

**Parliamentary Joint Committee on Corporations and Financial Services**  
**Inquiry into 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

**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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		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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		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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		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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<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.			✓			