

Parliamentary Joint Committee on Corporations and Financial Services
Ethics and Professional Accountability: Structural challenges in the Audit, Assurance and Consultancy Industry

Answers to additional questions on notice dated 7 March 2024

Accounting Professional and Ethical Standards Board

ADDITIONAL QUESTION 1:

On pages 22 to 24 of its submission (Submission 50), Treasury set out principles for evaluating whether to intervene in the regulation of the audit, accounting and consulting industry. Could you discuss how the Treasury principles might be applied to your recommendations or suggestions?

ANSWER:

APESB have reviewed Treasury's submission (submission 50) to this inquiry and considered the principles for evaluating whether to intervene in the regulation of the audit, accounting and consulting industry.

APESB's measures or actions for the PJC's consideration were not just a single solution but a comprehensive package. These measures or actions were designed to enhance the ethical conduct of professional services firms, taking into account recent ethical lapses and the proven inadequacy of the current regulatory framework, and its monitoring and enforcement. Given the shared focus of these proposals, we have broadly considered applying the principles identified by the Treasury across the full range of APESB's proposed measures or actions.

It's worth noting that Treasury has grouped audit, accounting, and consulting into a single industry. While some large professional services firms offer all these services, assessing the effectiveness of regulating them as a collective industry is challenging. APESB firmly believes that each service (i.e., audit, accounting and consulting) requires individual consideration. For example, effective regulation for audit services (where there are extensive legislative requirements, including legislative auditing and assurance standards) will not adequately address issues related to consulting services (where similar legislative requirements and standards may not exist).

The consideration of the principles relevant to regulation identified by the Treasury are set out below:

Identify potential regulatory gaps (i.e., markets failed, unable to achieve desired outcomes themselves)

- Ethical issues have occurred at large professional services firms, which indicate:
 - poor culture and governance;
 - lack of appropriate and effective external oversight and monitoring and enforcement of the quality of services provided by large professional services firms (including accounting firms and consultants);
 - lack of transparency and accountability of professional services firms (due to differing requirements imposed on different business entity structures, the patchwork of relevant regulations and uncoordinated oversight, and monitoring and enforcement across all services of the firms).

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- Partnership structures are governed according to their partnership agreement; however, this may not meet public expectations of best practice governance in terms of transparency and accountability required of large organisations. The firms may voluntarily establish different governance systems to align with public expectations, but this Committee has raised concerns about the likelihood of announced changes being appropriately implemented and adhered to by certain market participants.¹

In the UK, Audit firms are required to apply the UK FRC's Audit Firm Governance Code. APESB is of the view that this Code could be used as the basis of a standard to standardise the governance practices of professional services firms in Australia. Strengthening the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Global Code) was another one of APESB's proposed measures or actions, which may eventually assist in addressing the observed ethical failures in the market.

- EY and Deloitte have both recommended in their submissions the establishment of an independent body to oversee accounting professionals and firms (which is consistent with an APESB proposed measure). Major market participants' calls for independent oversight support the view that the market is unable to maintain public confidence and trust in the industry by itself and that external intervention is warranted to address the observed market failures.

Risk Based approach (e.g., consequences and likelihood of failure)

- The impact of a Firm's failure will not be confined to just the individual client involved. Many parties could be impacted. In particular, in the case of a large firm, hundreds of employees and other businesses could provide resource inputs to that firm. Gauging the impact of ethical failings has become more apparent based on recent events, especially the wide range of stakeholders impacted (for example, the sale of the government business of PwC and the subsequent retrenchments of employees and the Robodebt Scheme Royal Commission).
- It is important to consider the nature of the client. For example, if the client is a government department or agency, implementing suggested advice may have broader economic or regulatory impacts on taxpayers and the effectiveness of the government's service delivery to its citizens, extending the effects of failures well beyond the immediate client.

One APESB measure for consideration states that transparency is important for upholding the public interest when a firm is providing professional services to public interest entities and the Government, and therefore, fee disclosures should be enhanced. Another APESB measure for consideration is whether a rigorous Code of Ethics be applied to all professional services firms or persons that contract with the Government. These measures or actions for consideration recognise the broader consequences of

¹ Paragraph 1.239 of the Finance and Public Administration References Committee Report, *PwC: The Cover-up Worsens the Crime*, Commonwealth of Australia, 2024

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services provided, which, in the context of the Government, impacts the value for money delivered to taxpayers and the delivery of government services to its citizens.

- Partners of a firm are fully exposed to the costs and risks associated with any failures of the partnerships.
- According to information on their website, the Big Four accounting firms in Australia employ over 40,000 people. Failures by these firms that lead to significant downturns in the firm's operations will flow through to employment numbers.²
- Large professional accounting firms provide a broad range of services. Failures in one service line could potentially impact other service lines and erode trust in the firm and its services.
- The current ethical issues make it self-evident that the existing regulatory oversight for the Big Four Firms is not effective, which means that if action is not taken, the likelihood of more ethical failures is higher.

Drivers of behaviour for the affected population

- APESB note the drivers of behaviour listed by the Treasury in its submission, and we can see alignment between these drivers, the ethical failures that have occurred (refer to APESB's comments above in the section *Identifying potential regulatory gaps*) and the measures or actions for consideration included in APESB's submission.
- APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) requires members of the accountancy profession to act in the public interest. Legislative backing of this requirement and the extension of the requirement to all professional services firms (both measures or actions suggested by the APESB) could assist in refocusing firms' efforts from short-term rewards to upholding reputation in the long term.
- APESB also suggested other measures or actions that relate to the identified drivers, such as:
 - establishing a consistent standard for firms on culture and governance;
 - APESB to consider creating a standard on management consulting to clarify how existing provisions in APES 110, such as confidentiality and managing conflicts of interests, apply to these services; and
 - Requiring firms to be transparent by issuing audited general-purpose financial reports, which include remuneration disclosures.
- APESB notes the comments about cross-subsidised services on page 23 of the Treasury Submission. This position has been disputed by the firms (as noted in the footnotes on page 6 of our Submission, and by EY in their submission to the Committee

² Employee numbers were compiled from the following publicly available information on the Firms; [PwC Australia Transparency report 2023](#), [About KPMG webpage](#), [About Deloitte webpage](#) and an [Ibis world report on EY](#).

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for this Inquiry) and by ASIC and as reported in the media (refer to pages 6-7 of APESB's submission to this Inquiry). As such, there is insufficient evidence that cross-subsidisation of services is occurring and driving unethical behaviour with respect to audit services.

Potential benefits vs Potential costs

- APESB notes the comments about potential costs and benefits raised by Treasury.
- APESB believes implementing some or all of its suggested measures or actions will enhance the quality of services delivered to the government and the public and avoid the economic consequences we have recently experienced. In the context of Government engagements, it is also likely to deliver value for money to taxpayers.

We acknowledge that implementing some revisions, such as establishing an oversight body for professional services firms, will add to the costs of business for professional services firms. However, the cost of establishing and maintaining a monitoring body is far outweighed by the costs incurred due to the delivery of poor services (for example, the Robodebt Scheme and issues with Department of Defence contracts). The consequences of poor delivery of services could be averted with a rigorous monitoring process.

- APESB is concerned that changes in regulatory oversight could have a disproportionate impact on parts of the accounting profession, especially in preventing unnecessary regulatory burdens on small to medium accounting practices. We are also concerned that regulatory oversight should be applied consistently across all industry participants, especially in the case of consulting services, which are provided by a range of different organisations, including non-accounting firms.

Consideration of types and design of intervention

- APESB is cognisant of the need to ensure that any regulatory interventions are designed to target specific behaviours. APESB applied this consideration in developing its proposed measures or actions that enhance the current multi-layered regulatory framework. Our suggested measures or actions are focused on specific conduct (e.g., a standard on management consulting services), general conduct (e.g., enhancing professional development on ethics) and regulating business structures and entities (e.g., establishing standards on firm culture and governance, and the establishment of an independent body to monitor all professional services firms that provide audit, assurance and consulting services).
- The auditing, accounting, and consulting industries are an important part of the Australian economy. The current ethical failures make it apparent that some form of intervention is required to ensure the proper functioning of the market and economy, or, in the context of the Government, the economy, effectiveness of service delivery to its citizens, and value for money for taxpayers.

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Due to the matters identified above, APESB have carefully considered how potential reforms could be progressively implemented, which is why we categorised our proposed measures or actions into the following three categories:

- enhancement to the current regulatory landscape,
- transformation of the regulatory landscape; and
- enhancing ethical behaviours and public interest for all professions.

Please refer to pages 3-4 of our submission for a detailed list of APESB measures or actions for the PJC's consideration.

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QUESTION 2:

On page 25 of its submission (Submission 50), Treasury suggested that the committee seek information on firm structure, partnership frameworks in theory and practice, firm governance processes, how firms operationalize their obligations, data on firm performance, and why the current regulatory environment is deficient. Are you able to provide any information on those points, potentially as a written response to Treasury's submission?

ANSWER:

APESB is an independent body that sets the professional and ethical standards for members of the three major professional accounting bodies in Australia (CPA Australia, Chartered Accountants Australia & New Zealand (CA ANZ) and the Institute Public Accountants (IPA)).

As a national standards setter, APESB's mandate does not include monitoring and enforcement. APESB does not have oversight of professional accountants. The three professional accounting bodies and regulatory authorities (i.e., ASIC, ATO and TPB) are responsible for monitoring and enforcing compliance of professional accountants, including conducting disciplinary actions for breaches of APESB standards.

In addition, APESB does not collect or monitor information of firms. We only have access to publicly available information, such as the firms' websites, which include their transparency reports and annual results. For any information relating to firms, we believe it would be more efficient for the Committee to request it from the firms themselves.

Please find below a selection of publicly available information on the firms:

PwC Australia

- [PwC Australia - Transparency Report FY23](#)
- [PwC Australia releases financial results for the year ended 30 June 2023 \(Media Release\)](#)

Deloitte Australia

- [Deloitte Australia - Transparency Report 2023](#)
- [Deloitte Australia - FY23 Annual Report](#)

KPMG Australia

- [KPMG Australia - Transparency Report 2023](#)
- [KPMG Australia - Impact Plan 2023](#)
- [KPMG Australia - FY23 financial results and Impact Report \(Media Release\)](#)

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EY Australia

- [EY Oceania - Value Realised Scorecard 2023](#)
- [EY Value Realised 2023](#)

BDO Australia

- [BDO Australia - Transparency Report 2023](#)
- [BDO announces record FY22 results > \\$400 million \(Media Release\)](#)

Grant Thornton Australia

- [Grant Thornton - Transparency Report 2023](#)

Pitcher Partners Australia

- [Pitcher Partners - Transparency Report 2023](#)

Please refer to APESB's response to the additional question on notice (number 1) regarding why the current regulatory environment is deficient.