

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

Answers to questions on notice from 1 March 2024

Accounting Professional and Ethical Standards Board

**1. QUESTION – Potential Consequences of legislative backing for APESB’s ethical standards (from page 28 of the Hansard)**

**Senator SCARR:** I'd like to go to some of the recommendations which you made, and thank you very much for helpfully enumerating in the dot points. I'll read each recommendation, then I've got a few questions just to tease out the nature of the recommendation so we're on the same page. The first recommendation is: 'Provide legislative backing for APESB's ethical standards.' Is the nature of that legislative backing to give legal status to the ethical standards such that if the ethical standards are breached, that would constitute a breach of law and could potentially lead to civil penalties and/or criminal penalties?

**Mr Wijesinghe:** Yes. At the moment, the APESB standards, except APES 110, and I'll come to it in a moment, are professional standards. So the breach is monitored mainly by the professional bodies. Then in respect of Corporations Act audits, the auditing standards board has issued a legislative instrument, ASR 102, which cross-refers to APES 110. What that means is that when you're doing a Corporations Act audit, this has legal enforceability. But it's only one instance.

**Senator SCARR:** So I understand what happens in that single instance, if I were conducting an audit and I breached the standard in that context where it has legal standing, what are the potential consequences?

**Mr Wijesinghe:** We have not stipulated any consequences, but ASIC would be able to take action because it would be a breach of a Corporations Act requirement.

**Senator SCARR:** So there could be civil penalties. There could also be potentially criminal penalties. Is that correct? I'm happy for you to take that on notice.

**Mr Wijesinghe:** I'll take it on notice.

**ANSWER:**

The Committee could consider the actions taken by ASIC against auditors for breaching their obligations under the *Corporations Act 2001*. The penalties vary depending on the nature and severity of the breach, including fines and cancellation or suspension of the auditor's registration.

The nature of actions taken against auditors could offer useful insights and guidance for ethical breaches. However, it is important to note that determining suitable fines and penalties is within the Government's purview.

**The Australian Securities and Investment Commission (ASIC)**

ASIC has responsibility for the surveillance, investigation and enforcement of the financial reporting and auditing requirements of the *Corporations Act 2001* and conducts regular audit inspections and surveillance. The ASIC website outlines the range of orders it can make for monitoring and enforcing auditor compliance. If the auditor's conduct is found to be deficient, ASIC may:

- Impose or vary conditions on the auditor's registration,
- Agree to an enforceable undertaking,
- Refer the matter to the Companies Auditors Disciplinary Board (CADB);
- Refer matters to the Commonwealth Department of Public Prosecutions for criminal prosecutions (For further information on the CDPP's prosecution process, case reports and prosecution statistics, please refer to the CDPP website); or
- Undertake civil proceedings.

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**Companies Auditors Disciplinary Board (CADB)**

The [CADB](#) hears administrative or conduct applications made by ASIC or the Australian Prudential Regulation Authority (APRA). The CADB is responsible for determining whether a registered auditor has failed to carry out their obligations, it may make one or more of the following orders:

- Cancel or suspend the auditor's registration
- Admonish or reprimand the auditor
- Require the auditor to give an undertaking.

The [CADB Annual Report 2022-2023 \(page 7\)](#) included a table with a summary of sanction outcomes made by CADB from 2017 to 2023.

<b>Results by nature of sanction</b>						
The table below records the outcomes of matters before CADB during the reporting year and the preceding five years, by nature of sanction. Undertakings required to be given may be in addition to other orders.						
Results of application	17-18	18-19	19-20	20-21	21-22	22-23
Registration cancelled	-	1	-	9	1	-
Registration suspended	-	-	-	-	1	-
Admonition	-	-	-	-	-	-
Reprimand	-	-	-	-	-	-
Undertakings required to be given	-	-	-	-	1	-
Dismissed	-	-	-	-	-	-
Withdrawn by ASIC	1	-	-	27	-	1

**Examples of recent action taken by ASIC or the CADB**

- [ASIC announces action against nine SMSF auditors | ASIC](#) (7 February 2024)
- [Company auditor suspended for 12 months over deficient audits | ASIC](#) (27 September 2023)
- [Companies Auditors Disciplinary Board finds BDO audit partner failed to meet minimum standards | ASIC](#) (12 September 2023)
- [Accountant charged with falsifying signatures on audit documents | ASIC](#) (26 June 2023)
- [Grant Thornton and auditor charged over 2018 audit of iSignthis | ASIC](#) (1 September 2022)
- [Former auditor of Big Un Limited convicted for failing to comply with auditing standards | ASIC](#) (1 August 2022)
- [Auditor's registration suspended due to involvement in Big Un Limited audit | ASIC](#) (17 March 2022)
- [Halifax auditor convicted and fined for audit breaches | ASIC](#) (18 August 2021)

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- [Halifax auditors face first criminal charges laid in Australia for failure to comply with auditing standards | ASIC](#) (8 June 2021)

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**2. QUESTION – Professional Services Firm** (From page 28 to 29 of the Hansard)

**Senator SCARR:** I just want to get it clearly in my head the effect of what you're proposing would be. The second one is: 'Expand the applicability of the APESB code to all professional services firms.' Now, I'm just reflecting, Ms Milne—lawyers. Are you talking about expanding it to lawyers?

**Mr Wijesinghe:** No. It's about expanding it to the McKinseys and Accentures of this world, because the accounting firms are already caught.

**Senator SCARR:** We've got limited time. Can I ask you to take on notice to provide further particularity with respect to how you define professional services firms in this context?

**ANSWER:**

APESB's [submission](#) (Number 20) to this inquiry included a recommendation that the Government develop a rigorous Code of Ethics (such as [APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\)](#)) that could be applied to all professional services firms or persons that contract with or provide any form of professional services to the Government. APESB clarified in footnote 1 that within the submission the term professional services firm encapsulates accountants and other consultants.

We note that a similar suggestion about establishing a common ethical framework applicable to professionals who provide services to the Government was also made by EY (Submission 12.1), KPMG (Submission 25), and Deloitte (Submission 40).

Through the Government adopting a specific ethical framework or recognising existing Codes of Ethics (which are at least as demanding as APES 110), it creates a consistent obligation on a broad range of professionals to act ethically and in the public interest.

Internationally, the IESBA is developing professional-agnostic Independence Standards for Sustainability Assurance. These standards can be applied regardless of whether professional accountants or other professionals conduct the assurance engagement.

These proposals, which focus on consistent ethics being required for the provided service (i.e., sustainability assurance), are included within the International Code by amending definitions to clarify the scope. This approach could be considered to develop a professional-agnostic APES 110 that could apply to all professionals based on the services they provide.

Currently, APES 110 applies to members of professional accounting bodies regardless of the services they provide. However, consideration could be given to specifying the services the Code could be applicable for, such as management consulting, IT consulting, strategy consulting, marketing consulting, and human resource consulting.

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APESB note that the IESBA also will explore extending the Global Code beyond the accounting profession as a key area of strategic focus in its [Strategy and Work Plan for 2024-2027](#).

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**3. QUESTION – Remuneration Disclosures** (From page 31 of the Hansard)

**Senator SCARR:** There are dragons out there in Parliament House—they're everywhere. Before I came to this place, I was in the mining industry. I listed all the consultants we might see on a mine site. You've got lawyers, you've got geologists, you've got engineers, you've got workplace health and safety consultants, you've got remuneration consultants coming into the boardroom and giving advice on remuneration, and people coming in and giving advice on how the board's operating. So it would be useful from my perspective to get the parameters as to how you define 'professional services firm'. The next one is: 'Enhance transparency of large firms by requiring them to produce audited general purpose financial reports, including remuneration disclosures.' I've raised with previous witnesses in this context that in this instance, we're talking about both individuals who are receiving remuneration and individuals who are sharing in the profits of a business they own. In a corporate context—and, Ms Milne, you'll be acutely aware of this—the remuneration report is dealing with the salary, the base remuneration, short-term incentives, long-term incentives, the hurdles et cetera. Again, you can take this on notice. How do you apply that system where you're talking about business owners in the context of equity partners?]

**Mr Wijesinghe:** In the UK they're already doing the remuneration disclosures, so we can have a look at it and get back to you.

**Senator SCARR:** That's excellent. Even if you can give me some examples of how it's done, that would just help me visualise it. Ms Milne?

**ANSWER:**

Please find below examples of remuneration disclosures, including a focus on equity partners, implemented by the Big Four firms in the United Kingdom (UK) for the Committee's consideration. In addition, the Committee may wish to consider the disclosures required for APRA-regulated entities.

**Deloitte UK**

Annual Transparency Report

Details regarding the basis for partners' remuneration, including the appraisal and remuneration processes for equity partners, as well as information on drawings, contributions, and capital repayments by partners, are disclosed in Appendix 12 of the [Deloitte UK 2023 Transparency Report](#).

The transparency report also included disclosures on remuneration paid to the Non-Executives.

Annual Report

In the [Deloitte UK FY23 Financial Statements](#), remuneration disclosures regarding members' profit shares and drawings are presented on page 2, the allocation of profits on page 33, and transactions with Key Management Personnel on page 79.

**PwC UK**

Annual Transparency Report

The policies governing the allocation and distribution of profits and drawings, as well as remuneration paid to the Non-Executives, are set out on page 37 of the [PwC UK 2023 Transparency Report](#).

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Annual Report

In the [PwC UK FY23 Financial Statements](#), details regarding members' capital, profit shares, and drawings are provided in the Member's Report section on page 2. Transactions involving Key Management Personnel are disclosed on page 50, while the movement in total members' interest is further disclosed on page 43.

Firm Website

One of PwC's key performance indicators includes UK distributable profit per partner, refer to the [PwC website](#).

**KPMG UK**

Annual Report

In the [KPMG UK Members's Report and Financial Statements 2023](#), remuneration disclosures concerning members' profit shares and drawings are presented on page 3, along with the accounting policy regarding the allocation of members' profit shares on page 31. Additional disclosures regarding transactions with Key Management Personnel are provided in note 25 on page 68.

Firm Website

KPMG UK's financial performance indicators also include average partner distribution, the remuneration of the UK Chief Executive and Chair. For more information refer to the [KPMG UK website](#).

**APRA Prudential Standards**

The Australian Prudential Regulation Authority (APRA) issues the Prudential Standard [CPS 511 Remuneration](#), which sets out requirements for remuneration arrangements for APRA-regulated entities, including the disclosure of the entity's remuneration framework and practices.

APESB provided information on the APRA Prudential Standard to the Senate Finance and Public Administration Committee for their inquiry into the management and assurance of integrity by consulting services as Question on Notice 112 (available on the [Parliament of Australia website](#)).

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**4. QUESTION – Responses to Big Four Recommendations (From page 31 of the Hansard)**

**CHAIR:** Picking up on Senator Scarr's point there, one of the recommendations that EY have made to this committee in their submission is that there be an extension to the legislative whistleblower protection framework to apply to large registered partnerships in the same way they apply to corporations. I invite you to have a look at the submissions of the big four and, if you can, run your eye over them and give your response to any recommendations that they've made. That would be of assistance to the committee. I notice EY has given a direction for us to advise that you should create a single definition of the fit and proper person and update the relevant legislation to give this definition the force of law as well. Could I ask you to give us your thoughts on that, because fit and proper person doesn't seem to be something that's applied across the entire ecosystem and might capture people. We've discussed a little—and thank you for your submission, where you talk about enforcement as well as monitoring. Could I ask where the APESB would go in the proposed model with the FRC setting standards and doing the monitoring and enforcement, given the new shape that's going to emerge with the AUASB and the AASB being folded in with them?

**ANSWER:**

APESB's [submission](#) (Number 20) to this inquiry sets out a number of measures or actions that the Committee could consider to improve the ethics and professional accountability of large professional firms (accounting and other consultants).

APESB have reviewed the Big Four firms' submissions to this Inquiry and noted key themes and recommendations. A comparative analysis of recommendations made by the Big 4 firms and APESB is detailed in Appendix A, with further commentary below.

**Similar to APESB's recommendations**

Several recommendations put forth by the Big 4 firms are similar to those suggested by APESB. These include:

- Highlighting the UK Limited Liability Partnerships (LLPs) as a case study for the Government to consider for reporting requirements for large partnerships in Australia (recommendation 1 in Appendix A, and page 6 of our submission).
- Enhance transparency in large firms by requiring large accounting firms to prepare financial statements, including disclosure on remuneration and fees (recommendation 2.1 in Appendix A and page 3 of our submission).
- PwC (recommendation 4 in Appendix A) and APESB (page 3 of our submission) identified the UK Audit Firm Governance Code as an example for the Committee to consider in considering firm culture and governance.
- Establishing an independent body to oversee accounting professionals and firms was recommended by EY and Deloitte (recommendation 5 in Appendix A) and by APESB (see page 3 of our submission).



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**Enhance transparency of large professional services firms.**

In their submission, EY recommended implementing reporting requirements for large partnerships similar to the reporting obligations of Large Proprietary Companies in Australia. This would require Large Registered Partnerships (e.g., partnerships with over 100 partners and/or \$50m revenue) to submit annual reports that are compliant with Australian Accounting Standards and contain audited financial statements. Linking to the existing Large Proprietary Companies' reporting requirement would ensure that future modifications to this framework will immediately apply to Large Registered Partnerships (recommendation 2.1 in Appendix A).

APESB's recommendation suggests a higher set of reporting obligations by recommending the issue of audited General Purpose Financial Reports, which include remuneration disclosures (refer to page 3 of our submission). APESB notes that in some instances Big 4 firms may be preparing General Purpose Financial Reports for other reasons. For example, PwC's submission states that as PwC Australia meets the criteria to be classified as a Significant Global Entity (SGE), the firm's trading corporate entities, e.g., PricewaterhouseCoopers Securities Limited, are required to lodge General Purpose financial statements with the ATO.

APESB also supports the EY recommendation on the sharing of confidential information among regulatory bodies (recommendation 5.9 in Appendix A)

**Separation of audit and non-audit parts of the firms**

EY provided information to support the claim that audits are not "loss leaders" for non-audit services nor used to source consulting services opportunities with audit clients. The submission noted that auditors are prohibited from providing a wide range of services to audit clients and that audit partners are prohibited from being incentivised to sell non-audit services (recommendation 3.1 in Appendix A).

KPMG, EY, and Deloitte support the retention of multidisciplinary firms. KPMG believes separation would create significant challenges for audit services and audit quality, especially because it would be difficult to ensure outsourced experts adhere to the strictly mandated audit independence requirements (recommendation 3.1 in Appendix A).

In APESB's submission, we note that in contrast to some commentators' views, there appears to be an incorrect assumption that audit is a "loss leader," leading to profitable consulting opportunities for firms. Based on the Big 4 firms' transparency reports, a substantial portion, about 75% or more, of the firm revenue is earned from non-audit services (NAS) to non-audit clients. There is also a declining trend in the provision of NAS to audit clients. It will likely reduce further as the revised NAS provisions in APES 110 come into effect, which further restrict the provision of NAS to audit clients (refer to pages 6 and 7 of our submission).

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APESB is of the view that focusing on the audit business (i.e., operational separation) to deal with issues associated with consulting services will only achieve limited benefits. It would be more prudent to focus on resolving identified issues related to consulting services.

**Fit and proper legislation**

EY, PwC, and Deloitte included recommendations on Fit and Proper person legislation and requirements (recommendation 6 in Appendix A). Please refer to APESB's response to the question on notice (number 5) relating to a consistent definition of a fit and proper person.

**Common ethical framework**

We have noted the support from EY, KPMG, and Deloitte for the establishment of a common ethical framework applicable to professional services firms (recommendation 7 in Appendix A). In particular, EY proposed that all partners in Large Registered Partnership are to be members of a professional association that adheres to a common set of professional and ethical standards, such as APES 110 (recommendations 7.1 and 7.2 in Appendix A).

APESB supports this proposal, affirming that our Code represents global best practice by aligning with the IESBA's International Code. Additionally, the IESBA is currently developing professional-agnostic Independence Standards for Sustainability Assurance. This means that the standards can be applied regardless of whether professional accountants or other professionals conduct the assurance engagement. This is also consistent with one of APESB's recommendations, which involves developing a professional-agnostic APES 110 that could apply to all professionals (refer to page 4 of APESB's submission).

**Strengthening the Whistleblower Protection Legislation**

EY and KPMG Deloitte have recommended enhancing the Whistleblower protection framework (recommendation 8 in Appendix A). APESB would be supportive of such an initiative. We acknowledge the importance of reinforcing Whistleblower protections to encourage reporting of wrongdoing with appropriate safeguards in place to protect whistleblowers.

**Government's procurement process**

KPMG made several recommendations (recommendations 9.1 to 9.5 in Appendix A) concerning procurement processes, including:

- Large government suppliers adopting the Global Reporting Initiative (GRI) transparency standards;
- enhancing the transparency of Aus Tender;
- clarification on core public service functions to be performed in-house by APS employees;

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- use of confidentiality arrangements in contracts; and
- clearer guidance specifying restrictions on the movement of personnel to the private sector.

Consideration of the broader procurement process for the Government falls outside the mandate of APESB. However, the Committee could consider the establishment of a rigorous Code of Ethics (or mandating compliance with an established Code such as APES 110) for Government suppliers.

The requirement to follow a Code could be embedded in legislation or Government contracts, ensuring that common ethical standards are applied to all professional services firms or individuals providing professional services to the Government. This is consistent with one of APESB's recommendations (refer to page 4 of our submission).

APESB also supports Deloitte's recommendations to strengthen policies and practices concerning engagement with the Australian Public Sector (recommendation 9.6 in Appendix A).

**Audit files review conducted by regulators**

PwC noted that ASIC has reduced the number of audit files it reviews annually. However, it supports the risk-based approach undertaken by ASIC regarding where to focus its attention. They acknowledge that ASIC has a very wide regulatory remit and faces significant challenges in allocating its resources across many functions (recommendation 10.2 in Appendix A).

APESB expressed concern in our submission (page 14) regarding the recent restructuring at ASIC and the potential for long-term negative impacts on audit quality in Australia. Our submission notes that overseas jurisdictions such as the UK and the US have increased the number of audit reviews to address the global trend of declining audit quality, which contrasts with the decrease in audit reviews being conducted by ASIC.

## Appendix A : Comparative analysis of recommendations between firms and APESB

**APESB's high level analysis of the firm recommendations was performed within a limited time frame and it may not capture all aspects of the recommendations in granular detail. The analysis should not be considered authoritative nor should it be a substitute for reading the full submissions of the firms.**

#	Recommendation	Firm				APESB	Comments
		EY	KPMG	PWC	Deloitte		
<b>1</b>	<b>UK Limited Liability Partnerships (LLPs) model</b>						
1.1	Consider UK Limited Liability Partnerships (LLPs) model as a case study for potential reforms in Australia.			✓	✓	✓	EY and KPMG note the UK model could be referred to in relation to the broader regulatory oversight of partnerships including directors' duties, accountability and financial reporting requirements.  Deloitte and PwC refer to the UK model as a case study for specifically establishing reporting requirements and a Governance Code.
<b>2</b>	<b>Enhance transparency of large professional service firms</b>						
2.1	Consider requiring large accounting firms to prepare financial statements, including disclosure on remuneration and fees.	✓	✓	✓	✓	✓	EY recommends that Large Registered Partnerships (partnerships with over 100 partners and/or \$50m revenue) submit annual reports, including audited financial statements. The financial statements would need to comply with Australian Accounting Standards and would be similar to reports prepared by Large Proprietary Companies.  Deloitte supports the review of reporting requirements and the external auditing of the Applicable partnership's financial report. Deloitte also suggests defining Applicable Partnerships based on number of partners or revenue thresholds.  PwC did not include a recommendation or statement in their submission about the release of audited financial statements, but we note they have adopted this approach in response to the governance and culture review undertaken by Dr Ziggy Switkowski AO.
2.2	Legislate a remuneration disclosure framework to apply to all providers of professional services in Australia.	✓					
2.3	Consider the development of broader industry frameworks for the definition of 'partner.'		✓				

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#	Recommendation	Firm				APESB	Comments
		EY	KPMG	PWC	Deloitte		
2.4	Consider the overall regulatory framework for professional services firms, especially as firms progress into new areas outside traditional accounting and auditing fields. This includes considering the recommendation from the PJC inquiry into the regulation of audit in Australia.	✓	✓	✓	✓		While PwC consider a review important, they note the strong and robust framework in place for the audit profession.
<b>3</b>	<b>Separation of audit and non audit parts of the firms</b>						
3.1	Retention of multidisciplinary firms.	✓	✓		✓	✓	<p>KPMG believe that separation would bring significant challenges in audit service and quality.</p> <p>Deloitte believe the multi disciplinary model is the most effective way to deliver high quality services to their clients. They list 6 key reasons supporting this view.</p> <p>EY stated there is no evidence base that there is a systemic problem with audit quality or inadequate regulation of the audit profession. The firm believe an audit only firm will detract from audit quality. They note the prohibitions in place on the provision of non-assurance services to clients and that audit is not a "loss leader."</p>
<b>4</b>	<b>Focus on Firm culture and governance</b>						
4.1	To consider the UK Audit Firm Governance Code.			✓		✓	
4.2	Inclusion in the reform, of an overarching Governance Code for Applicable Partnerships to set out corporate governance expectations, including any additional transparency requirements.				✓		
4.3	APESB consider developing an Australian standard that focuses on firm culture and governance, as well as working with the IESBA to strengthen the Global Code on this matter.					✓	
<b>5</b>	<b>Oversight of firms</b>						
5.1	Establish an independent body to monitor all professional services firms that provide audit, assurance and consulting services.					✓	

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#	Recommendation	Firm				APESB	Comments
		EY	KPMG	PWC	Deloitte		
5.2	Enact suitable Commonwealth legislation to establish a regulatory authority with oversight of Large Registered Partnerships.	✓					
5.3	Establish a professional services disciplinary board overseen by an appropriate Commonwealth regulator.	✓					EY envisages that the disciplinary board is for professional services partners and executives who are required to be Fit and Proper persons and covered by the requirements of APES 110.
5.4	Introduction of an independent oversight body for misconduct reporting, with an established framework and consequences for reported misconduct.				✓		Deloitte believes guidance would be needed as to when individual misconduct is a reportable event for the firm.
5.5	Reforms to uniformly regulate professional partnerships should not be limited to accounting firms but to all professional partnerships.				✓		
5.6	Consider the report 'Report on 2022 Survey of Audit Regulators' Enforcement Regimes' released by IFIAR which summaries enforcement regimes around the world.			✓			
5.7	Support strengthening the Tax Advisor Governance and Best Practice Principles, including codifying the voluntary code into legislation.		✓				
5.8	Statement: Support the measures announced that aim to strengthen the TPB and tax adviser regulation.		✓		✓		
5.9	Establish a Council of Regulators with appropriate legislative support to enable the sharing of confidential information between regulators.	✓					
5.10	Provide legislative backing for APESB's professional and ethical pronouncements.					✓	
5.11	Move APESB under the oversight of the FRC.					✓	
<b>6</b>	<b>Fit and Proper Person</b>						
6.1	Direct APESB to create a single definition of Fit and Proper and update the relevant legislation to give this definition the force of law.	✓					APESB response provided in Question on Notice 5.
6.2	Require all partners in Large Registered Partnerships to be Fit and Proper persons and establish a register and reporting mechanism for partner resignation or removal.	✓					

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#	Recommendation	Firm				APESB	Comments
		EY	KPMG	PWC	Deloitte		
6.3	Harmonisation of the 'fit and proper person' requirements of CA ANZ and other bodies and review how these bodies might work together to deal with reports of misconduct.				✓		Deloitte acknowledged that professional associations and regulators have own 'fit and proper person' provisions. While these provisions are broadly similar in nature, they also have distinct differences.
<b>7</b>	<b>Common ethical framework</b>						
7.1	Require partners in a Large Registered Partnership to be members of a professional association that adheres to a common set of professional and ethical standards.	✓			✓		
7.2	Require all partners in Large Registered Partnerships in Australia to hold memberships of a professional association and to adhere to APES 110.	✓					
7.3	Introduction of an Integrity Charter for organisations providing services to government.		✓			✓	KPMG believe a new charter could be administered through reform of Commonwealth Procurement Rules or through a code of conduct as part of existing or new membership of a professional association. This is consistent with APESB's recommendation that the Government develop a rigorous Code of Ethics to be applied to all that provide services to the Government.
7.4	APESB to consider the development of a specific standard on management consulting services which would apply to all professional services firms.					✓	
7.5	Consider the merit of developing a professionally agnostic APES 110 and a professional standard for management consulting that could apply to all professionals.					✓	
<b>8</b>	<b>Strengthen the Whistleblower protection framework</b>						
8.1	Extend the legislative Whistleblower protection framework.	✓	✓				KPMG recommended stronger Whistleblower protections across the professional services sector, either through Government procurement process or legislation.  EY state the protections could be applied to Large Registered Partnerships in the same way they apply to corporations.
8.2	Establishment a framework for reporting different types and severity of misconduct.				✓		
8.3	Provide guidance on when individual misconduct is a reportable event by a firm.				✓		

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#	Recommendation	Firm				APESB	Comments
		EY	KPMG	PWC	Deloitte		
<b>9</b>	<b>Government procurement process</b>						
9.1	Large Government suppliers should adopt the Global Reporting Initiative (GRI) transparency standards).		✓				
9.2	Enhance the transparency of Aus Tender.		✓				
9.3	Support the development of the Australian Public Service (APS) Strategic Commissioning Framework or introducing a refreshed framework for GPS clients.		✓		✓		KPMG believe this will clarify what are the core public service functions to be performed in-house.
9.4	Support the Department of Finance review into the use of confidentiality arrangements including strengthening the management of conflicts of interest in contracts.		✓				
9.5	Support the development of clearer guidance specifying any restrictions on personnel that move from Government to the private sector.		✓		✓		
9.6	All organisations providing services to the Australian Public Sector should be subject to the same set of rules for reporting misconduct, irrespective of their organisational or legal structure.				✓		
<b>10</b>	<b>Audit file reviews conducted by regulators</b>						
10.1	Concern about the impact on audit quality of ASIC reducing the number of audit files it reviewed annually.					✓	
10.2	Supports ASIC's risk-based approach to identifying where to focus their attention, however, ASIC has a wide regulatory remit with set resources for its many functions.			✓			



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**5. QUESTION- 5 Definition of 'fit and proper person' and legislative updates** (From page 30 of the Hansard)

**CHAIR:** Picking up on Senator Scarr's point there, one of the recommendations that EY have made to this committee in their submission is that there be an extension to the legislative whistleblower protection framework to apply to large registered partnerships in the same way they apply to corporations. I invite you to have a look at the submissions of the big four and, if you can, run your eye over them and give your response to any recommendations that they've made. That would be of assistance to the committee. I notice EY has given a direction for us to advise that you should create a single definition of the fit and proper person and update the relevant legislation to give this definition the force of law as well. Could I ask you to give us your thoughts on that, because fit and proper person doesn't seem to be something that's applied across the entire ecosystem and might capture people. We've discussed a little—and thank you for your submission, where you talk about enforcement as well as monitoring. Could I ask where the APESB would go in the proposed model with the FRC setting standards and doing the monitoring and enforcement, given the new shape that's going to emerge with the AUASB and the AASB being folded in with them?

**ANSWER:**

APESB notes the recommendation by EY for APESB to create a single definition of Fit and Proper Person and to update the relevant legislation to give this definition the force of law.

The Fit and Proper Person test is used to determine if a person should be granted the ability to perform certain functions/activities or hold specific licenses. It is used across a broad range of bodies and industries (including [law](#) and [education](#)), and it is not a concept limited to accountants.

To become a member of a professional accounting body, an individual must meet the eligibility requirements for entry, including academic and competency requirements. Each professional accounting body imposes its own fit and proper requirements, as set out in CPA Australia's [By-Law 3.16](#), IPA's [By-law 5.1\(c\)](#) and CA ANZ's [fit and proper person declaration](#) (considered as part of the membership application).

APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) applies to all members of the three professional accounting bodies. The test of whether an individual is a fit and proper person comprises entry to membership of a professional accounting body, and, therefore, is not replicated in APES 110.

If compliance with APES 110 becomes a requirement for individuals who are not members of a professional accounting body, consideration would need to be given to whether an individual meets the fit and proper person test through other means, such as membership in another association or body.

Establishing a single definition of 'Fit and Proper Person' would require collaboration among the sectors that use this concept. Even if this consideration were limited to the accounting sector, agreement would need to be reached across the APESB, TPB, APRA, and ASIC.

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It is important to note that APESB does **not** have the authority to set or amend legislation. Even if the government granted APESB legislative authority, the ability of APESB to create a single definition for 'fit and proper person' to be implemented in legislation presents a significant challenge given the breadth of existing definitions in federal and state legislation and the broad use of the concept.

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**6. QUESTION – Ethical Standards on Fraud** (From page 31 of the Hansard)

**CHAIR:** I know we're over time. I hope you can remain with us for just a little while longer. What specific responsibilities do the ethical standards outline for auditors concerning the identification of fraud during the auditing process?

**Mr Wijesinghe:** That is probably better directed to the auditing standards board. If you want, I can answer that on notice with the assistance from the auditing standards board.

**ANSWER:**

The provisions in APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that would relate to the identification of fraud by auditors is [Section 360 Responding to Non-Compliance with Laws and Regulations](#) (NOCLAR). These provisions set out members' obligations when they become aware of actual or suspected NOCLAR, such as fraud, which may result in substantial harm. Within this section, auditors are subject to additional NOCLAR requirements set out in paragraphs R360.10 to 360.28 A1.

As noted in APESB's response above, the Australian Auditing and Assurance Standards Board (AUASB) could provide further details on auditors' responsibilities in identifying fraud during the auditing process.

The AUASB issues the Auditing Standard [ASA 240 The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report](#) (ASA 240). This 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).

The objectives of this standard, as set out in para 11 are:

- a) To identify and assess the risks of material misstatement of the financial report due to fraud;
- b) To obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- c) To respond appropriately to fraud or suspected fraud identified during the audit.

**International developments**

The International Auditing and Assurance Standards Board (IAASB) is currently undertaking a project to update ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*. For further details on this project, please refer to the [IAASB website](#).

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**7. Additional information on KPMG & Paladin (From page 34 of the Hansard)**

**CHAIR:** And in that more complex circumstance, the responsibility rests with the government and the department, which is the Department of Home Affairs under the leadership of the now leader of the Liberal-National coalition, Mr Peter Dutton, who made a great show of being, in his mind at least, a profoundly good leader of the home affairs department. I'm going to send that documentation to you and ask you for further information, but I think it's pretty clear there's very limited monitoring and there is almost no enforcement. And CA ANZ, who are responsible—we've already discussed their practical responses to a disclosure of the nature of Mr Peter-John Collins's, which I find extraordinary in the worst possible way. Thank you for your time today. There will be questions on notice, Mr Wijesinghe and Ms Milne. Thank you for your integrity and your responses.

**ANSWER:**

APESB acknowledge the receipt of the following reports:

- the EY internal audit report on the Department of Home Affairs (Department Tendering, Procurement and Contract Management Process Associated with Paladin Holdings PTE Ltd (EY report); and
- the performance audit report issued by the Australian National Audit Office (ANAO) *Procurement of Garrison Support and Welfare Services* (ANAO report).

APESB reviewed the reports, focusing on KPMG's role as a consultant to the Department of Home Affairs. Based on the limited information available, APESB is not in a position to determine whether KPMG appropriately applied APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* to this engagement.

We make the following observations:

Paragraph 2.44 of the ANAO report states that KPMG was engaged to conduct financial strength assessments for all four procurements for the Department of Home Affairs.

Paragraph 2.81 of the ANAO report states, "In the case of Paladin, the LOI was signed with Paladin Solutions PNG Ltd, a PNG-registered company, but the final contract was signed with Paladin Holdings PTE Ltd, a Singaporean Procurement of garrison support and welfare contracts company." The footnote to this paragraph states, 'The negotiation log records that there would be potential savings with respect to insurance, taxation and foreign exchange should the department contract with the Singapore entity.'

Page 5 of the EY report states:

- *The Financial Strength Assessment of Paladin Solutions PNG Ltd did not include Paladin Holdings and was otherwise not updated following the move to contract with Paladin Holdings (Singapore-based company) instead of Paladin Solutions (PNG company), nor was it ever finalised. Therefore, the Draft Financial Strength Assessment report obtained by the Department is not relevant to the financial strength of its contracted service provider (Paladin Holdings).*

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The reports indicate that the Department of Home Affairs engaged with a different Paladin entity than initially planned. However, the reports do not address whether KPMG was asked to perform work in relation to the change implemented by the Department of Home Affairs.

Both reports provide recommendations to the Department of Home Affairs on its procurement and risk management processes, and the Department has accepted the recommendations in the ANAO report. The ANAO recommendations do not refer to the appropriateness or otherwise of the services performed by KPMG.

To clarify the services KPMG was requested to undertake regarding the Paladin entities, the Committee could consider requesting the Department of Home Affairs provide the Committee with information regarding the engagement letter(s) with KPMG.