of Ethics incorporates multiple prohibitions other than Bookkeeping
- The Engagement Partner Cooling-off period has increased to 3 years – effective 1 January 2019
- Prohibition on an Audit Partner being remunerated based on their ability to cross-sell other services

[Additional information for the PJC relating to auditors and insolvency services - 19 December 2019](#)

- The APESB Code prohibits firms from undertaking an audit engagement and specified Insolvency Services in relation to the same client; and
- Independence requirements of APES 330 Insolvency Services will effectively limit a firm providing Insolvency Services provided to an entity that has obtained significant funding from a bank audit client.

## **Matters for consideration**

At the date of writing this report, the PJC has published 110 submissions on the [Parliament of Australia website](#) received in response to their Terms of Reference. Technical Staff has reviewed the submissions to determine the key themes that may have an impact on APESB's activities.

## **Key themes in stakeholders' submissions to the PJC**

There is a wide range of views expressed in the submissions made to the PJC inquiry so far. Some of the key themes or recommendations noted by Technical Staff include:

- Provision of non-assurance services and conflicts of interest;
- Disclosure and properly defining all services provided by the external audit firm including audit-related, other assurance and other services;
- Appropriate measures of audit quality and the parties who should be responsible for audit quality;
- The role of Boards, audit committees and management in the financial reporting chain;
- Enhancing audit independence via audit firm rotation vs. audit partner rotation;
- The level of competition in the Audit market including the use of joint audits or separation of firms into audit and consulting;
- Role and scope of audit including providing assurance over internal controls and other information;
- Insights to be gained from current international reviews (e.g. UK reviews)

## **APESB's appearance at the PJC on 7<sup>th</sup> February 2020**

The APESB Chairman and CEO represented on behalf of the APESB at the PJC public hearing on 7 February 2020. APESB's opening statement is provided as agenda item 8 (a) where APESB's role, the issue of the restructured Code, the Code's prohibitions, and APESB's international links with IESBA was brought to the attention of the PJC.

Due to the debate occurring in Australia over the requirements of the US Independence requirements vs. the global Code's independence requirements (which are incorporated in APES 110), IESBA authorised APESB to make the following statement to the PJC which was included in APESB's opening statement:

*"IESBA will shortly be commencing a benchmarking study which in due course will create an authoritative document to demonstrate the global Code's alignment with the US and EU independence requirements or highlight areas where there may be differences."*

The current global code (and APES 110) is probably about 70%-80% in alignment with the existing US requirements. Once the recent IESBA EDs are incorporated into the global Code, it is expected to be substantially in alignment with US requirements except for a few minor variations.

The following key matters were discussed at the hearing as captured in the Hansard (refer agenda item 8(b):

- APESB's role in setting professional and ethical standards in Australia;
- APESB's international links with IESBA;
- APESB's interactions with the regulators and in particular with ASIC;
- The mandatory nature of the Code and its legislative backing via ASA 102;
- Guidance on materiality;
- The impact of fees in respect of Non-Assurance Services and its relationship with audit fees;
- Disclosure of audit fees and fees for other services;
- International developments in respect of Non-assurance Services and fee disclosures;
- Standard-setting process and disclosure of interests;
- Difference between accounting standards and professional standards;
- Litigation funding; and
- Monitoring and enforcement of professional and ethical standards.

APESB also received a number of Questions on Notice (QoN) from the PJC that related to the following matters:

- QoN1 Prohibitions and Non-Audit Services;
- QoN2 Guidance on materiality;
- QoN3 Technological solution to identify conflicts of interests; and
- QoN4 Evidence to support monitoring and enforcement.

APESB's responses to these questions were submitted to the PJC on the 14th of February 2020 (refer to agenda items 8(c) to 8(e).

### **Way Forward**

The PJC has now extended the reporting deadline from 1 March 2020 to 1 September 2020. It is possible that APESB may receive further QoN subsequent to PJC's review of the information submitted on the 14<sup>th</sup> of February 2020.

### **Recommendation**

The Board note the update on the PJC Inquiry into audit regulations in Australia.

### **Materials presented**

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| Agenda Item 8 (a) | APESB Opening Statement                         |
| Agenda Item 8 (b) | Extract of Hansard relating to APESB's evidence |
| Agenda Item 8 (c) | QoN 1 Prohibitions and Non-audit Services;      |
| Agenda Item 8 (d) | QoN 2 Guidance on Materiality                   |

Agenda Item 8 (e) QoN 3 Technological solution for Conflicts of Interest

Agenda Item 8 (f) QoN 4 Evidence to support monitoring and enforcement

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