

Responding to recent challenges in the accounting profession

IPA Board Meeting
27 November 2023



Nancy Milne OAM FAICD
Chairman, APESB

Channa Wijesinghe FCPA, FCA
Chief Executive Officer, APESB
Board Member, IESBA

APESB's role and mandate

- Established in 2006 as an independent standard setter to develop professional & ethical pronouncements for the three professional accounting bodies
- Previously professional and ethical pronouncements developed by the professional accounting bodies
- Members' compliance and discipline overseen by professional bodies
- APESB's structure is globally unique
- A comprehensive suite of accounting professional pronouncements developed during the first decade of operations

APESB's role and mandate

- Influence international standards setting process:
 - IESBA's National Standards Setters group
 - Representation on the IESBA and IFAC Committees
- To date APESB has released 21 pronouncements consisting of 15 Standards and 6 Guidance Notes
- The critical role ethics plays in maintaining the public trust, reputation and good standing of the profession

Board Composition



Nancy Milne OAM
Chairman



Brian Morris



Claire Mackay



Rachel Grimes AM



Colin Murphy PSM



Damien Moore



Dianne Azoor Hughes

APESB's organisational structure



Recent global ethical failings

UK – Kingman and CMA Reviews, Brydon Report, FRC overhaul and Big 4 operational separation as a result:

- Carillion – KPMG LLP fined £18.5m. Auditor fined £350k, banned for 10 yrs
- BHS – PwC fined £6.5m. Auditor fined £325k, banned for 15 yrs

EU – Wirecard collapse in Germany 2020 – €1.9b fictitious assets, unqualified audit reports and alleged audit failures

USA – US SEC & PCAOB Independence and Ethics breaches

- US\$ 100M fine for EY
- US\$ 450K fine for KPMG

AU – Parliamentary inquiries on audit regulation, use of consultants and ethics and structural accountability

- PwC – Breach of Confidentiality (Multinational taxation schemes)
- KPMG - Conflict of interests (NSW Transport)



Ethical failings raised by NSW inquiry Chair

- **PwC** tax advice scandal
- **KPMG** TAHE debacle
- **PwC** education investments issue
- **EY** Broderick report into workplace culture
- **KPMG** defence contracts issues
- **Deloitte's** misuse of confidential government information
- Relationship between the **Big 4 firms** and the TPB, including hosting TPB meetings in Big 4 offices
- **Deloitte's** failure to disclose a conflict of interest to Home Affairs and also with the Australian National Audit Office
- **EY** and the Santos conflict
- **Deloitte's** misuse of government information nine times last year and 18 times the year before
- **KPMG's** 88 internal complaints about staff conduct last year, majority classed as code of conduct breaches
- **Deloitte's** 121 instances of misconduct in the last financial year, with 13 including partners, and 78 instances the year before
- accusations during this inquiry by the Audit Office of "loss-leading" on auditing of local governments

Common themes

- Big 4 Firms
- Consulting Services

APESB response to Australian ethical failings

Media Statement on the PwC matter

- released 6 June 2023 – available on [APESB's website](#)
- APESB continue to monitor and assess impact on its standards

Focus on firm leadership and culture:

- Recommendations to IESBA's *CP Strategy & Work Plan for 2024-2027*:
 - IESBA now planning a project on firm leadership and cultural issues
 - Assessment of need for requirements or guidance
- IESBA proposing to include new strategic objective on this topic.
- Discussions in 2022 - KPMG, 2023 - EY & PwC. Deloitte planned for 2024

APESB response to Australian ethical failings

Stakeholder engagement

- APESB Workshop (August 2023) – focus on ToR for the PJC Inquiry & potential enhancements to the current co-regulatory framework.
- Big 6 meetings on APESB recommendations held from 18 Aug - 1 Sept 2023

Submissions and attendance at Government Inquiries

- Senate Committee Inquiry into management & assurance of integrity by consulting services (April 2023) - [submission](#)
- NSW Government's use and management of consulting services (July 2023) - [submission](#) and [opening statement](#) from appearance at public hearing on 9 August 2023
- PJC Inquiry into Ethics & Professional Accountability (August 2023) – [submission](#) and scheduled to appear at a public hearing in early 2024

APESB's recommendations to the Government

Enhancement to the current regulatory framework:

- APESB consider developing:
 - a standard on the culture and governance of large professional services firms in Australia;
 - A specific standard on management consulting services;
- APESB, in conjunction with the IESBA, works towards strengthening the global Code on issues that impact firm culture and governance; and
- Encourage the enhancement of ethics modules of professional programs and mandatory continuing professional development.

APESB's recommendations to the Government

Transforming the existing regulatory landscape:

- Provide legislative backing for APESB's professional and ethical pronouncements;
- Move APESB under the oversight of the FRC (consistent with the Australian Accounting and Auditing standard setters);
- Require large professional service firms to prepare audited general purpose financial reports, including remuneration disclosures; and
- Establish an independent body to monitor all professional services firms that provide audit, assurance and consulting services.

APESB's recommendations to the Government

Enhancing ethical behaviours and public interest for all professions:

- Require financial statements disclosures on all fees paid by an entity to professional services firms on all services they have provided;
- The Government develop a rigorous Code of Ethics (such as APES 110) for any entity or persons that provide professional services to the Government;
- Extend the application of a Code of Ethics to all firms providing professional services; and
- APESB consider developing a professional agnostic APES 110 and management consulting standard that could apply to all professionals.

International best practice?

UK is often referred to as the leaders in ethical standards and related oversight.
Key features of their model:

- [UK Audit Firms Governance Code](#) – applies to firms that audit 20 or more PIEs or if they audit one or more FTSE 350 companies.
- [Operational separation](#) for largest audit firms – voluntary until legislation enacted.
- Regulatory body undertakes monitoring and enforcement for audit firms that [audit PIEs and certain non-PIE entities](#).
- [Delegated agreements](#) to the profession bodies for monitoring and oversight of small firms.



Discussion