

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 20 June 2024

Accounting Professional and Ethical Standards Board

ADDITIONAL QUESTION 1:

In its submission 49, ASIC noted that law reform would be required to:

- a. give ASIC the power to take action on audit firm's compliance with quality management standards;**
- a. requiring auditors to report on the accuracy of the company management assertion that internal accounting controls in place are operational and effective (similar to requirements under the US Sarbanes-Oxley Act); and**
- b. mandating digital financial reporting by listed companies and other entities preparing financial reports under the Corporations Act (see also Australian Shareholders Association, submission 29).**

Do you have any views on those suggestions?

ANSWER:

APESB has reviewed ASIC's submission ([submission 49](#)) to this inquiry and considered its recommendations for law reform in the regulation of auditing and accounting firms.

Give ASIC the power to take action on an audit firm's compliance with quality management standards

Ensuring a firm's compliance with quality management standards is crucial for ensuring the firm's professional service offerings are of high quality and in accordance with professional standards and applicable legal and regulatory requirements. Therefore, APESB would support ASIC having the power to take action relating to compliance with quality management standards.

We note that in a recent announcement by ASIC ([media release](#)), they have indicated they will make some preliminary observations about compliance with Auditing Standard ASQM 1 as part of their expanded financial reporting and audit surveillance program.

In relation to quality management standards in Australia, the AUASB issues [ASQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services \(ASQM 1\)](#), which applies to audit and assurance services, and APESB issues [APES 320 Quality Management for Firms that provide Non-Assurance Services \(APES 320\)](#) which applies to services other than audit and assurance services. All accounting firms that provide both assurance and non-assurance services are required to apply ASQM 1 to their assurance practice and APES 320 to their non-assurance practice.

We note that ASIC's suggestion refers to the audit firm's quality management standards in its Assurance Practice. However, consideration should also be given to the robustness of the monitoring and enforcement function with respect to the quality management systems for the firm's non-assurance service lines, as that is the majority of the firm's business.

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Adoption of similar requirements under the US Sarbanes-Oxley Act

APESB notes that this was [Recommendation 9](#) from the PJC Inquiry into the Regulation of Auditing in Australia. While adopting these requirements may address issues in audit services, they will not address issues related to consulting services.

Given that a significant portion (80% on average) of the Big Four firms' business comes from non-audit services,¹ APESB believes that the Committee should prioritise dealing with issues associated with consulting services and assess the effectiveness of the regulatory, monitoring and enforcement mechanisms applicable to these services.

Mandating digital financial reporting

APESB notes that this was [Recommendation 10](#) from the PJC Inquiry into the Regulation of Auditing in Australia.

ASIC has allowed entities to [voluntarily lodge digital financial reports](#) since 2010. However, as entities must satisfy their reporting requirements by submitting paper or PDF versions of their financial reports, which is less costly than digital financial reports using XBRL, we understand that no entities submit digital financial reports voluntarily.²

APESB is supportive of mandating digital financial reporting. It would simplify the analysis of financial information for a range of stakeholders, including regulators, academics, students, analysts and investors. It would also ensure consistent understanding and comparison of financial data, replacing costly and time-consuming manual data extraction. As digital financial reporting is already in use overseas (for example, in the US and the UK), APESB believes this practice should also be implemented in Australia.

1 The Treasury, [Consultation Paper - Regulation of accounting, auditing and consulting firms in Australia](#) (Table 2, page 24), May 2024.

2 Refer to the article '[Australia must mandate digital reporting, or get left behind](#)' from 2022.

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ADDITIONAL QUESTION 2:

In its submission 49, ASIC noted that the Big Four firms are not registered as Authorised Audit Companies. ASIC Regulatory Guide 180 notes that the Big 4 are not subject to ASIC’s jurisdiction on managing risks of professional liability. As a result, an audit client may have trouble claiming against the audit firm where the firm’s professional services have caused the client economic loss. Do you have views on the advantages or disadvantages of requiring Big 4 firms to register as authorised audit companies?

ANSWER:

APESB has reviewed ASIC’s submission ([submission 49](#)) to this inquiry. The submission notes that none of the Big Four firms are registered as an authorised audit company, and ASIC does not have general jurisdiction over firms that are partnerships. However, ASIC does have some jurisdiction over entities or individuals registered or licensed by ASIC to perform a particular role, such as registered company auditor, SMSF auditor and AFS licensee.

APESB has also reviewed [ASIC Regulatory Guide 180](#) and considered the eligibility requirements in section 1299B for registration as an authorised audit company, including the requirement that each director of the company must be a registered company auditor. The Big 4 firms are unlikely to meet the criteria to be authorised audit companies. They are not formed in a corporate structure, and not all of their directors would be registered company auditors, with some operating in non-assurance services, such as tax and consulting services.

In considering the advantages and disadvantages of Big 4 firms registering as authorised audit companies, the Committee could consider the differences between a partnership and a company, particularly regarding separate legal entities and liability, and whether there are gaps that need to be addressed.

As noted in APESB’s submission ([submission 20](#)) to this inquiry, the majority of large accounting firms in Australia (including the Big 4 firms) have a partnership structure, although some operate as corporate entities. Mandating that large partnership firms operate from a corporate structure would result in significant stamp duty implications. It would also be a time-consuming process, and the benefits would be limited compared to the use of the UK Limited Liability Partnership model.

The [ASIC website](#) outlines information on business structures and liability. For corporate structures, claims are limited to the company’s assets since a company is a separate legal entity with limited liability. In contrast, a partnership is not a separate legal entity, and liability is unlimited. Partners, therefore, have joint, several and unlimited liability in a partnership structure.

However, many of the large accounting firms are members of a professional accounting body (i.e., Chartered Accountants Australia and New Zealand (CA ANZ)), which has a professional standards scheme that provides limited liability for different categories of services. Details of the professional standards scheme for CA ANZ are set out on the PSC website: psc.gov.au/2019_CAAZ_Scheme.

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ADDITIONAL QUESTION 3:

The committee has heard some concerns about the adequacy of ASIC's audit inspection work, including, funding, resources, focus on enforcement versus surveillance, publishing inspection results and naming and shaming auditors and firms. In its submission 49, ASIC set out its approach to its regulation of auditing. Do you have views on how ASIC's regulation of auditing can be improved?

ANSWER:

APESB notes ASIC's submission ([submission 49](#)) outlines its new risk-based approach to inspections. The surveillance of financial reports and audits is being combined, resulting in ASIC reviewing a smaller number of audit files.

On 15 May 2024, ASIC announced an expanded financial reporting and audit surveillance program. This program will now cover listed companies, other public interest entities, previously grandfathered large proprietary companies and superannuation funds. ASIC also announced a new review of auditors' compliance with ethical and independence standards to support the financial reporting and audit surveillance program and uplift ASIC's commitment to improved financial reporting and audit quality. This includes some preliminary observations about compliance with Auditing Standard ASQM 1. For further details, please refer to ASIC [media release](#).

While APESB is pleased with ASIC's announcement of its new approach and focus areas for 30 June 2024, we are concerned about the adequacy of the financial reporting and audit surveillance program at ASIC. As we noted on page 14 of our submission ([submission 20](#)) to this inquiry, ASIC conducts fewer reviews compared to its global counterparts in the UK and the US. The headcount of audit quality inspection staff at ASIC of 13, as noted on page 43 of the [transcript](#) from the inquiry's public hearing held on 8 May 2024, is considerably lower than the FRC UK designated staff for audit quality of 128. APESB agrees with the FRC's recommendation in its November 2023 [Audit Quality Report](#), that ASIC's program should review more audit files on an annual basis.

ASIC is the key safeguard for the integrity and quality of audit services provided in Australia. Reducing the number of reviewed audit files may negatively impact audit quality in Australia in the long term. The Committee could consider the necessity for a broad and robust surveillance program to ensure the proper functioning of financial markets and the economy.

Another concern is that ASIC's mandate is limited and does not cover all services provided by firms to clients. On average, the Big Four firms provide 80% of their services to non-audit clients (including the public sector)¹. It is necessary to assess the effectiveness of the regulatory, monitoring and enforcement mechanisms applicable to these consulting services, which have been the focus of this inquiry.

In relation to the oversight of large firms that provide a range of services, an option could be that firms that meet specific criteria (e.g., relating to revenue, number of employees, size, etc.)

¹ The Treasury, [Consultation Paper - Regulation of accounting, auditing and consulting firms in Australia](#) (Table 2, page 24), May 2024.

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would fall under the oversight of ASIC (assuming ASIC's audit mandate can be broadened to capture other services) or another regulator.

This approach would capture services that may not currently be subject to appropriate regulatory oversight and ensure consistent monitoring and enforcement of all services provided.

As noted in APESB's submission ([submission 20](#)) to this inquiry, APESB encourages the Committee to consider the UK FRC monitoring program under [Delegation Agreements](#). This could help inform reforms to address concerns about the current audit oversight program in Australia.

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ADDITIONAL QUESTION 4:

What specific responsibilities do the ethical standards outline for auditors concerning the identification of fraud during the auditing process?

- a. **My understanding is that auditor's do not have a responsibility to detect fraud, but I am seeking to clarify that if an audit has reason to believe that the information provided to them is false, do they have any responsibility to act upon this? In cases where fraud is identified what are the ethical obligations of auditors in terms of communication and reporting, both internally and externally?**
- b. **If an auditor completes an audit based upon provided information they believe or know to be false (but that is not reflected in the audit outcome), have they breached the APESB ethical standards?**
- c. **How does the APESB address the balance between the auditor's responsibility and the client's responsibility for fraud prevention and detection?**
- d. **How does the APESB guide auditors in determining the appropriate course of action when fraud is suspected or identified during an audit?**

ANSWER:

Introduction

The principal standard dealing with auditors and fraud is Australian Auditing Standard ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report* issued by the Australian Auditing and Assurance Standards Board (AUASB).

Ethical standards, which apply to both audit and non-audit engagements address circumstances of accountants encountering circumstances in which they believe that information provided to them is false and/or misleading and in which they believe that there has been non-compliance with laws and regulations.

We note that sections 310 and 312 of the *Corporations Act 2001* (Cth) deal with the auditor's right to information, sections 307, 308 and 309 deal with the obligations of the auditor to report to members and section 311 deals with the auditor's obligation to report suspected contraventions of the Act to ASIC.

Auditing Standard ASA 240

Auditors have the responsibility to act on fraud in an audit of a financial report as required by the Auditing Standard [ASA 240](#), *The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report*.

The standard states that while "...the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management..." (para 4), "...the auditor conducting an audit in accordance with Australian Auditing Standards is responsible for obtaining reasonable assurance that the financial report taken as a whole is free from material misstatement, whether caused by fraud or error" (para 5).

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As noted in APESB's response to the question on notice ([number 6 dated 1 March 2024](#)) regarding standards on fraud, the AUASB should be able to provide further details on auditors' responsibilities in identifying fraud during the financial audit process.

Requirements in APES 110

APESB is of the view that APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) provides guidance to accountants and auditors in circumstances where they believe the information provided to them is false or misleading.

APES 110 considers the fundamental principles of Integrity as set out in Subsection 111. Further, Section 220 requires Members in Business to address information that is or might be misleading, including the responsibility to communicate with those charged with governance.

APES 110 also provides a thought process and a framework for professional accountants to respond to Non-Compliance with Laws and Regulations (NOCLAR). The NOCLAR provisions in [Section 360](#) relate to auditors' identification of fraud. These provisions contain a response framework to guide auditors in deciding how best to act in the public interest when they become aware of NOCLAR or suspected NOCLAR, such as fraud, that may result in substantial harm.

NOCLAR comprises any act of omission or commission, intentional or unintentional, committed by a client or employer. This includes acts taken by management or by those charged with governance or by others working for, or under the direction of, the client or employer that are contrary to prevailing laws or regulations.

In terms of communication and reporting, the NOCLAR framework sets out various possible courses of action for an auditor. This includes escalating the matter within the organisation or firm, following internal whistleblowing policies or protocols, or disclosing the matter to an appropriate authority.

Auditors are subject to additional NOCLAR requirements, outlined in paragraphs R360.10 to 360.28 A1. In the context of a group audit, paragraph R360.16 requires an auditor to communicate with the Group Engagement Partner upon becoming aware of NOCLAR or suspected NOCLAR. Furthermore, paragraphs R360.22 and R360.23 require that both proposed and predecessor accountants request and provide all relevant facts or other information concerning identified or suspected NOCLAR, respectively.

Breach of APESB standards

Paragraphs R360.28 and 360.28 A1 of APES 110 specifically outline the documentation requirements for an auditor concerning NOCLAR, in addition to complying with applicable auditing standards. The documentation includes discussions with management, those charged with governance and other parties outside the entity, as well as the course of action taken, judgements made, and conclusions reached.

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Failure to document these aspects when performing an audit constitutes a breach of APESB standards. This may lead to disciplinary proceedings being initiated by the professional accounting body to which the member belongs (e.g., Chartered Accountants Australia and New Zealand (CA ANZ), CPA Australia and the Institute of Public Accountants (IPA)).

The Firm's and Client's responsibility in responding to NOCLAR

For Members in Public Practice of Firms, APES 110 addresses the responsibilities of management and those charged with governance in responding to NOCLAR within Section 360, as set out in paragraph 360.8 A1. These responsibilities include ensuring that the client's business activities are conducted in accordance with laws and regulations and identifying and addressing any instances of NOCLAR by the client, individuals and management.

Similarly, for Members in Business, the NOCLAR requirements for the management and those charged with governance of the employing organisation are set out in paragraph 260.8 A1 within Section 260.

APESB Technical Staff Whistleblowing Publication

In February 2021, APESB released [APESB Technical Staff Publication - Whistleblowing & Confidentiality](#). This publication provides guidance on applying APES 110, including the conceptual framework and other APESB pronouncements, to eight scenarios covering a range of different situations relating to whistleblowing.

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ADDITIONAL QUESTION 5:

Bodies like CAANZ both regulate and advocate for their members, so such bodies are both supporting and disciplining [disciplining] their members. Do you feel that the self-regulatory model which applies to accountants and audit professionals has an inherent conflict in it?

ANSWER:

Any profession that is required to educate, advocate for, monitor and enforce members faces an inherent conflict of interest. Therefore, it is important to consider the governance frameworks and structures, institutional safeguards or organisational policies and procedures in place to address those conflicts of interest.

The professional accounting bodies in Australia are members of the International Federation of Accountants (IFAC). IFAC publish [Statements of Membership Obligations](#), which set a global benchmarking framework for professional accounting organisations and the core competencies required for these organisations to serve and function in the public interest. This includes SMO 6, which provides for the investigation and discipline of professional accountants.

On 28 June 2024, APESB responded to a question regarding the effectiveness of the existing self-regulatory framework in its submission to the Treasury's Consultation Paper on the regulation of accounting, auditing and consulting firms in Australia. The relevant response in the submission is replicated below.

Based on the ethical failings that have occurred in Australia over the last few years, the current self-regulatory framework appears ineffective in ensuring the integrity and quality of some services provided by large accounting firms.

In November 2023, the Australian Financial Reporting Council (FRC) issued an [Audit Quality Report](#). The report described the current regulatory framework for auditors in Australia as a co-regulatory framework, as different bodies monitor and oversee the various services provided by professional accountants. Some specific services professional accountants provide are overseen by regulators, such as audit services (for entities reporting under the *Corporations Act 2001*) being supervised by ASIC and tax services overseen by the Tax Practitioners Board (TPB).

The adequacy of the monitoring and enforcement program of ASIC has been under scrutiny, with concerns raised at the parliamentary inquiries and within the FRC Audit Quality Report about the resources allocated within ASIC for this program and the breadth and robustness of the reviews. We are pleased to see that ASIC has [announced](#) it will review auditors' compliance with ethical and independence standards to support the financial reporting and audit surveillance program in the future. However, APESB agrees with the FRC that ASIC's audit review program should review more audit files on an annual basis. ASIC is the key safeguard for the integrity and quality of audit services provided in Australia.

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The UK FRC monitoring program is recognised internationally as a best practice model to follow due to its rigorous and thorough review program, which includes reviews on the governance aspects of large partnerships in the UK. APESB provided information on this program as part of its responses to questions on notice for the Finance and Public Administration References Committee inquiry into the Management and assurance of integrity by consulting services (refer to [question 2](#)). APESB encourages the Committee to consider whether the UK FRC's approach could help inform reforms to address concerns about the current Audit oversight program in Australia.

Professional accountants who provide services other than those under the oversight of specific regulators are subject to monitoring and enforcement by their professional body. It is difficult to assess the effectiveness of the monitoring process by professional bodies, as there is no consistent reporting on the outcomes of quality reviews performed by the professional bodies. The [FRC Audit Quality Report](#) recommended that more comprehensive reporting on the scope and results of the quality review be implemented, and APESB support this recommendation.

As stated above, the current ethical failures indicate that the reviews performed by the applicable monitoring bodies on large accounting firms may not be effective. If you consider the deficiencies raised about PwC in the [Switkowski report](#), it raises the question of whether these matters would have been identified earlier if more effective quality review programs had been in place.

APESB believes the effectiveness and independence of the existing professional bodies' quality review programs could be enhanced by placing oversight of these monitoring programs with a new regulator or using another oversight mechanism. We note that the FPAR report includes a recommendation¹ this oversight could be performed by annual reporting to the Joint Standing Committee on Corporations and Financial Services. This would provide oversight over the breadth of professional accountants, both big and small. APESB would support this initiative and note that it would be akin to the oversight of professional bodies in the UK, who undertake specific regulatory tasks delegated by the UK FRC under [Delegation Agreements](#).

In relation to the oversight of large firms that provide a range of services, another option could be that firms that meet specific criteria (e.g., relating to revenue, number of employees, size, etc.) would fall under the oversight of ASIC (assuming ASIC's audit mandate can be broadened to capture other services) or another regulator. This would capture services that may not currently be subject to appropriate regulatory oversight and ensure consistent monitoring and enforcement of all services provided.

¹ Refer to recommendation 10 on page x of the [FPAR Report](#).

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ADDITIONAL QUESTION 6:

How does regulatory capture impact the ethical and professional standards applicable to audit and tax professionals?

ANSWER:

APESB is an independent entity whose primary purpose is to develop, issue and maintain high-quality professional and ethical pronouncements in the public interest for the Australian accounting profession.

In view of the fact that APESB is funded by the three major Australian professional bodies, Chartered Accountants Australia and New Zealand (CA ANZ), CPA Australia and the Institute of Public Accountants (IPA), and six of its seven members are nominated by the bodies, there is an unavoidable perception that it might be impacted by regulatory capture.

The board and management of APESB are extremely mindful of the obligation to serve the public interest, which requires that it operate independently of the three bodies. APESB's independence is embedded in its constitution with three important measures.

Firstly, the Chair of APESB must have a public interest focus and it is constitutionally mandated that the Chair cannot be an accountant or a member of any of the professional accounting bodies. The other APESB directors appoint the Independent Chair.

Secondly, all APESB Directors are independent, non-executive directors, mindful of their statutory duties to act in the interests of APESB and not in the interests of the organisation that nominated them. While each professional accounting body nominates two individuals for APESB Board positions, the directors enter into a contract with APESB that creates obligations to act independently in the public interest and not in accordance with any directions of the nominating body. None of the APESB directors have roles within the accounting bodies that nominate them.

The third measure relates to the funding arrangements. The funding agreements in place with the shareholders (i.e., professional accounting bodies) effectively guarantee APESB's funding on a three-year rolling cycle, subject to annual reviews with respect to the amounts. These measures collectively provide APESB with the scope and authority to undertake its standard-setting activities in an independent manner and in the public interest.

Further, the impact of regulatory capture is also limited by the fact that APESB monitors closely the standards and pronouncements of international bodies including the IESBA and the IAASB and ensures that the pronouncements that are issued by APESB are world's best practice.

APESB believes that it is not impacted by regulatory capture; however, the perception that we have identified will not be overcome while the current nomination and funding regime prevails.

In the context of this question, we note that APESB's mandate does not extend to overseeing and enforcing compliance with our standards; this is vested in the professional accounting bodies and, in the context of audits undertaken under the *Corporations Act 2001* (Cth), in ASIC.

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ADDITIONAL QUESTION 7:

What provisions or recommendations does the APESB have in place for auditors who encounter ethical dilemmas related to fraud and wish to blow the whistle on potential wrongdoing?

ANSWER:

In Australia, whistleblower protection for company auditors and members of internal or external audit teams is addressed under Part 9.4AAA of the [Corporations Act 2001](#) (the Corporations Act).

ASIC [Information Sheet 246](#) summarises the obligations of company auditors under the whistleblower protection provisions. It provides guidance for auditors, audit firms and audit teams on complying with these provisions, including identifying qualifying disclosures, maintaining confidentiality of whistleblower's identity, prohibiting victimisation, handling whistleblower disclosures, and addressing whistleblower disclosures.

Under section 1317AAC of the Corporations Act, a company auditor or member of an audit team is an 'eligible recipient'. This means that an 'eligible whistleblower' can make a 'qualifying disclosure' to the auditors and then access the whistleblower rights and protections.

A 'qualifying disclosure' involves the disclosure of information concerning suspected misconduct, an improper state of affairs or circumstances, a breach of the law, or danger to the public or the financial system. The Corporations Act defines 'misconduct' as fraud, negligence, default, breach of trust, and breach of duty.

ASIC [Information Sheet 238](#) further explains the criteria for protection as an 'eligible whistleblower', how a whistleblower can access legal rights and protections, the protections available under the Corporations Act, and certain exclusions from these protections.

To be eligible for whistleblower protection in Australia under Corporations Act requirements, an individual must be, or have been, in a relationship with the 'regulated entity' that the individual is reporting about. Under section 1317AAA of the Corporation Act, this can include the following:

- an employee or former employee;
- a current or former director, company secretary or any other officer of the entity;
- a current or former contractor, employee of a contractor or a volunteer,
- individuals who supply services or goods to the entity (such as a tax or BAS agent or tax (financial) adviser);
- an associate of the entity;
- a trustee, custodian, or investment manager of a superannuation entity; or
- a dependant or spouse of any of the people listed above.

It should be noted that the 'regulated entity' referred to in the paragraph above needs to be a company. Partnerships are not caught under the Corporations Act requirements; for more information, refer to 1317AAB of the Corporations Act.

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As noted in APESB's response to the additional questions on notice (number 4), APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* ([APES 110](#)) contains provisions in [Section 360](#) for professional accountants, including auditors, to respond to Non-Compliance with Laws and Regulations (NOCLAR). However, it is worth noting that APES 110, including the NOCLAR provisions, do not establish protections for whistleblowers.

In the context of audits undertaken pursuant to the Corporations Act, an auditor who becomes a whistleblower is likely to be protected; however, that same protection will not be available to an auditor appointed to an entity that is not within the scope of that legislation.

On 28 June 2024, APESB responded to a question regarding whistleblower protection in its submission to the Treasury's Consultation Paper on the regulation of accounting, auditing and consulting firms in Australia. This was in the context of whistleblowing within a firm. The relevant response in the submission is replicated below.

APESB does not believe there are sufficient protections in place for employees and partners in accounting, auditing and consulting partnerships who want to report misconduct because these protections are only available under specific legislation.

APESB understands that most accounting and auditing firms in Australia use a partnership structure; consequently, their employees and partners may not be within the scope of whistleblower protection provided under the *Corporations Act 2001* or the *Taxation Administration Act 1953*. As mentioned in Treasury's Consultation Paper¹, a partnership is not a 'regulated entity' for the purposes of the whistleblower laws in the *Corporations Act 2001*.

APESB supports legislative initiatives to enhance whistleblower protection at both the state and territory levels for employees and partners in accounting firms. This will encourage reporting of unethical behaviour and provide appropriate safeguards to protect whistleblowers.

It may be necessary for governments to enact separate legislation that will apply to the legal form of the entity and thereby afford statutory protection to all whistleblowers.

¹ The Treasury, [Consultation Paper - Regulation of accounting, auditing and consulting firms in Australia](#) (page 40), May 2024.

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ADDITIONAL QUESTION 8:

How does the APESB ensure that auditors feel supported and protected when reporting fraud within an organisation?

- a. In the age of advanced technology and data analytics, how does the APESB address the ethical considerations related to the use of these tools in fraud detection during audits?**
- b. Are there specific guidelines on how auditors should navigate ethical challenges associated with technology driven audit procedures?**
- c. How does the APESB ensure alignment with international ethical standards for auditors, particularly in the context of addressing global challenges in fraud detection?**
- d. Are there efforts to harmonise ethical standards to promote consistency in auditing practices globally?**

ANSWER:

Please refer to APESB's response to [question on notice 6](#) (dated 1 March 2024) and the additional question on notice (numbers 4 and 7) regarding the ethical requirements for auditors to respond to non-compliance with laws and regulations (NOCLAR) and the protection of whistleblowers.

a. Technology-Related Revisions to the Code

In April 2023, the International Ethics Standards Board for Accountants ([IESBA](#)) issued the final pronouncement [Technology-related Revisions to the Code](#). The revisions ensure the International Code remained relevant and fit for purpose in response to the transformative effects of major trends and developments in technology on the work of the global accountancy profession.

To maintain alignment with the International Code, APESB released an Amending Standard to [Technology-related revisions to APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\)](#) in June 2024. These revisions will be effective for engagements beginning on or after 1 January 2025.

The revisions strengthen APES 110 and guide the mindset and behaviour of professional accountants in both business and public practice when they use technology. The enhanced guidance addresses key concerns related to fundamental principles such as professional competence and due care, confidentiality and complex circumstances arising from digital technology. Additionally, the amendments strengthen and provide greater clarity on independence, specifically in relation to technology-related non-assurance services provided to audit or assurance clients by firms and network firms.

For further details on APESB's Technology project, please refer to the [APESB website](#).

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b. Non-Authoritative Materials on Technology

Since December 2022, the IESBA has developed a series of non-authoritative materials for technology, which included cloud computing, artificial intelligence, blockchain, a focus on data governance, robotics process automation, and other technologies. Refer to the [IESBA website](#).

Specifically for auditors, in July 2023, the APESB and the IESBA also jointly released the practical guidance [Applying the Code's Conceptual Framework to Independence: Practical Guidance for Auditors in Technology-related Scenarios](#) to assist professional accountants in navigating the ethical challenges and opportunities created by technological advancements. It offers three practical examples of technology-related non-assurance services to demonstrate how to apply the independence requirements in the Code.

The topics covered in the non-authoritative material are broad and include many ethical matters related to technological developments. The guidance has been developed from a global perspective and is not limited to issues relevant to the authors' jurisdiction.

c. Alignment with the International Code of Ethics

APESB plays an important role in enhancing the International Code of Ethics through involvement with the IESBA National Standard Setters (IESBA NSS) group. Since the group was formed in 2009, APESB has actively provided jurisdictional input to the global standard development process. APESB's CEO, Mr Channa Wijesinghe, is a public interest Board Member of the IESBA and provides an Australian perspective on the international standards development process.

Mr Wijesinghe has recently been appointed Chair of the IESBA Working Group for [Firm Culture and Governance](#), whose Terms of Reference were approved in March 2024. This workstream, as part of the [IESBA Strategy and Work Plan for 2024-2027](#), will explore the root causes of the ethical lapses and undertake a review of the provisions in the International Code to consider whether it should be further strengthened to promote a robust culture of ethical behaviour with the firms. The Working Group is currently gathering information but is expected to report on its findings and recommendations to the IESBA in December 2024.

d. Efforts aimed at harmonising ethical and auditing standards and promoting consistency

Both APESB and the Auditing and Assurance Standards Board ([AUASB](#)) are committed to developing Australian standards that are consistent with those issued by the International Ethics Standards Board of Accountants (IESBA) and the International Auditing and Assurance Standards Board (IAASB).

Relevant auditing, professional and ethical standards issued by IAASB and IESBA are used as the basis for the development of APESB professional and ethical standards, which are tailored where required to the Australian business environment.

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 20 June 2024

Accounting Professional and Ethical Standards Board

The International Auditing and Assurance Standards Board ([IAASB](#)) is currently working on a project to revise ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. In revising this standard, the IAASB aims to:

- Clarify the role and responsibilities of the auditor for fraud in an audit of financial statements.
- Promote consistent behaviour and facilitate effective responses to identified risks of material misstatement due to fraud through strengthening ISA 240 to establish more robust requirements and enhance and clarify application material where necessary.
- Enhance ISA 240 to reinforce the importance of appropriate professional scepticism in fraud-related audit procedures throughout the audit.
- Enhance transparency on fraud-related procedures where appropriate, including strengthening communications with TCWG and the reporting requirements in ISA 240 and other relevant ISAs.

For further details on this project, please refer to the [IAASB website](#).