

AGENDA PAPER

Item Number: 11

Date of Meeting: 24 August 2023

Subject: Update on Parliamentary Inquiries relating to the accounting profession

Action required For discussion For noting For information

Purpose

To update the Board on the Parliament Inquiries relating to the accounting profession.

Introduction

In recent years, there has been an increased number of ethical failures in the accounting profession, from cheating on internal ethics exams to frauds, breaches of confidentiality and conflicts of interest. In Australia, these ethical failures have led to the initiation of several parliamentary inquiries impacting the accounting profession.

This paper provides a high-level summary of the following recent and current inquiries related to the accounting profession:

- Parliamentary Joint Committee on Corporations and Financial Services (PJC) Inquiry into the regulation of auditing in Australia;
- Senate Finance and Public Administration References (FPAR) Committee Inquiry into the management and assurance of integrity by consulting services;
- New South Wales Government's Upper House Public Accountability and Works Committee (NSWPAC) has established an inquiry into the use and management of consulting services by the NSW Government agencies; and
- PJC Inquiry into Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry

APESB have engaged with these inquiries by providing submissions and appearing at the PJC Inquiry into the Regulation of Auditing in Australia and the NSW public hearing. Details of the submissions and appearances are in the relevant Inquiry section below.

PJC Inquiry into Audit Regulation in Australia

On 1 August 2019, an inquiry into the regulation of the auditing profession in Australia was referred to the PJC due to concerns raised on the quality of auditing. The [terms of reference](#) focussed on the role of audits, potential conflicts if other services are provided in conjunction with audit services, and the effectiveness of current oversight and regulatory arrangements.

The PJC received 112 submissions, which were summarised by APESB Technical Staff for the Board for the 20 November 2019 board meeting ([BM 97 Agenda Item 10](#)) and updated for the 6 March 2020 board meeting ([BM 98 Agenda Item 8](#)).

APESB made three submissions to the PJC [Inquiry into the Regulation of Auditing Australia](#) on 28 October 2019, [Clarification of comments at the Public Hearing for the Inquiry into the regulation of Auditing in Australia held on 19 November 2019](#) on 27 November 2019, and [Additional information for the Parliamentary Inquiry into the regulation of Auditing in Australia relating to auditors and insolvency services](#) on 19 December 2019.

APESB Chairman, Ms Nancy Milne OAM, and CEO, Mr Channa Wijesinghe, were called as witnesses to the PJC hearing in Canberra on 7 February 2020. Details on the discussion and the Hansard from the session were provided to the Board at the 6 March 2020 Board meeting. ([BM 98 Agenda Item 8](#)).

On February 2020, the PJC Inquiry issued an [interim report](#), which included 10 recommendations and the [final report](#) was released in November 2020. The following recommendations were 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*]

APESB decided to address these recommendations where possible and have incorporated relevant changes into two Amending Standards and incorporated amendments into APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code).

The Amending Standard Amendments to the Fee-related provisions in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the [Fees amending standard](#)) included revisions to expand the prohibition on incentivisation of audit partners to now prohibit audit partners being incentivised for selling non-assurance services to all audit clients of the firm (addressing recommendation 5).

In the exposure draft for the Fees Amending Standard, APESB proposed five defined fee categories for disclosure (addressing recommendation 3). Following feedback from stakeholders, APESB agreed to wait on the outcome of AASB's related project to develop requirements for preparers of financial reports before incorporating guidance for auditors in the Code.

The non-assurance services (NAS) prohibitions in the Code have also been strengthened via the issue of *Revisions to the Non-Assurance Services provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (NAS Amending Standard) (addressing recommendation 3). The NAS amending standard enhances auditor independence by prohibiting NAS to Public Interest Entity audit clients, which may create a

self-review threat. It includes new prohibitions on certain NAS services and raises the thresholds to be met before any non-assurance can be provided (recommendation 3).

At the date of writing this agenda paper, the Federal Government has not officially responded to the final recommendations from this PJC Inquiry.

Finance and Public Administration References (FPAR) Committee Inquiry into management and assurance of integrity by consulting services

On 9 March 2023, the Senate referred an inquiry into management and assurance of integrity by consulting services to the Senate Finance and Public Administration References (FPAR) Committee. The Committee was asked to report by 26 September 2023, but this has been extended to 30 November 2023.

The [terms of reference](#) for the FPAR Inquiry were to consider how consulting engagements are managed by the Government or other regulatory bodies, the oversight of consultants and how conflicts of interests and other integrity breaches are managed. The FPAR Inquiry has received 50 submissions as of the date this report was written.

APESB made a [submission](#) to the FPAR Committee on 21 April 2023, which provided information about the role of APESB and the Code. The submission highlighted the relevant provisions in APESB pronouncements relating to conflicts of interest and the need for a quality management system. The submission noted the APESB pronouncements only apply to professional accountants and their firms, which provide consulting services. There may be other consultants who are not subject to a code of ethics, depending on their discipline.

The Committee held four public hearings from May to July 2023. Refer to Agenda Item 11(a) for details of the hearings and links to the transcripts. The FPAR Committee also issued a report in June 2023 on the PwC matter ([PwC: A calculated breach of trust](#)).

NSW Government- Inquiry into NSW Government's use and management of consulting services

On 6 June 2023, the New South Wales Government's Upper House Public Accountability and Works Committee (NSWPAC) established an inquiry into the use and management of consulting services by the NSW Government agencies. The inquiry is examining whether the NSW Government's use of consultants provides the people of New South Wales with sufficient transparency, accountability and value for money and whether effective measures are in place to prevent unethical conduct.

The [terms of reference](#) for this Inquiry are to inquire into how government departments utilise consulting services, the related policies and oversight for the procurement of these services and the measures in place to prevent or manage conflicts of interest, breaches of contracts and other ethical behaviour. The Committee have received 25 submissions to date.

In July 2023, APESB made a [submission](#) to this Committee. The submission noted that the existing professional standards, such as the Code, Quality Management Framework for Non-Assurance Services (APES 320) and other APESB standards, already address conflicts of interest. The submission encouraged the NSWPAC to consider existing frameworks in place in the development of any proposed recommendations from the Inquiry.

APESB also strongly supported regulators and monitoring bodies taking appropriate enforcement and disciplinary action for non-compliance with legislation, regulatory and professional standards.

The NSW PAC held seven public hearings between 15 June 2023 and 16 August 2023. The APESB Chairman, Ms Nancy Milne OAM, and CEO, Mr Channa Wijesinghe, were called as witnesses to the hearing held in Sydney on 9 August 2023. The APESB opening statement is set out at Agenda Paper 11 (b). For further details on the hearings and links to the transcripts, refer to Agenda Item 11(c).

PJC Inquiry into Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry

On 22 June 2023, the PJC resolved to commence an inquiry into Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry. This inquiry was due to recent allegations of misconduct in the Australian operations of the major accounting, auditing and consultancy firms.

The [terms of reference](#) for this PJC Inquiry are for the Committee to undertake a detailed investigation and analysis of regulatory, technical, and legal settings and broader cultural factors for the large accounting, auditing and consulting firms.

Submissions addressing the Terms of Reference can be made to the Committee by 31 August 2023. The Committee intends to report to the Parliament by mid-2024.

APESB has been invited to make a submission to this Inquiry. On 2 August 2023, APESB held a Board workshop with key stakeholders to consider the current regulatory framework and whether it can be enhanced. As a result of this workshop, the APESB is assessing and evaluating a package of measures to be recommended for the consideration of the PJC. The potential measures were referred to in the Opening Statement for the NSW Government Inquiry (refer to Agenda Item 11(b)).

Way Forward

Technical Staff will continue to monitor the government inquiries' progress and outcomes and update the Board on key developments.

Recommendations

That the Board note the update on the Government Inquiries.

Materials Presented

Agenda Item 11(a)	Details on the FPAR Inquiry Public Hearings
Agenda Item 11(b)	APESB Opening Statement to NSW Inquiry
Agenda Item 11(c)	Details on the NSW Government Inquiry Public Hearings

Authors: Jacinta Hanrahan
Rachael Tiong

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