

AGENDA PAPER

Item Number: 10

Date of Meeting: 26 June 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 Parliament 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](#)) and March 2024 ([Agenda Item 10](#)).

Current developments

This paper provides an update on these government inquiries since the March 2024 Board meeting. Three current ongoing inquiries are being monitored by the APESB, as follows:

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

This inquiry, established on 6 June 2023, is into the use and management of consulting services by NSW Government agencies. The focus of the inquiry is set out in the [Terms of Reference](#).

NSWPAC has not held any public hearing since the last update provided to the Board at the March 2024 Board Meeting.

On 29 May 2024, the inquiry issued a [Report](#) that included 28 recommendations, of which the following are of interest and relevant to APESB's work:

- Require all government reports or other work prepared using consultants to disclose which consultancies were used, the amount they were paid, and what conflicts of interest were disclosed *[recommendation 8]*
- Specifically embed the conflict of interest provisions of its *Supplier Code of Conduct* into each contract *[part of recommendation 16]*
- Ensure that the parties of each engagement are thoroughly informed as to the expectations surrounding the identification and management of conflicts of interest, both potential and perceived *[part of recommendation 16]*
- Ensure the provisions concerning the management of any conflicts of interest are actively enforced *[part of recommendation 16]*
- Have a far more expansive view of what could constitute a potential conflict of interest, with clear guidance on the types of relationships that could constitute a conflict of interest *[part of recommendation 17]*
- Require all consultants or contractors to provide a list of potential conflicts of interest arising from any prospective engagement *[part of recommendation 17]*
- Determine whether there is a conflict of interest, not leave this to the consultancies themselves to determine *[part of recommendation 17]*
- Amend the *Performance and Management Services Scheme* and other procurement policies and frameworks to prohibit consulting services from providing consulting work to the government in spheres in which it also acts as an auditor; has an ongoing client in that area, or has worked in the previous 12 months, in any capacity, for a private sector client that could be affected by the results of the work being undertaken for the government *[recommendation 18]*
- Ensure the rules governing conflicts of interest closely follow the guidelines provided by the NSW Independent Commission Against Corruption regarding the perception of a conflict of interest and that consultants who do not present a conflict of interest be preferred *[recommendation 19]*
- Conduct a thorough review of the procurement process and policies as they relate to the engagement of consulting services, especially the mechanisms for monitoring the engagement and enforcing compliance with its requirements for ethical behaviour *[part of recommendation 21]*
- Establish an enforceable code of conduct tailored to managing consulting engagements *[part of recommendation 22]*
- Publicise those consulting services that sign the code *[part of recommendation 22]*
- Introduce a greater range of escalating sanctions for consultants who behave unethically *[part of recommendation 23]*
- Publicly disclose any instance of a material breach by a consultant or consultancy that would undermine the public confidence or integrity in the NSW Procurement Framework, along with a record of any action taken to address the breach *[part of recommendation 24]*

APESB Chairman, Ms Nancy Milne OAM, and CEO, Mr Channa Wijesinghe's evidence provided at the public hearing held on 9 August 2023 have been quoted in the [Report](#). Refer to Agenda Item 10 (a) for a list of references where APESB or its representatives are mentioned in the report.

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

A summary of the key themes in the submissions made to this inquiry was presented to the Board at the March 2024 Board meeting (refer to [Agenda Item 10](#)).

APESB received a Question on Notice (QoN) related to remuneration disclosures at the public hearing on 23 February 2024. APESB's response to this question, submitted on 12 March 2024, is available on the [inquiry website](#) (refer to Agenda Item 10(c)).

The FPAR Committee has not held any public hearing since the last update presented at the March 2024 Board Meeting.

The Committee was initially due to issue its final report by 26 September 2023. However, this has been extended four times. The Senate extended the time until 12 June 2024

On 12 June 2024, the inquiry issued a [Report](#) which included 12 recommendations, of which the following are of interest and relevant to APESB's work:

- That the Department of Finance amend the Supplier Code of Conduct to include a requirement for service providers to act in the public interest and incorporate elements from the professional standard APES 110 that align with public sector values [*part of recommendation 5*]
- That the Department of Finance publishes guidance to illustrate examples of conduct that are consistent with these values [*part of recommendation 5*]
- That the Department of Finance review its guidance on conflicts of interest and provide a clear and consistent definition of what constitutes a conflict of interest, a conflict-of-interest breach, and explanations around the management of conflicts of interest. The guidance should also emphasise that active management of conflict of interest must be an element of APS project management of the contract [*recommendation 6*]
- That the Department of Finance develop a central register for conflict of interest breaches for use by government entities [*recommendation 7*]

The [Report](#) quoted the evidence provided by APESB Chairman, Ms Nancy Milne OAM, and CEO, Mr Channa Wijesinghe, at the public hearing held on 23 February 2024. The report also included additional recommendations and comments made by the Australian Greens, which is also available on the [inquiry website](#). Refer to the list of references where APESB or its representatives are mentioned in the report in Agenda Item 10 (b).

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

On 22 June 2023, the PJC created 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 mid-2024.

A summary of the key themes in the submissions made to this inquiry was presented to the Board at the November 2023 Board meeting (refer to [Agenda Item 10](#)).

Since the last update presented at the March 2024 Board Meeting, the PJC Committee held three public hearings between 5 March 2024 and 8 May 2024. On 5 March 2024, the Committee heard from Accenture, Ms Kristin Stubbins, Chartered Accountants Australia &

New Zealand (CA ANZ), and McKinsey & Company. On 22 April 2024, the appearances were from the Department of Finance, Attorney-General's Department, Australian Taxation Office (ATO), and Department of Treasury. In addition, the Committee held a public hearing on 8 May 2024 with appearances from the International Ethics Standards Board for Accountants (IESBA), the Institute of Public Accountants (IPA), Associate Professor Andrew Schmulow, and the UK Financial Reporting Council. The transcripts from these hearings are available on the [Inquiry website](#).

At the public hearing attended on 1 March 2024, APESB received a number of QoN related to the following matters:

- QoN1 – Potential Consequences of legislative backing for APESB's ethical standards
- QoN2 – Professional Services Firm
- QoN3 – Remuneration Disclosures
- QoN4 – Responses to Big Four Recommendations
- QoN5 – Definition of 'fit and proper person' and legislative updates
- QoN6 – Ethical Standards on Fraud
- QoN7 – Additional information on KPMG and Paladin

APESB's responses to these questions were submitted to the PJC on 22 March 2024 (refer to Agenda Item 10 (d)). The QoN from this inquiry are available on the [inquiry website](#).

On 7 March 2024, APESB also received two additional QoN from the PJC on the following matters as part of the Treasury's submission:

- Additional QoN1 – Discuss how the Treasury principles might be applied to APESB's recommendations or suggestions.
- Additional QoN2 – Provide information on how firms operationalise their obligations, data on firm performance, and why the current regulatory environment is deficient.

APESB's responses to these additional questions were submitted to the PJC in April 2024 (refer to Agenda Item 10 (e)). Other respondents' responses to the Treasury's submission are available on the [inquiry website](#) (refer to submission number 50).

Way Forward

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

Recommendations

That the Board note the update on the Government Inquiries.

Materials presented

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| Agenda Item 10 (a) | Extract of NSW Government's Inquiry Report relating to APESB's evidence |
| Agenda Item 10 (b) | Extract of FPAR Committee's Inquiry Report relating to APESB's evidence |
| Agenda Item 10 (c) | APESB's Response to QoN to FPAR Committee Inquiry |

- Agenda Item 10 (d) APESB's Response to QoN to PJC Inquiry
- Agenda Item 10 (e) APESB's Response to Additional QoN to PJC Inquiry

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