

AGENDA PAPER

Item Number: 10
Date of Meeting: 3 September 2024
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 Parliamentary Inquiries relating to the accounting profession.

Background

In recent years, the accounting profession has experienced an increased number of ethical failures, from cheating on ethics exams to fraud, 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.

APESB have engaged with these inquiries by providing submissions and appearing at the public hearings. Detailed updates on the inquiries were provided at the Board meetings in August 2023 ([Agenda Item 11](#)), November 2023 ([Agenda Item 10](#)), March 2024 ([Agenda Item 10](#)) and June 2024 ([Agenda Item 10](#)).

Parliamentary inquiries update

Parliamentary Joint Committee on Corporations and Financial Services (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 focus of the inquiry is set out in the [Terms of Reference](#). Technical Staff presented a summary of the key themes in the submissions to this inquiry at the Board meetings in November 2019 ([Agenda Item 10](#)) and March 2020 ([Agenda Item 8](#)). The PJC issued an [Interim Report](#) in February 2020 and a [Final Report](#) in November 2020.

On 5 July 2024, the Federal Government published its response to the Interim Report and Final Report recommendations from this PJC inquiry. The response was consistent for all recommendations, which was that the Government notes the recommendations; however, given the passage of time since the report was tabled, a substantive Government response is no longer appropriate. The Government response is available on the [inquiry website](#).

It should be noted that APESB has taken action to strengthen the provisions relating to the external auditor providing non-assurance services (Recommendation 3) and amend the Code to create a prohibition (recommendation 5) where no audit partner can be incentivised through remuneration advancement or any other means or practice for selling non-audit services to an audited entity.

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

This inquiry, established on 6 June 2023, focused on the use and management of consulting services by NSW Government agencies. Refer to the [Terms of Reference](#) for the inquiry.

The Public Accountability and Works Committee issued the Government its Report on 29 May 2024, which set out 28 recommendations for the NSW Government to consider. A detailed update on this report was provided at the June 2024 Board meeting ([Agenda Item 10](#)). The NSW Government is expected to respond to the report by 29 August 2024.

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 Finance and Public Administration References (FPAR) Committee. The inquiry's focus is set out in the [Terms of Reference](#).

The Committee tabled two interim reports: *PwC: A Calculated Breach of Trust* (June 2023) and *PwC: The Cover-up Worsens the Crime* (March 2024).

Technical Staff presented a summary of the key themes in the submissions made to this inquiry at the March 2024 Board meeting ([Agenda Item 10](#)) and APESB's response to the Question on Notice to the Committee at the June 2024 Board meeting ([Agenda Item 10](#)).

On 12 June 2024, the inquiry issued a [Report](#) that sets out 12 recommendations made by the Committee. The report also included an additional 22 recommendations and comments made by the [Australian Greens](#). Refer to the update provided to the Board in June 2024 ([Agenda Item 10](#)).

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

On 22 June 2023, the PJC resolved to undertake an inquiry into Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry in response to allegations of misconduct in the Australian operations of the major accounting, auditing and consultancy firms. The focus of the inquiry is set out in the [Terms of Reference](#), with the Committee expected to report to Parliament by December 2024.

Technical Staff presented a summary of the key themes in the submissions made to this inquiry at the November 2023 Board meeting ([Agenda Item 10](#)) and APESB's response to the QoN to the Committee at the June 2024 Board meeting ([Agenda Item 10](#)).

Since the last update was presented at the June 2024 Board Meeting, the PJC held a public hearing on 2 August 2024, which was focussed on PwC. The witnesses appearing were either current or former partners, employees or independent consultants to the firm. The transcript from this hearing is available on the [Inquiry website](#).

The following matters were noted during the hearing:

1. Use of legal professional privilege – From an internal review performed, it appeared that privilege claims had been made for which there was not a proper basis and that there was a small group within the tax group who had not been performing in accordance with or adhering to the firm's legal protocols put in place.
2. Governance failures in not properly dealing with the ATO's concerns: the ATO had raised concerns with PwC about the use of legal privilege and cultural issues with the operations of its tax practice, including the possible breach of confidentiality. However, the questioning from the Committee Members implied that PwC's response to the ATO's concerns was not adequate. PwC has since strengthened its governance by appointing an independent chair and placing independent directors to oversee the next CEO selection process.
3. Revenue pressures—Some partners reported concerns about whether an excessive focus on revenue might compromise probity integrity, ethics and professionalism.
4. Potential conflict of interest relating to the current CEO's remuneration—Two former CEOs were critical of an undisclosed additional payment to the current CEO by PwC International, viewing the dual roles as creating potential conflict in circumstances where the interests of the two entities are not aligned.
5. PwC's commitment to ASX Corporate Governance Best Practice Guidelines – PwC has committed to adopting remuneration principles aligned with the ASX corporate governance best practice guidelines. The firm will consider whether it fully complies with those requirements. As part of the PwC commitments-to-change document, PwC aims to publish audited financial statements by September 2025.

The PJC's approach appeared to be to draw out potential changes from the witnesses that they might recommend in their final report to prevent the recurrence of similar unethical behaviour in the future.

Additional Questions on Notice

On 20 June 2024, APESB received eight additional Questions on Notice (QoN) from the PJC on the following matters:

- Additional QoN1 – ASIC Recommendations
- Additional QoN2 – Authorised Audit Companies
- Additional QoN3 – ASIC Regulation of Auditing
- Additional QoN4 – Fraud in Audit
- Additional QoN5 – Self-Regulatory
- Additional QoN6 – Regulatory Capture
- Additional QoN7 – Fraud and Whistleblowing for Auditors
- Additional QoN8 – Whistleblower Protections for Auditors

APESB's responses to these additional questions were submitted to the PJC on 18 July 2024 (refer to Agenda Item 10 (a)). The QoN are also available on the [inquiry website](#) (refer to numbers 146 to 153).

IESBA's Firm Culture and Governance Project

Given the significant public interest consequences when unethical behaviour occurs in firms, IESBA has determined to take a leadership role as the global ethics standard-setter in addressing firm culture and governance as a strategic priority in its current 2024-27 Strategy.

A Working Group was formed in December 2023 and is chaired by APESB CEO and IESBA member Channa Wijesinghe.

To date, the Working Group has undertaken extensive global stakeholder outreach and identified eight broad themes. These are:

1. the role of the accountancy profession in acting in the public interest – to address the tension between revenue generation and the overriding obligation to the public interest.
2. the critical importance of ethical leadership and independence of thinking in the firm's governance structures.
3. accountability of leadership and having appropriate quantitative and qualitative performance metrics in place.
4. the appropriate design of rewards and recognition to reward positive professional and ethical behaviour and penalise when warranted.
5. transparency – of the firms' operations, financial disclosures and remuneration of key personnel.
6. education – the importance of continuous ethics education and training across all personnel.
7. "speak-up" culture- fostering a culture and mindset of challenge and curiosity and having appropriate whistleblowing policies and procedures.
8. the ecosystem - the role of other stakeholders, such as regulators, those charged with governance, investors, standards setters, and professional accountancy organisations, in enabling firms to foster a strong culture within their governance framework.

A project status update is attached for the Board's information purposes only. Refer to Agenda Item 10 (b).

Way Forward

Technical Staff will continue to monitor the progress and outcomes of parliamentary inquiries and update the board on key developments.

Recommendations

That the Board note the update on the Parliamentary Inquiries.

Materials presented

Agenda Item 10 (a) APESB's Response to Additional QoN to PJC Inquiry
Agenda Item 10 (b) IESBA's Firm and Culture Outreach Meeting in August 2024

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