

11 July 2023

Mr. Ken Siong
Program and Senior Director
International Ethics Standards Board for Accountants
International Federation of Accountants
529 Fifth Avenue, 6th Floor
New York, New York 10017 USA
By email: kensiong@ethicsboard.org

Dear Mr. Siong,

RE: IESBA's Proposed Strategy and Work Plan, 2024 – 2027

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to comment on the IESBA'S *Proposed Strategy and Work Plan, 2024-2027* (SWP).

APESB is governed by an independent board of directors whose primary objective is to develop and issue, in the public interest, high-quality professional and ethical pronouncements. These pronouncements apply to the membership of the three major Australian professional accounting bodies (CPA Australia, Chartered Accountants Australia and New Zealand and the Institute of Public Accountants). In Australia, APESB issues APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*, which includes the Australian auditor independence requirements, as well as a range of professional and ethical standards that address non-assurance services.

Overall comments

APESB is supportive of the IESBA's proposed SWP, particularly the focus on ethics standards for sustainability reporting and assurance. We welcome the IESBA's plan to continue proactive engagement with all stakeholders in developing professionally agnostic and framework-neutral ethics and independence standards for sustainability.

We also support the IESBA's proposed work stream focusing on professional accountants in business. Given that most professional accountants in Australia work in business, commercial and public sector roles, the development of resources tailored for them would be highly beneficial.

While we support the IESBA's proposed SWP, APESB is concerned about the need to address firm leadership and cultural issues that have emerged from recent significant ethical failures in large firms in Australia and a few other G20 Jurisdictions (e.g., exam cheating – KPMG Australia, EY USA, PwC Canada and breaches of confidentiality – PwC Australia).

The matter is not explicitly addressed in the proposed IESBA's SWP for 2024-27. We believe that such a project should be a focus for the IESBA as the potential ramifications of these ethical failures are detrimental to the long-standing public trust accorded to the accounting profession.

In Australia, the recent ethical failures by PwC have sparked the Australian Federal Government to undertake two inquiries focusing on the management of conflict of interests by consulting services providers and on the structures of large accounting firms.

An interim report¹ released for the consulting services inquiry questions the corporate culture of PwC and whether the firm's leaders know right from wrong.

This is a difficult position for the accounting profession in Australia and casts doubt on whether the professional and ethical standards are fit for purpose, effective, and appropriately monitored and enforced.

APESB strongly encourages the IESBA to undertake a project to determine the validity and effectiveness of the IESBA Code on matters such as firm leadership and culture. The project should also consider whether thought leadership activities or guidance materials are required to supplement the provisions in the IESBA Code.

APESB's key recommendations are noted below, and Appendix A provides APESB's response to the IESBA's specific questions in the Consultation Paper.

Recommendations

APESB's key recommendations for the IESBA's consideration are:

- consider undertaking a project on the validity and effectiveness of the IESBA Code on matters such as firm leadership and culture;
- undertake a critical analysis of the drivers for delays in countries adopting amendments to the IESBA Code;
- development of application materials and resources to assist jurisdictions in implementing the Code at a faster pace
- consider developing resources that help professional accountants in business to understand their professional and ethical responsibilities;
- promote adoption of the IESBA eCode by facilitating its adoption by different jurisdictions;
- increase awareness of the Code requirements for non-assurance services and assess the effectiveness of monitoring and enforcement of ethical requirements; and
- consider a pre-determined pathway of releasing amending standards to allow more time for stakeholders to adopt and implement new amending standards.

¹ Commonwealth of Australia, 2023, [PwC: A calculated breach of trust](#).

Concluding comments

We trust that you will find these comments useful in your final deliberations. Should you require additional information, please contact APESB's Principal, Jacinta Hanrahan, at Jacinta.Hanrahan@apesb.org.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Nancy Milne". The signature is written in a cursive, flowing style.

Nancy Milne OAM

Chairman

APPENDIX A

APESB's Specific comments

APESB's responses to the specific matters raised by the IESBA in its *Proposed Strategy and Work Plan, 2024 – 2027* (SWP) are as follows:

1. Do you agree with the IESBA's *Proposed Strategic Drivers*?

Yes, APESB support the identified strategic drivers. However, we have additional comments that should be taken into consideration for the following items identified as drivers in the consultation paper:

- *Promote timely and effective implementation of the IESBA Code*

We know many countries have not adopted the latest version of the IESBA Code. APESB would be pleased to see the IESBA dedicate a significant focus on facilitating the global adoption of the Code in its next strategy period.

While a strategic action has been identified to engage in outreach and promote further adoption of the restructured Code, the IESBA should strive to understand if there are jurisdictional concerns regarding the pace of change and whether recent revisions (such as NAS and Fees) are creating challenges in some jurisdictions.

We believe obtaining this understanding will equip the IESBA with the necessary knowledge to develop appropriate material to facilitate countries' adoption and implementation of the Code and provide a solid foundation for future global implementation of standards that IESBA may issue.

Otherwise, the adoption gap will become greater and even more challenging to overcome in the future.

- *The pace of change in the IESBA Code*

At the APESB Board Meeting held in May 2023, stakeholders raised concerns about the pace and complexity of changes to the IESBA Code, which creates a burden on professional bodies and firms to keep up and effectively educate professional accountants within a short time frame. The IESBA has noted similar concerns in paragraph 27 of the Consultation Paper.

APESB understands that the revisions to the IESBA Code are necessary to maintain its robustness and relevance. However, we encourage the IESBA to consider a pre-determined pathway of releasing amending standards to allow more time for stakeholders to adopt and implement the new standards.

If new requirements are put in place and applicable in a short time frame, there is a risk that professional bodies and stakeholders might not have sufficient time to develop the necessary resources and tools to educate and raise awareness which will potentially result in non-compliance with the Code's requirements in subsequent years.

2. Do you agree with the IESBA's *Proposed Strategic Themes and Proposed Strategic Actions*?

APESB support the IESBA's proposed strategic themes and actions identified in the consultation paper, subject to our comments below.

Enhancing Trust in sustainability reporting and assurance

APESB acknowledges the importance of the IESBA's project on enhancing trust in sustainability reporting and assurance.

We note that in September 2022², and again in March 2023³, the International Organisation of Securities Commission (IOSCO) encouraged the development of timely and high-quality professional agnostic assurance and ethics (including independence) standards over sustainability-related information.

In a recent review⁴ of the public interest issues associated with IESBA projects, the Public Interest Oversight Board (PIOB) have also welcomed the IESBA's consideration of developing professional and ethical standards for sustainability reporting and assurance engagements that apply to all providers of this service.

We are pleased to note that the IESBA is responding to this global regulatory request, and it is in the public interest that all sustainability assurance providers are held to the same high standards of ethics and independence.

We acknowledge the extensive stakeholder engagement being undertaken by IESBA, particularly with organisations such as the International Organization for Standardization (ISO) and AccountAbility, who also issue sustainability assurance standards and sustainability assurance practitioners who follow their respective standards. We support the IESBA continuing this stakeholder engagement as it will help ensure the development of global ethical and independence standards that will result in the release of sustainability-related information that is consistent, comparable and reliable.

As the scope of ethical standards is expanded to sustainability, we believe that ethical standards must first be repositioned as a fundamental requirement for good governance and objective decision-making free of management bias. Accordingly, as ethical standards are needed for good governance, both preparers and assurance providers must adhere to the proposed new ethical requirements for sustainability.

² IOSCO media release, [IOSCO encourages standard-setters' work on assurance of sustainability-related corporate reporting](#), 15 September 2022.

³ IOSCO media release, [IOSCO sets out key considerations to promote an effective global assurance framework for sustainability-related corporate reporting](#), 28 March 2023.

⁴ [PIOB's Public Interest issued: IESBA Projects December 2022](#).

Ethical failures due to Firm leadership and culture

APESB have concerns regarding the firm leadership and culture that have emerged from recent ethical failures in large accounting firms in Australia, the United States of America and Canada. APESB raised these concerns with the IESBA previously in response to the IESBA's Strategy Survey in July 2022, as follows:

Recent examples of significant ethical failures in large firms in Australia, the United States of America and Canada indicate leadership and cultural issues. As these ethical failures have occurred in several major G20 jurisdictions, APESB believes the IESBA has a role to play in determining whether this relates to deficiencies in the IESBA Code or if there is a need for increased awareness, education, training or monitoring. The IESBA, in collaboration with the IAASB, could potentially consider thought leadership activities or guidance material emphasising the firm culture and leadership requirements in the IESBA Code and the IAASB's quality management standards.

In 2023, due to the ethical failings of consultants, the Australian Federal Government established an inquiry into the management and assurance of integrity by consulting services. The inquiry was initiated due to a failure by PwC to maintain confidentiality with respect to consultations on multi-national anti-avoidance tax laws with the Federal Government. This incident has received significant public attention and the focus of the business community in Australia in recent months.

On 21 June 2023, the Committee leading the inquiry released an interim report, [PwC: A calculated breach of trust](#). The report questions the corporate culture at PwC, asking, "...is PwC's internal culture so poor that its senior leadership does not recognise right from wrong, and lacks the capacity to act in an honest, open, and straightforward manner?"⁵

The report then considers that PwC's inability to recognise and address the conflicted position of being a tax agent and providing consulting services on taxation matters to the government, "...speaks to poor corporate culture and a lack of decent governance and accountability."⁶

Another inquiry, which will be held by the Parliamentary Joint Committee on Corporations and Financial Services, into *Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry* was announced on 22 June 2023.⁷

This inquiry will investigate and analyse regulatory, technical and legal settings and broader cultural factors of Australia's major accounting, audit and consultancy firms. The inquiry has identified three specific areas of focus:

- The global and national firm structures, including the impact on confidence in the advisory and audit assurance market for regulatory supervision and accountability to public and corporate sector clients;

⁵ Commonwealth of Australia, 2023, [PwC: A calculated breach of trust](#), paragraph 1.111

⁶ Commonwealth of Australia, 2023, [PwC: A calculated breach of trust](#), paragraph 1.112

⁷ Further details on the new PJC Inquiry can be found at: www.aph.gov.au.

- The governance obligations that apply to the various structures, including consideration of gaps and international best practice across a range of matters, including entity reporting and transparency, prevailing cultural practices, duties of care and management of conflicts of interest; and
- Mechanisms available to stakeholders (such as governments, professional standards bodies and regulators) to monitor and sanction misconduct and poor performance, including any gaps and overlaps relating to matters such as coverage of disciplinary bodies, self-reporting policies and practices, interaction with and self-referral to regulatory bodies.

APESB note that the IESBA has referred to a trust crisis and considerations of the cause of this crisis, including audit firm culture, in paragraphs 14 and 15 of the Consultation Paper. However, the identified action in the Consultation Paper focuses on specific ethical matters for sustainability, such as greenwashing. While APESB agree this is important and supports a focus on professional accountants with corporate reporting responsibilities, this fails to address the broader trust crisis in the profession, particularly in large accounting firms.

APESB is of the view a systemic or holistic analysis of the trust crisis must be performed across the broader accounting profession. The ethical failures by large accounting firms over the past few years (e.g., exam cheating – KPMG Australia, EY USA, PwC Canada and breaches of confidentiality – PwC Australia) and the resulting impacts on clients and governments create a detrimental effect on the perception of the accounting profession’s standing as ethical, independent and acting in the public interest. In addition, there are other court cases that get less media attention and out of court settlements which also demonstrate unethical behaviour by accountants.

APESB urge the IESBA to consider these profession-wide concerns carefully and include a potential project on the critical importance of firm leadership and culture as part of the new IESBA SWP. The project should consider determining whether ethical failures need to be addressed by strengthening the IESBA Code or if there is a need for increased ethical awareness, education, training, or monitoring of professional accountants (PAs).

APESB also strongly encourages the IESBA to work with the IAASB and consider joint thought leadership activities or guidance material emphasising the firm culture and leadership requirements in the IESBA Code and the IAASB’s quality management standards.

3. Do you support IESBA considering the topics set out in Table B as potential work streams? If so, please also share your views on any specific issues or questions you believe the IESBA should consider under these topics. If not, please explain your reasons.

APESB is supportive of the IESBA considering the potential workstreams identified in Table B in the Consultation Paper. APESB’s comments on each identified workstream are as follows:

- *Role of CFOs and Other Senior PAIBs*

We support this proposed work stream and the IESBA gathering insights into the ethical issues and challenges faced by CFOs and PAs in Business (PAIBs).

In Australia, approximately 70% of professional accountants are PAIBs. The PAIBs hold significant responsibility in the financial reporting process of organisations, ensuring the reliability and accuracy of the financial information they prepare. However, the IESBA Code predominantly focused on ethical requirements for auditors, with relatively less focus on addressing the specific ethical requirements applicable to PAIBs.

APESB encourages the IESBA to consider the professional competence of PAIBs in meeting the relevant ethical requirements. Having resources developed explicitly for the PAIBS to help them understand their professional and ethical responsibilities and develop the necessary skills to meet the IESBA Code requirements promptly would be beneficial.

In particular, APESB believe the IESBA should consider the potential impacts of excessive reliance on AI and digital technology in information gathering. Generative AI, like Chat GPT, carries the risk of producing inaccurate summaries and information.

Overreliance on AI undermines the professional judgement and inquiring mind of accountants and the integrity of AI-generated information. APESB believes it is important to consistently verify the accuracy of AI-generated information before it is used, and this consideration should be included in application material for PAIBs.

APESB also recognises the expanded roles of CFOs and PAIBs in supporting organisations in sustainability reporting. APESB supports the IESBA's commitment to developing timely ethics standards, which are essential for meeting the increasing needs of stakeholders for sustainability information.

- *Business Relationships*

APESB supports a holistic review of section 520 of the IESBA Code, including addressing the independence considerations for these arrangements and setting criteria for exceptions for certain business relationships.

- *Custody of Data*

Given the increasing use of digital technology in accessing or holding data, it is becoming vital for the PAs to ensure data confidentiality and security by controlling who has access to financial or non-financial data belonging to clients, customers or other third parties. A data breach can negatively impact the accounting firm's reputation for privacy protection and possibly lead to financial and legal consequences.

Accordingly, APESB supports the consideration by IESBA to include ethical implications relating to the custody of data in Part 3 of the IESBA Code.

- Communication with Those Charged with Governance

APESB supports this proposed workstream to review existing, and consider new provisions relating to “communication with those charged with governance (TCWG)” in the IESBA Code.

APESB agrees that the IESBA Code should clearly set out the requirements for professional accountants to communicate with TCWG across all relevant professional activities, such as sustainability reporting, use of experts, and provision of non-assurance and tax planning services.

APESB is of the view that engaging with TCWG for this work stream would enhance transparency and offer an opportunity for TCWG to understand the nature and scope of services provided by PAs. Furthermore, it will provide an assessment of how TCWG interpret this communication and whether it is used to consider whether the provision of multiple services will pose a threat to the independence of PAs.

APESB is supportive of this work stream considering the outputs of the Use of Experts project.

- Definition and Descriptions of Terms

APESB supports the IESBA working with the IAASB to ensure consistency of terms used in the IESBA Code and the IAASB standards. APESB believes that aligning terms and definitions of the two Boards’ standards is vital to its operability.

In Australia, APESB seeks to align itself closely with the AUASB Standards to ensure the Code’s and AUASB Standards’ operability for the benefit of Assurance practitioners and other stakeholders in Australia.

- Audit Firm – Audit Client Relationship

APESB recognises the inherent self-interest threat when fees are negotiated and paid by an audit client.

Currently, the IESBA Code provides guidance on the list of relevant factors in identifying and evaluating the level of self-interest threats arising from fees charged to audit clients, as well as examples of safeguards that may address such threats.

APESB believes that it would be more effective for the IESBA to prioritize promoting the existing provisions in the Code that address the self-interest threat rather than focus on a term used in the Code.

- 4. Do you believe the IESBA should accelerate or defer any particular ongoing, potential or pre-committed work stream(s) set out in Tables A, B and C? Please explain your reasons.**

Subject to our comments on a potential project on firm leadership and culture mentioned in Comment 2, APESB is supportive of the proposed timeframes for work streams set out in Tables A, B, and C.

Based on the current global focus and the rapid evolution of the sustainability regulatory environment, APESB believes that a high level of importance should be placed on sustainability reporting and assurance developments. This should be one of IESBA's key strategic focuses for the remainder of the current and future strategic periods.

- 5. Are there other topics the IESBA should consider as potential new work streams? If so, please indicate whether these topics are more important than the topics identified in Table B, and the needs and interests that would be served by undertaking work on such topic(s).**

As mentioned in our response in Comment 2, APESB strongly believes that a project considering the firm leadership and culture should be included in the new IESBA SWP.

Global regulators and stakeholders have consistently expressed concerns about ethical failure among PAs in public practice, particularly highlighting significant ethical failures within large accounting firms in recent years.

Accordingly, APESB is of the view that a potential project on firm leadership and culture should be elevated as a priority above the workstreams that have been identified in Table B in the Consultation Paper.

- 6. The IESBA's proposed Strategy and Work Plan emphasizes the importance of close coordination with its sister Board, the IAASB. Do you have views or suggestions as to how coordination between the IESBA and IAASB could be enhanced to better serve the public interest?**

APESB supports the IESBA working closely with the IAASB to develop consistency between the IESBA Code and the IAASB's standards.

We strongly encourage both Boards to initiate early engagement on projects and maintain regular and close collaboration throughout all project phases. It is crucial to emphasize the significance of close coordination between the two Boards to ensure the timely and consistent development of their respective standards, meeting the expectations of various government entities, regulatory bodies, and stakeholders.

7. Do you have comments on any other matters addressed in this consultation paper or any significant matters not covered in this consultation paper that you believe the IESBA should address?

Apart from the leadership and cultural issues raised in response to Question 2, APESB considers the IESBA should address the following matters:

- *Promote widespread adoption of the eCode*

The interactive functionalities of the eCode serve as a valuable resource tool, assisting PAs in effectively navigating and accessing relevant ethics and independence provisions pertaining to their professional activities.

However, it appears that there may be administrative issues hindering the widespread adoption of the eCode tailored to specific jurisdictions.

APESB therefore encourages the IESBA to consider how the eCode could be adapted and tailored to different jurisdictions. We think the availability of this resource would be an excellent incentive for jurisdictions to adopt the Code.

- *Increase awareness of monitoring and enforcement in the non-assurance space*

We understand that most accounting firms derive significant revenue from delivering non-assurance services, such as valuation, insolvency, forensic accounting, tax services, etc. However, the IESBA Code is predominantly focused on monitoring the compliance of PAs with ethical requirements when performing audit and assurance engagements.

APESB is of the view that, when there is insufficient monitoring and enforcement beyond the audit space, the expected ethics standards and professional behaviours are more likely to deteriorate.

Considering most PAs operate in the non-assurance space, it is also important to determine whether effective monitoring and disciplinary mechanisms exist to monitor and address non-compliance by PAs outside the assurance regulatory framework.

While some of this matter falls outside the IESBA's mandate for specific actions, it is important to consider the broader ethical issues that could arise across the accounting profession if this matter is not addressed.