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Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate
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Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry

We are writing to submit the observations of the Public Interest Oversight Board (PIOB) on the above Inquiry on Ethics and Professional Accountability. Please accept our apologies that this is beyond the deadline: we will be particularly appreciative if the Committee is nevertheless able to consider the submission. The Inquiry is highly relevant to the PIOB's remit and we very much look forward to reading the conclusions in due course.

We note that this Inquiry is being pursued in parallel with the Inquiry into the management and assurance of integrity by consulting services under the Senate Finance and Public Administration References Committee. While recognizing that the two Inquiries are distinct, the PIOB considers that there are a number of important inter-related elements and this submission has been prepared with this in mind.

About the PIOB

The PIOB is the global independent oversight body that works to improve the quality and public interest responsiveness of the international ethics, audit and assurance standards formulated by the International Ethics Standards Board for Accountants (IESBA) and the International Auditing and Assurance Standards Board (IAASB). The PIOB was established in 2005, following a series of high-profile corporate scandals which undermined the public's confidence in the credibility of independent audit opinions and fostered



instability in global stock markets. Our main goal is to ensure relevant audit, assurance, and ethical standards that are responsive to the public interest.

The PIOB's oversight of the standard-setting processes of the IESBA and IAASB is pursued within a defined Public Interest Framework to identify Public Interest Issues. In fulfilling its remit, the PIOB considers stakeholder responses to the Standard-Setting Boards' consultations and draws on other information, views and evidence.

The PIOB is accountable to a monitoring body of public authorities (Monitoring Group) made up of the European Commission, the International Organization of Securities Commissions, the International Forum of Independent Audit Regulators, the Basel Committee on Banking Supervision, the Financial Stability Board, the International Association of Insurance Supervisors and the World Bank. We are currently implementing the Monitoring Group's 2020 Recommendations, *Strengthening the International Audit and Ethics Standard-Setting System* and we refer to some aspects of our work in the points below.

Relevance of the Inquiry to the PIOB

The Inquiry is highly relevant to the PIOB given that the major accounting, audit and consulting firms are the primary vehicles through which the standards on ethics, auditing and assurance prepared by the IESBA and the IAASB are applied in the overwhelming majority of countries in the world. Consequently, the individual national firms and their various international networks and other structures, are central to the retention of confidence in the reporting by entities both large and small and, through this, to the trust of the public in reported information and the functioning of the capital markets as a whole.

We are aware of the intention of the IESBA to respond to this Inquiry with reference to specific aspects of the International Code of Ethics for Professional Accountants (the Code). The PIOB submission has been prepared at a broader level, in line with our remit.

PIOB points for the Committee's consideration

We would like to draw the Committee's attention to the following points:

- The Inquiry's focus on global and national firm structures underlines the relevance of global standards and the importance of maintaining an up-to-date understanding of their national implementation. The



PIOB is cognizant that while the IESBA and IAASB track the national adoption of the standards and seek to understand effectiveness, the Standard-Setting Boards do not have enforcement authority. The PIOB is highly attentive to the concerns of stakeholders around the world, including governments and regulators, with respect to perceptions of inadequate enforcement, including sanctions.

- The Inquiry's remit to consider not only legal structure and related matters but also cultural practices will be especially useful. The PIOB is aware that the IESBA has identified audit firm culture as an area of heightened regulatory scrutiny, as stated in the IESBA Strategy and Work Plan 2024-27 on which a public consultation was recently conducted. The IESBA will conclude its Strategy and Work Plan 2024-27 in December 2023 for PIOB certification in early 2024.
- In the context of the global drive for wider corporate reporting, notably to include sustainability, the PIOB is closely overseeing the work of both the IESBA and IAASB with attention to, among other matters, the accessibility and use of the Standard-Setting Boards' standards by individuals who are not professional accountants. Also of relevance is the evolution of the Code with respect to the use of external experts. Overall, these developments are relevant for the potential evolution of national and international firm arrangements within the audit, accountancy and consultancy sector as well as competition in the market overall. The PIOB is aware that regulatory requirements on firm structure in accountancy and audit can vary markedly across jurisdictions (for example, on ownership rules by auditors) and this has a bearing on the types of cross-border arrangements which are used.
- The PIOB is currently finalizing the Monitoring Group Recommendations with respect to the composition of the IESBA and the IAASB to avoid undue influence in the standard-setting process by practitioners - individuals who are or have been a member or employee of or otherwise affiliated with a public accounting firm within the last four years, determined at the time of appointment. By 2025, the Standard-Setting Boards will have 16 members (currently 18), with no more than 5 audit practitioners on each Board, whereas before the Recommendations practitioners made up around half of the composition on each. The PIOB's pursuit in the public interest of multi-stakeholder composition on the Standard-Setting Boards, with the support of our Nominations Committee which comprises a majority of



members independent of the profession, envisages an appropriate participation of individuals with a regulatory and policy background.

- Also, with the support of our Nominations Committee, the PIOB recently launched an application procedure (open until 30 September 2023) for membership of a new Stakeholder Advisory Council (SAC) to provide strategic advice to the IESBA and the IAASB. The SAC is due to begin working in early 2024. Again, a multi-stakeholder composition is envisaged, with an appropriate participation of individuals with a regulatory and governmental background.

We trust that this submission is helpful to the Committee and would be pleased to respond to any questions on the above points.

Yours sincerely,

Linda de Beer

PIOB Chair

Martin Manuzi

PIOB Acting Secretary General