

APESB - Opening Statement – PJC Inquiry 1 March

Nancy Milne

Thank you for inviting the Accounting Professional and Ethical Standards Board (APESB) to appear at this Inquiry.

APESB develops and issues professional and ethical standards for members of the Australian accounting profession. It is a public company limited by guarantee that functions independently of the accounting profession, governed by a Board of Non-Executive Directors.

APESB has developed a robust, comprehensive suite of Australian professional and ethical standards, which are benchmarked to global standards issued by the International Ethics Standards Board of Accountants (IESBA) and the International Auditing and Assurance Standards Board, and which codify global best practice.

Compliance with APESB's Code of Ethics and ethical standards is mandatory for members of CA ANZ, CPA Australia and IPA (the member bodies).

APESB is also a significant participant in the development of the IESBA's Global Code of Ethics, which is adopted or used in 132 jurisdictions, including 16 of the G20 countries. The forum of firms, which consists of 34 international networks, has undertaken to have policies and methodologies that conform with the IESBA Code when performing transnational audits.

APESB CEO Channa Wijesinghe is a Board member of the IESBA and participates directly in the global standards development process (please refer to the attached diagram for the global framework).

Channa was a member of the IESBA Taskforce, which developed a new Tax Planning Services Standard that will be applicable globally starting June 2025.

APESB's mandate is to develop and publish ethical standards; it does **not** include monitoring or enforcement activities, which are the province of the regulators and member bodies.

Our Code of Ethics sets out fundamental principles of ethics, which underpin the profession's responsibility to act in the public interest.

We have also developed service-specific professional standards that address Non-Assurance Services such as Valuations, Taxation, Forensic Accounting, Insolvency, Corporate Finance and Financial Planning.

Based on the publicly available information, breaches or failures to comply with requirements relating to integrity, confidentiality and conflicts of interest have occurred. In particular, the reported failings have occurred within firms that have been required to comply with the Code and the ethical standards of the APESB, which are clear in respect of fundamental ethical obligations, including maintaining confidentiality and identifying and addressing conflicts of interest.

However, ethical standards alone – no matter how robust they are – will not prevent unethical behaviour without a robust system of monitoring and enforcement upon those subject to them.

Channa Wijesinghe

The recommendations in the Board's Submission included:

- Provide legislative backing for APESB's ethical standards.
- Expand the applicability of the APESB's Code to all professional service firms.
- Enhance transparency of large firms by requiring them to produce audited general-purpose financial reports, including remuneration disclosures
- Establish an independent body to monitor all professional accountants (and others) who are not subject to statutory regulatory oversight, including taking enforcement actions where appropriate. This body should prepare an annual report of its monitoring and enforcement activities to enhance public trust.
- APESB, in conjunction with the IESBA, works towards strengthening the global Code on issues that impact firm culture and governance. In this regard, IESBA recently established a Working Group to explore the root causes of unethical behaviour and undertake a review of whether the existing provisions of the Code might be further strengthened.
- I have been appointed as the Chair of this Working Group, and the IESBA will consider the Terms of Reference at its upcoming March 2024 meeting in New York.

On average, 80% of Big Four firms' revenues in Australia come from non-audit clients as opposed to audit clients, where detailed auditor independence standards and prohibitions are in place. The Australian Code (APES 110) applies equally to work performed for non-audit (or consulting clients) as they do to audit clients of these firms.

Accordingly, we encourage the Inquiry to consider the opportunity to establish a rigorous Code of Ethical behaviour based on APES 110 that would be applicable to all professional service firms.

The Committee may also be interested to know that IESBA has recently issued a global exposure draft on the ethics and independence requirements for sustainability assurance practitioners in a professionally agnostic manner and will explore extending the Global Code beyond the accounting profession as a key area of strategic focus in its 2024- 27 Work Plan.

We note that we engaged with the PJC's 2019/20 Audit inquiry and have taken action to address recommendations three and five that are within our mandate, which dealt with strengthening prohibitions on Non-Assurance Services and incentivisation of audit partners.

Due to these changes, the declining trend of Non-Audit Services to Audit Clients over the last decade and the majority of the large firm's revenue being earned from non-audit clients, we believe that the Committee should focus on reforms that address services provided to Non-audit or Consulting clients in comparison to reforms purely focussed on audit clients, such as operational separation or audit-only firms.

We support this Inquiry and are happy to answer your questions.