

## AGENDA PAPER

**Item Number:** 4

**Date of Meeting:** 11 September 2025

**Subject:** Update on Emerging Issue: Private Equity Investment in Accounting Firms

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<input type="checkbox"/> Action required	<input checked="" type="checkbox"/> For discussion	<input checked="" type="checkbox"/> For noting	<input type="checkbox"/> For information
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### Purpose

To provide an update to the Board on the emerging issue of private equity investment (PEI) in accounting firms.

### Background

At the [June APESB meeting](#), the Board received an initial update on developments relating to PEI in accounting firms. Since that meeting, a [Final IESBA Staff Alert](#) was released in July 2025 (refer to Agenda Item 4(a)). This paper builds on the earlier update, outlining the latest developments and highlighting the key ethical and independence issues raised in the IESBA Staff Alert.

#### Background to developments

The IESBA received stakeholder feedback on this topic through the IESBA's Firm, Culture and Governance project. Following discussions at its [September 2024 meeting](#) and [December 2024 meeting](#), IESBA agreed to address the topic separately and tasked the [Emerging Issues and Outreach Committee](#) (EIOC) with conducting further research. A [Draft IESBA Staff Alert](#) was discussed at the June 2025 IESBA meeting, with the [Final IESBA Staff Alert](#) released in July 2025.<sup>1</sup>

The issue has also been considered in other international forums. The IFEA Stakeholder Advisory Council meetings in [November 2024](#) and [May 2025](#) raised concerns about the potential impacts of PEIs on public trust, audit quality, ethics, independence, governance, and oversight. Regulators such as the [United States Securities and Exchange Commission](#) and the [International Forum of Independent Audit Regulators](#) (IFIAR) have publicly commented on the trend, and some standard-setters<sup>2</sup> are exploring potential revisions to independence rules. For example, the

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<sup>1</sup> The FCG Working Group also noted that it is not within the IESBA's remit to provide a view on which ownership or legal structure is most suitable for firms nor to assess the merits of any particular structure. However, it acknowledged that the influence of ownership structures, including external equity investment, can have an impact on the firm's culture, [IESBA Firm Culture and Governance Working Group Final Report 0.pdf](#) (paragraph 89-91).

<sup>2</sup> [Agenda Item 2-Trends in the External Reporting Ecosystem.pdf](#)

AICPA released a discussion memorandum in March<sup>3</sup> on [\*Potential Revisions to the AICPA Code of Professional Conduct and guidance related to independence in alternative practice structures.\*](#)

Appendix A to this paper outlines an overview of PEI structures and the potential opportunities and concerns for PEI in accounting firms.

## Potential ethics and independence issues

The Final IESBA Staff Alert highlights several potential ethical and independence issues arising from PEIs in accounting firms.

### Key ethical considerations when considering PEI

Compliance with fundamental principles:

- **Professional behaviour** – While PEI can bring benefits, it may also introduce conflicts of interest, undue pressure and other ethical challenges. Firm leadership is required to prioritise compliance with laws, regulations and governance codes, in particular regarding ownership and control of the firm. It is also noted that jurisdiction-specific requirements, including governance codes, may be more stringent than the Code.
- **Professional competence and due care** – Professional accountants (PAs) must maintain the necessary knowledge, skills and diligence to provide competent professional services. If PEI leads to service expansion or more complex engagements, firm leadership should ensure adequate expertise and resources are in place, possibly through recruitment or engaging external experts.
- **Confidentiality** – PAs must protect client information and prevent unauthorised disclosure or use. PE investors' active involvement may increase the risk of access to confidential client information. Firm leadership should establish safeguards, including clear expectations that client information is not shared without explicit consent

Ethical culture of the firm:

- Upholding an ethical culture is essential for protecting public trust in the firm and its reputation. PAs are expected to promote ethics within the firm, demonstrating ethical behaviour in all professional and business interactions.
- PEI can provide capital, strategic expertise, and operational know-how, but may also influence the firm's culture due to PEI's focus on growth, efficiency and investment returns. Differences in values and priorities between the PE firm and the accounting firm can create cultural shifts. PEI organisations may not be subject to the Code.
- Firm leadership should be mindful of potential cultural impacts, including financial incentives, mergers or acquisitions, emphasis on profitability over quality standards, client acquisition practices and uncertainty regarding PEI exit strategies.
- During due diligence, firm leadership should evaluate the PEI's intentions, strategic plans, values, and exit approach to understand potential effects on the firm's culture and ensure continued ethical leadership when there may be additional demands to manage rapid changes in the business.

Pressure to breach the fundamental principles:

- The Code prohibits PAs from allowing pressure from others that breaches fundamental principles or pressuring others to do so.
- PEI may increase the risk of undue pressure on firm leadership due to revenue and growth targets, short investment horizons and anticipated exit strategies. Examples include pushing for cross-selling, rapid acquisition of higher-risk clients or rapid operational efficiencies without adequate evaluation.

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<sup>3</sup> Comments were due to the AICPA by 15 June 2025.

- Undue pressure may also affect staff, such as reducing engagement costs or increasing workload without sufficient resources.
- Firm leadership should follow the Code's guidance on identifying and addressing undue pressure, ensuring compliance with fundamental principles, technical standards, and quality management requirements in all professional services.

### Key independence considerations when considering PEI

#### Firm boundaries:

- The Code requires firms performing audit and assurance engagements to remain independent.
- PE investment may expand a firm's boundaries, potentially including entities not previously part of the firm.
- Jurisdictional regulations may restrict non-licensed PAs from controlling audit firms. If a PEI gains control, it becomes part of the firm under the Code and is subject to independence requirements.

#### Network firms:

- PEI may invest in multiple professional services firms, potentially forming a network. The Code requires a network firm to be independent of the audit clients of the other firms within the same network.
- Firm leadership must assess whether common ownership, strategy, control or shared resources create a network as defined in the Code.

#### Audit and assurance teams:

- For audit engagements, the independence requirements of Part 4A apply to all members of the audit team.
- Post-PEI, there may be changes to compensation structures. Firm leadership should carefully understand the compensation structures relating to the performance of audit engagements to assess who is part of the audit team and, therefore, subject to independence requirements.
- Individuals from the PEI involved in audit oversight are considered part of the audit team and must comply with independence rules.
- The concept of a 'covered person' may also be broader in scope under jurisdictional regulations.

### Other independence considerations

- Financial interests – Direct or material indirect financial interests in audit clients are prohibited for the firm, network firms, audit team members and their immediate family, subject to certain exceptions.
- Business and family relationships – Close business or family relationships with audit clients may create self-interest or intimidation threats; these must be evaluated and addressed.
- Non-assurance services (NAS) – Providing NAS to audit clients may create threats to independence, especially during firm growth, acquisitions or network formation.
- Firms must ensure independence when engaging with portfolio companies, merging, or acquiring other firms, and consider network implications for NAS and audit assignments.

### Post-investment

The IESBA Staff Alert also highlights that key ethical and independence issues identified before a PEI remain relevant after the investment.

### **Next steps**

APESB Technical Staff will continue to monitor developments in PEI in accounting firms and will report any emerging issues to a future Board meeting for consideration.

### **Recommendations**

That the Board note the update on the emerging issue of PEI in accounting firms.

### **Material Presented**

Agenda Item 4(a) – IESBA Staff Alert – Private Equity Investment

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**Date:** 22 August 2025

## Appendix A

### Background to PEI in accounting firms

PEI in accounting firms is an increasing global trend,<sup>4</sup> rapidly accelerating since 2018 in the United States (US), the United Kingdom and Europe<sup>5</sup>. In the US, reports indicate that up to 10 of the 30 largest firms could include PEI in the near future,<sup>6</sup> including the recent PEIs in [Baker Tilly US LLP](#) and [Grant Thornton LLP](#) in 2024. While over 400 firms globally have received private equity funding,<sup>7</sup> investment in Australian accounting firms remains limited, with the most prominent investment being the purchase of [Scyne Advisory](#) from PwC by Allegro in 2023.<sup>8</sup>

### Overview of PEI structures

PEI structures are complex, and there is no single structure for investment.<sup>9</sup> Some investment structures result in a control relationship and others in a significant influence relationship. Despite this variation, several common structural elements of PEI can be highlighted, as outlined by IESBA staff at the March IESBA 2025 meeting:

- Generally, professional accountants retain some level of ownership in both firms and have exclusive control and decision-making for the audit practice. The non-audit firm handles all other professional services and provides resources to the audit firm through a shared services agreement. This agreement covers matters like leasing professional staff, technology tools, administrative support, office space, and more. Typically, the PE Investor is likely to have significant influence or control over the non-audit entity.
- Private equity structures can involve numerous general partners and advisors, as well as multiple funds. Each fund within the structure may hold investments in various entities, known as portfolio companies (PCs), both under the fund investing in the non-audit firm and under sister funds.

The Final IESBA Staff Alert highlights two structures as being common for PEI:

*Structure 1: PEI with legal restructuring to form two distinct entities, being a non-audit firm and an audit firm.*

- The final IESBA staff alert does not specifically refer to the ownership structure of the investment (e.g. whether the entities are owned exclusively by professional accountants, and a non-audit practice (non-audit firm) that receives PEI). The final IESBA staff alert notes that particular care may be needed to fully understand the intricacies or complexities of the ownership structure that the PE organisation intends to achieve.
- Consideration of where the non-audit firm and audit firm form a network, the non-audit firm would be considered a network firm of the audit firm and is required to be independent of the audit clients of the audit firm.
- In Australia, restrictions apply in relation to ownership of an audit firm, with the *Corporations Act 2001* and Professional Bodies requiring that authorised audit companies be owned by registered company auditors<sup>10</sup>. For audit firms (partnerships), at least one member of the firm

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<sup>4</sup> A typical private equity business model involves restructuring, expanding, or enhancing an entity's value before eventually exiting through a sale or initial public offering.

<sup>5</sup> See the [Accountancy Europe report](#) for an overview of PEI in Europe 2015-2025.

<sup>6</sup> <https://www.irishtimes.com/business/2024/06/11/private-equity-groups-poised-to-own-one-in-three-top-us-accounting-firms/>

<sup>7</sup> [Microsoft Word - IFAC CE Forum April 2025 v090425](#)

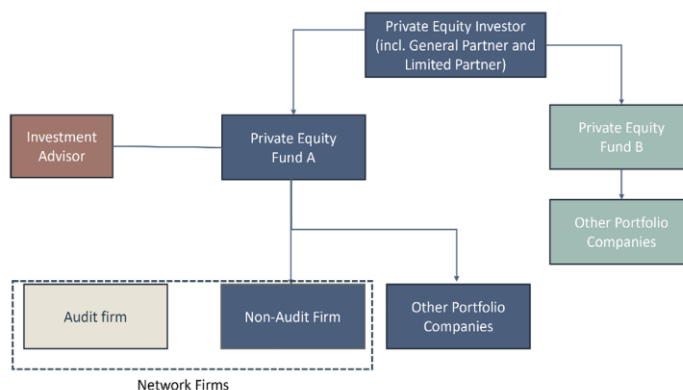
<sup>8</sup> Staff note that there may be other private equity transactions in smaller and mid-sized entities and further research will need to be undertaken to establish the prevalence in the Australian market outside the large firms.

<sup>9</sup> Refer to the [June 2024 IESBA meeting](#) presentation by AICPA for further examples of structures and [IESBA Final Staff Alert](#) Appendix 1 and Appendix 2 for an overview of private equity funds and structures.

<sup>10</sup> See [CORPORATIONS ACT 2001 - SECT 1299B Eligibility for registration as an authorised audit company, Regulatory Guide RG 180 Auditor registration.](#)

must be a registered company auditor. In addition, members holding equity in a practice or principals of a practice must hold a public practice certificate<sup>11</sup>.

*Figure 1: PEI structure in a non-audit firm as two distinct entities*

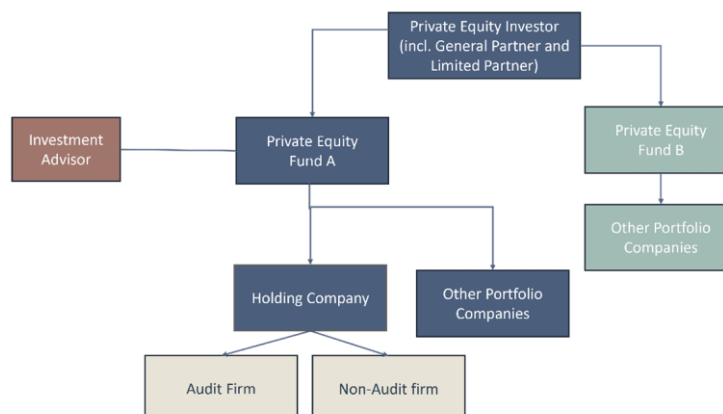


Source: IESBA Staff Alert July 2025

*Structure 2: PEI in a Holding Company that has an interest in both an audit firm and a non-audit firm.*<sup>12</sup>

In this structure, consideration is needed as to whether the Holding Company controls the audit firm, the non-audit firm, or both.

*Figure 2: PEI in both an audit and a non-audit firm*



Source: IESBA Staff Alert July 2025

<sup>11</sup> See for example CPA Australia: [Licences and registrations for public practitioners in Australia](#), CPA: [Summary of the regulation of public accounting services in Australia](#) and CAANZ: [CR 2 Certificates of Public Practice.pdf](#)

<sup>12</sup> This form of structure was not specifically discussed in the Draft IESBA Staff Alert.

### Potential opportunities and concerns for PEI in accounting firms

While PEI can introduce new opportunities for accounting firms, it also raises several challenges that require careful consideration.

Key opportunities of PEI in accounting firms that have been noted include:

- Access to capital to fund growth – investment can provide essential funding that enables firms to expand operations, enhance service offerings and pursue strategic growth opportunities.
- Investment in technology and innovation – with additional capital, firms are better positioned to invest in technologies to improve efficiency, support digital transformation and enhance client service. This opportunity is seen as a key driver of many of the PEI transactions.
- Talent acquisition and development – additional resources can support hiring, training, and retaining top talent, helping firms build deeper expertise and maintain competitiveness.
- Enhanced operational efficiency – investors often bring management expertise and operational experience that can help firms streamline processes, improve performance and provide strategic focus.

Key concerns related to the introduction of PEI in accounting firms include:

- **Auditor independence and ethics** – the influence of profit-driven investors may compromise auditor objectivity and independence, particularly if financial goals are prioritised over professional standards and public accountability (see below for further detail on potential impacts). In particular, the potential for a decline in service quality, including audit and advisory service quality (tax and other services), has been noted as a key concern by some stakeholders.
- **Potential conflicts of interest** – the potential conflicting aims of maximising returns for investors while maintaining audit integrity can create inherent conflicts. In particular, concerns have been raised that there is a need to prioritise the public interest objective of firms, which may conflict with the aims of investors.
- **Governance** – private equity ownership may lead to shifts in governance structures, with investors seeking significant influence over key decisions. However, this is not always the case – some private equity investors adopt a more 'hands-off' approach, limiting their involvement in day-to-day governance.
- **Impact on firm culture** – concerns have been raised that a focus on financial performance may change leadership tone, reduce emphasis on professional values and potentially negatively impact ethical behaviour.
- **Short-term investment horizon** – private equity typically seeks returns within a defined timeframe (usually 3-5 years). This short-term focus may pressure firms to prioritise immediate financial results at the expense of longer-term investments in quality, training and innovation.
- **Public trust and perception** – a shift away from long-standing professional values toward investor-driven priorities may erode public trust in the accounting profession and diminish its reputation for integrity and objectivity.

Similar concerns have been echoed in other professions, including by Australian healthcare practitioners who have expressed concerns about the decline in the quality of patient healthcare under private equity ownership.<sup>13</sup>

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<sup>13</sup> For example: [Doctors Warn Accountants of Private-Equity Drain on Quality: You Could Be Next - WSJ](#), [What Happens When Private Equity Takes Over a Hospital | Harvard Medical School](#) and [Is private equity unhealthy for our hospitals?](#)