

# Parliamentary Joint Committee on Corporations and Financial Services

## Regulation of Auditing

Answers to questions on notice from 7 February 2020

Accounting Professional and Ethical Standards Board

### 3. QUESTION – Technological solution for Conflicts of Interests (page 5 of the Hansard)

**Senator O'NEILL:** I want to follow up on Mr Gorman's and Senator Whish-Wilson's inquiries about the public perception and the public access to information in digestible forms about perceived conflicts of interest. We've had some declarations to us in confidential submissions about conflicts of interest for people who are on the CPA board who hold significant roles in industries that are associated with financial services that are not required to disclose that very close association with other entities. Do you have a view about the transparency and mechanisms for transparency that would far greater enhance the ethical action of people right across the sector?

**Ms Milne:** I think that's a good question and I think we should take that on notice. I don't think it's an easy answer, but, again, it may be something where increased granularity is appropriate. But I think we should take it on notice.

**Senator O'NEILL:** Are you aware of any such structures in other jurisdictions that make it easier for the informed investor, or investors' advisers who want to clearly give better advice, to be able to go and access that kind of information? Given the technical capacities that we have today, is that available in any jurisdiction, and how is that interacting with the international standards to which you constantly referred in your evidence?

**Mr Wijesinghe:** I'm not sure I understand the question. Is it the information about the standards or the standard-setting process?

**Senator O'NEILL:** The standards only exist within the transparency if there is granular detail about potential conflicts of interest. My question is: are there any jurisdictions that currently employ technologies that allow that intersection between statements about ethical behaviour and the capacity for individuals—researchers, research houses advising clients, individual investors—to go and interrogate claims about conflict of interest being considered when determinations are being made about whether there is a conflict that directors are determining? What's going on, really, internationally?

**Mr Wijesinghe:** All our technical board papers are on our website. There's a public gallery in all the discussion on the standard-setting matters. It's the same in Australia, it's the same internationally, and it has been the same for the last 15 years. People can come. At the beginning of the meeting, the boards will make declarations about their interests. In our board, the board makes a declaration on their interests. If you come to the meeting, there's a public gallery—they can see it—and if there is a conflict then the board member will step out when that issue is being debated.

**Senator O'NEILL:** The question is: for people who are interested, how is it known in any transparent way that there is a conflict other than the declaration of the individual, which relies on their own ethical disposition, which I think we should call into question in some cases?

**Ms Milne:** Are you talking about our particular organisation, or is your question broader?

**Senator O'NEILL:** No—through your knowledge. You're plugged into an international structure, and that's why I'm asking: what's different in jurisdictions, not in terms of the standard—because you've made it quite clear that there's an alignment that allows for efficiency and movement of information—but are there any structural responses, given the change in technology in the last 15 years in particular, to points at which access to information about conflicts of interest that people who aren't on the board are able to discern?

**Ms Milne:** Sorry, I'm still—

**Mr Wijesinghe:** I'm not—

**Senator O'NEILL:** I'll put it on notice.

**Ms Milne:** Yes, please.

**Senator O'NEILL:** I want new practices and any other context that increased transparency so that people can discern for themselves where conflicts of interest may lie, especially if they're not articulated by the person who has the conflict of interest.

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**ANSWER:**

It is not entirely clear what is being asked: Is the question directed at:

- Auditors dealing with conflicts with respect to the services they provide, which would be relevant to the inquiry; or
- with persons on the Board of CPA Australia; or
- with members of the accounting bodies that are required to comply with APESB Standards?

First, APESB is not aware of any technology that would be able to provide information on conflicts of interest on matters not publicly disclosed in the entity's governance documents and financial reports.

Generally, the relevant entity's Board Interest Register, the related party disclosures in the financial report and information about the Board and key management personnel disclosed in public documents are reviewed to identify conflicts of interest.

In relation to information provided within financial reports, to improve the transparency of information and the ease with which users can access that information, a mechanism that could be implemented is the requirement to lodge financial reports with ASIC in a format such as in XRBL (eXtensible Business Reporting Language) or Inline eXtensible Business Reporting Language (iXBRL).

We note this suggestion was included in several submissions to the Committee.

*Assuming the question is directed at potential conflicts of interest*

In the context of APESB Standards and Auditors, Members that confront a conflict of interest or potential conflict of interest are required to assess and deal with the potential conflicts in accordance with APES 110 and other applicable professional standards, laws and regulations.

Ultimately, if in the context of an audit engagement, a conflict of interest is determined to be real, a Member would disclose the conflict to the directors of the entity being audited. There is no requirement for public disclosure by directors of any communication received from an auditor about a conflict of interest, or of the manner in which a conflict has been dealt with.

There is no mechanism or requirement in either APESB Standards or at law, for disclosure of a potential conflict of interest, were determined not to exist or is properly avoided.

In the context of a firm providing audit and non-audit services, the only disclosure that touches upon conflicts of interest is the disclosure required by [AASB 1054 Australian Additional Disclosure](#), which requires the separate disclosure of fees paid to the auditor for audit and non-audit services.