

Private Equity Investment in Accounting Firms:
Key Ethics and Independence Considerations
[DRAFT]

TABLE OF CONTENTS

A. Introduction..... 2

B. Ethical Considerations 4

C. Independence Considerations 5

 Identifying All Entities in the PE Structure 6

Determining whether the New Structure is part of a Firm or Network Firm 6

Assessing Other Entities Associated with the PE Structure..... 8

 Determining Relevant Individuals Whose Roles Might Impact Independence 9

 Reviewing All Relationships and Services 10

D. Conclusion 11

This publication has been prepared by the Staff of the [International Ethics Standards Board for Accountants](#) (IESBA). It highlights a number of important ethics and independence considerations for professional accountants in public practice (PAPPs) under the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code¹) as they consider the implications of accepting private equity funding.

This publication may also be of interest to jurisdictional standard setters (JSS), private equity and other investors, regulators and audit oversight bodies, professional accountancy organizations (PAOs), and others with an interest or role in the work of PAPPs, including auditors. This publication does not amend or override the Code, the text of which alone is authoritative.

Reading this publication is not a substitute for reading the Code. The guidance in the publication is not meant to be exhaustive and reference to the Code should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA.

¹ The 2024 version of the Code incorporating approved pronouncements effective in December 2026, i.e., [Tax Planning and Related Services](#) (June 2025) and [Using the Work of an External Expert](#) (December 2026)

A. Introduction

1. Private equity investment in accounting firms (PEI) has increased significantly over the past five years. Accounting firms² (or firms) find private equity (PE) investment an attractive source of capital to support business growth, investments in technology, succession planning, retirement funding, and securing younger talent. Meanwhile, private equity firms see opportunities to invest in stable and profitable accounting firms with growth potential, aiming for consistent returns and a profitable exit in due course. However, when considering a PE transaction, professional accountants (PAs) must remain vigilant in upholding compliance with the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).
2. New ownership structures and relationships with PE investors may give rise to complex ethics and independence questions that may not have existed in traditional practice structures. This Staff Alert highlights key considerations under the Code to assist PAs in navigating ethics and independence questions when considering PE investment. In particular, it is designed to assist firms in recognizing when facts and circumstances warrant consulting the Code to make the appropriate judgments and decisions concerning ethics and independence threats. By being mindful of such threats and applying the Code's Conceptual Framework, firms can uphold the Code's fundamental principles and maintain public trust and confidence in their work amidst potential significant strategic, structural and organizational changes to their practice.

When to Consult the Code

3. A critical first step when considering any major structural change is to identify any interests, relationships, or circumstances that could create ethics or independence threats. The Code requires professional accountants to be alert to new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, and to re-evaluate and address that threat accordingly³

Illustrative examples of scenarios that would warrant firm management consulting the Code

- **Client and engagement changes:** The post-investment period may bring new services and new clients (potentially including the PE fund's portfolio companies). Firms should refer to the Code to decide whether to accept new engagements or clients,⁴ to ensure that any conflicts of interest are appropriately addressed,⁵ and to maintain independence with respect to audit and assurance engagements.⁶
- **Business relationships and networks:** Any business or operational integration with other firms related to the PE investor should prompt an analysis of whether the firm is potentially forming a network with the other firms under the Code's "network firm" definition and related

² Accounting firms is a general term used throughout the paper to refer to firms that provide professional services performed by professional accountants, for example, accounting, auditing, tax advisory and compliance, consulting, etc.

³ Paragraph R120.9

⁴ Section 310, *Professional Appointments*

⁵ Section 320, *Conflicts of Interest*

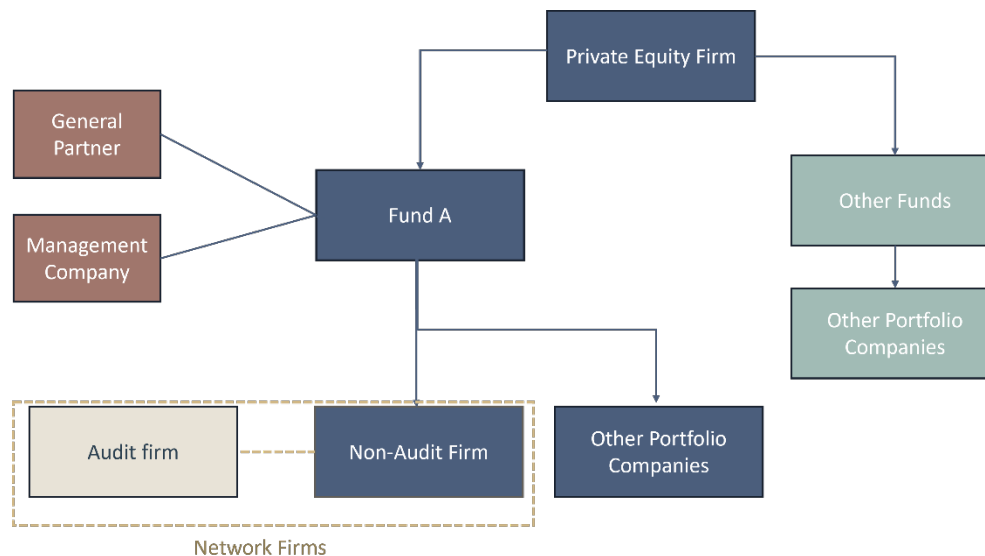
⁶ Part 4A – Independence for Audit and Review Engagements, and Part 4B – Independence for Assurance Engagements Other Than Audit and Review Engagements

provisions,⁷ as this would have implications with respect to independence in the context of audit engagements.

- **New governance or management arrangements:** PE representatives on the firm's board or involvement in firm management may introduce conflicts of interest that should be evaluated and addressed in accordance with the Code's Conflicts of Interest provisions.⁸

- The Code's conceptual framework (Section 120) guides accountants to identify threats, evaluate the level of the threats, and address the threats when they are not at an acceptable level. Firms should be ready to consult the Code whenever ethical questions arise. Such a mindset helps to instill a culture of compliance and sets the right "tone at the top" in the newly structured firm.
- Transparent communication with the PE investor is also key. The investor should be made aware that certain business opportunities might need to be declined or structured in particular ways due to the firm's ethical and independence obligations. This proactive communication helps to manage the investor's expectations and prevents undue pressure on engagement teams.
- Diagram 1** illustrates a common structure for PE investment in which an accounting firm undergoes legal restructuring to form two distinct entities: a non-audit firm and an audit⁹ and assurance firm (or audit firm). The non-audit firm may provide professional services and resources to the audit firm through a shared services agreement. This agreement may include leasing professional staff, technology tools, administrative support, office space, and more. PAs have ownership in both firms and often hold a controlling interest in the audit firm, while the PE investment typically flows through a fund and provides the PE firm with significant influence or control of the non-audit firm.

Diagram 1 – Common PEI structure



- PE structures can vary based on the specific arrangement between the PE firm and the investee, i.e., the accounting firm, with respect to ownership, control and oversight. Examples include direct

⁷ Paragraphs 400.50 A1 – 400.54 A1

⁸ Section 310, *Conflicts of Interest*

⁹ Includes audit and review services

investment in an audit firm, provision of loans or other financial instruments, or investment in an affiliated non-audit firm (together with the audit firm, referred to as "network firms" in Diagram 1). The nature of such investments will generally integrate both commercial objectives and strategies to comply with professional and legal requirements. This document focuses on PE investment in one fund for simplicity; however, other funds should be factored into ethical and independence assessments if they are part of the PE firm's structure.

B. Ethical Considerations

8. The IESBA Code's five fundamental principles¹⁰ remain the bedrock of ethical conduct. However, the complexity that may exist in PE investment and the diversity of the portfolio companies may create unique circumstances that require comprehensive evaluation for proper compliance with the Code, such as when accepting clients, establishing business relationships, and integrating acquired businesses. Firms must address any threats that have been identified.
9. The type of interest held in an accounting firm, as well as any business relationships created, should be taken into consideration by PAs in their evaluation of any potential threats, especially when the firm performs audit and/or assurance engagements. Regardless of the level of financial interest held by the PE firm in the accounting firm, the PA is required to consider the context in which an ethics issue has arisen or might arise when dealing with the issue, as provisions in Part 2 of the Code¹¹ – such as pressure to breach the fundamental principles¹² – might apply where the PA is performing professional activities pursuant to their relationship with the firm, whether as a contractor, employee or owner.¹³
10. As a firm is subject to the Code, all professionals in the firm are required to comply with the Code, irrespective of their roles, professional duties, circumstances in which they perform their professional activities, or ownership of the firm.¹⁴
11. Circumstances that might create threats to compliance with the fundamental principles, and relevant sections of the Code to guide PAs in dealing with such circumstances, include the following:
 - **Objectivity:** Conflicts of interest are a prime concern in PE-owned firms as commercial interests might not always align with the public interest. The Code recognizes that a conflict of interest creates a threat to objectivity. For example, a firm preparing valuations of assets for two parties who are in an adversarial position with respect to the assets might create a conflict. The Code prohibits a firm from allowing a conflict of interest to compromise its professional or business judgment.¹⁵
 - **Confidentiality:** Following a PE transaction, the firm should evaluate whether client data and information require additional safeguards or changes in security protocols. This is because PE ownership introduces new parties into the firm's business who may request access to client data or information. The Code's confidentiality principle requires a PA to respect the confidentiality of

¹⁰ Paragraph 110.1 A1

¹¹ Part 2 – Professional Accountants in Business

¹² Section 270

¹³ Paragraph R300.5

¹⁴ Paragraph 300.3 specifies that the provisions in Part 3 of the Code, which are applicable to PAs in public practice, apply to individual PAs in public practice and their firms.

¹⁵ Paragraph R310.4

information acquired in the course of professional and business relationships and not disclose it or use it for the advantage of the PA, the PA's firm, or a third party, unless there is a legal or professional duty or right to do so, or the client has granted specific authorization.¹⁶

- **Professional Competence and Due Care:** New capital can enable service expansion and rapid growth, but firms should ensure competent service and quality are always front of mind. The Code requires PAs to attain and maintain professional knowledge and skills at the level required for competent professional service, and to act diligently and in accordance with applicable technical and professional standards.¹⁷ If a PE investor seeks to expand the firm's services into new market sectors or complex advisory services, the firm should ensure that it has the requisite expertise and complies with applicable quality management standards. Diligence with respect to due care means acting in accordance with the requirements of the particular engagements, carefully, thoroughly and on a timely basis,¹⁸ despite any PE investor deadlines or cost-cutting measures. Accordingly, where PE investment enables or supports service expansion or business growth, the firm's should reinforce its commitment to high quality work and training to meet the principle of professional competence and due care.
12. In all these areas, the Code's conceptual framework is an essential tool. It calls for PAs to identify threats¹⁹ (which might be elevated under PE influence), evaluate the level of the threats, and address them by eliminating the circumstances creating the threats, applying safeguards, or declining or ending the specific professional activity.²⁰ For example:
- Self-interest threats might be created if the firm becomes financially dependent on referrals from the PE fund, or partners' remuneration is determined on the basis of business growth or other financial targets set by the PE investor.
 - Intimidation threats might be created if the PE investor exerts excessive pressure on partners to increase profits or cut costs.

By applying the conceptual framework, firms can continue to comply with the fundamental principles even in a new ownership environment.

C. Independence Considerations

13. As noted in paragraph 120.5 A6, the circumstances in which PAs carry out professional activities and the factors involved vary considerably in their range and complexity. When performing audit or other assurance engagements, being independent is fundamental and is required by the Code.²¹ PE investment may give rise to new threats to independence that should be addressed in compliance with the independence provisions in Part 4A or Part 4B of the Code, as applicable to the particular engagement.

¹⁶ Paragraphs R114.1 to R114.3

¹⁷ Paragraph R113.1

¹⁸ Paragraph 113.1 A4

¹⁹ Paragraph 120.6 A3 lists the five types of threats to compliance with the fundamental principles – self-interest, self-review, advocacy, familiarity, and intimidation.

²⁰ Section 120 – The Conceptual Framework.

²¹ Paragraphs 400.6 and 900.5

14. In considering any threats to independence that might arise when a PE firm invests in an accounting firm, it may be helpful to take a methodical approach, as set out below:

- **Identify all entities in the PE structure** – determine which of those would be classified as a firm, network firm or might otherwise be subject to independence considerations under the Code. (This may include the PE fund itself, a general partner, any portfolio companies, etc.)
- **Determine relevant individuals whose roles might subject them to independence requirements** – for example, in the context of an audit engagement, new owners or board members who might fall within the Code’s definition of “audit team”²² for certain audit engagements.
- **Review all relationships and services** involving those entities and persons from the two steps above and identify any threats to independence.

This includes, for example, identifying any financial interests, business relationships, or service arrangements between the firm (or network firms), PE firm and any audit clients that would be impermissible under the Code or might create threats to independence. In the context of an audit engagement, where threats to independence are identified, Part 4A of the Code provides comprehensive guidance on evaluating the level of the threats and addressing them.

15. The following subsections elaborate on this structured approach. By following such an approach, firms can systematically map out potential threats to independence and address them before they could result in actual breaches of the Code.

Identifying All Entities in the PE Structure

Determining whether the New Structure is part of a Firm or Network Firm

16. One of the most significant determinations to make when considering a PE investment is whether the firm’s boundaries now encompass entities that were previously separate, or whether the new structure brings the firm into a “network” with other firms or entities.
17. The Code requires a firm performing an audit engagement to be independent.²³ The Code also requires a network firm to be independent of the audit clients of the other firms within the network.²⁴

²² Audit team includes:

- (a) All members of the engagement team for the audit engagement;
- (b) All others within, or engaged, by the firm who can directly influence the outcome of the audit engagement, including:
 - (i) Those who recommend the compensation of, or who provide direct supervisory, management or other oversight of the engagement partner in connection with the performance of the audit engagement, including those at all successive senior levels above the engagement partner through to the individual who is the firm’s Senior or Managing Partner (Chief Executive or equivalent)
 - (ii) Those who provide consultation regarding technical or industry-specific issues, transactions or events for the engagement; and
 - (iii) Those who perform an engagement quality review, or a review consistent with the objective of an engagement quality review, for the engagement; and
- (c) Any other individual within a network firm who can directly influence the outcome of the audit engagement.

²³ Paragraph R400.18

²⁴ Paragraph R400.51

18. The Code provides the following specific, relevant definitions:

- A “firm” is a sole practitioner, partnership or corporation of PAs, along with any entities that it controls or is controlled by.

If the firm operates through multiple legal entities after PE investment (for example, an audit partnership and an advisory firm owned by the same investors), it will need to determine which entities are considered part of the firm. Generally, entities that share common ownership and control and *operate under the firm’s direction or brand* may be considered part of the firm for purposes of applying the Code. For instance, if the PE firm establishes a holding company that owns the accounting firm and an advisory firm, and *both are marketed together as if they were one firm*, one might view the advisory firm as part of the firm.

- A “network” is a larger structure of firms and other entities that (a) is aimed at cooperation, and (b) is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality management policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

In simpler terms, if the firm is now part of a group of firms or entities that are under common control or have integrated operations, the firm should determine whether it is part of a network. The Code notes that an entity does not have to be a firm to be a “network firm”²⁵ – for example, a consulting or law practice could be a network firm if it is part of the group and other conditions as set out in the Code are met.

19. Control²⁶ is often the decisive factor in evaluating relationships under the Code. For example, control would be a relevant factor in determining which parties comprise the firm, as defined in the Code. In addition, the Code explicitly states that a network exists if entities within a structure are aimed at cooperation and share common ownership, control or management.²⁷ Even without majority ownership, if the entities are aimed at cooperation, they may be seen as a network. For example, a network may exist if a PE fund owns a minority interest in a firm, has contractual rights to steer its policies and the firm’s name is co-branded with the PE sponsor’s other firms.

20. In contrast, if the PE stake is minor and purely passive, and there are no other signs of integration, the firm might conclude no network has been created with the investor’s other interests. The distinction can be subtle, so firms are advised to document their analysis, judgments and conclusions.

If a PE firm has control over two legally separate firms in different markets, would there be potential threats to independence that need to be addressed? Are there other ethical considerations that would need to be evaluated?

For illustrative purposes, assume the PE investment results in control or significant influence of Accounting Firm A and Accounting Firm B in different markets. Even if A and B remain legally separate and operate independently, they may be network firms under the Code if there is an aim to cooperate;

²⁵ Paragraph 400.51 A1

²⁶ The Code does not define the concept of “control” but it is generally characterized as one party having majority ownership, majority voting rights, or the power to direct activities.

²⁷ Paragraph R400.53(b)

they share a common strategy set by the PE investor; and they share a significant part of professional resources such as experts in particular fields.

When associated with a larger structure of other firms and entities, the Code requires a firm to:

- (a) Exercise professional judgment to determine whether a network is created by such a larger structure;
- (b) Consider whether a reasonable and informed third party would be likely to conclude that the other firms and entities in the larger structure are associated in such a way that a network exists; and
- (c) Apply such judgment consistently throughout such a larger structure.

Under the circumstances, if Firm A audits a company, Firm B (as a network firm) would also need to be independent of that company (limiting B's ability, for example, to provide certain services to that client). The firms would need to share information about their clients to avoid breaches of independence requirements.

Assessing Other Entities Associated with the PE Structure

21. Beyond generally simple cases like a consulting entity, firms should systematically assess every entity associated with the PE structure to determine whether it falls within the "firm" or "network" boundaries.
22. **General Partner (GP) / Management Company:** Firms should consider whether the GP or management company controls the fund and thus indirectly the accounting firm (if the firm is one of the fund's investments). The GP exists to manage the fund and is usually not a provider of professional services to clients. Therefore, the GP may not be viewed as a "network firm" in the traditional sense. However, since the GP has control, it is part of the larger structure that should be considered under the Code. At a minimum, firms may choose to treat the GP as an entity that is subject to independence restrictions, e.g., the firm would refrain from any dealings with the GP that an independent auditor would not be allowed to have with an owner of an audit client.
23. **Portfolio Companies:**²⁸ Typically, a portfolio company is not part of the audit firm's network, because it is not an entity aimed at cooperating with the firm to provide professional services. However, from an ethical standpoint, the portfolio company might still affect the firm's independence with respect to the firm's audit clients. Although portfolio companies are not network firms, the firm should treat any professional relationship with them with special care due to the investor link. If non-assurance services are provided to the portfolio companies, robust conflict checks and disclosure to the client about common ownership are advisable.
24. **PE-owned Entities Providing Professional Services:** It is not uncommon for PE funds to invest in multiple professional firms – for example, two audit firms in different regions, or an audit firm and a legal firm. The acquired firms might initially have no connection with each other besides the common investor. Firms should establish whether the PE investor intends to create synergies between its professional firms. If so, the firms should implement network-wide independence policies. If not, they should maintain formal separation but regularly check to ensure that there is no subsequent cooperation that could potentially trigger the network criteria.

²⁸ A portfolio company is an operating business that the PE fund invests in.

25. If the PE fund also owns a consulting company or other professional services business that works closely with the audit firm (for example, referring clients to each other or using a common name), this entity would almost certainly be part of the same network. The shared control (the PE fund ownership) and the collaboration in service offerings would in most likelihood meet the Code's network criteria. In such circumstances, the consulting entity would become a "network firm" to the audit firm. Under the Code, it does not matter if the consulting company is not itself an audit firm – it would still be treated as a network firm, and independence requirements would apply to it as well. The audit firm should ensure, for instance, that if the consulting entity performs work for an audit client, those services are permissible and do not jeopardize the audit firm's independence.
26. **Shared Service Entities:** Shared service arrangements might be introduced to improve efficiency, such as a common IT platform, a joint marketing team, or centralized administrative support serving the audit firm and other investees. While done for cost efficiency, this can trigger the cost-sharing or "sharing significant professional resources"²⁹ aspect of a network.

What is an example of a shared service scenario that would trigger a network?

If, for example, the audit firm and an advisory firm (under the same fund) cooperate and use a common pool of professionals, they are behaving as parts of one larger organization. The Code would likely view this arrangement as a network relationship.

Safeguard: If independence between those entities is critical (say one audits a client and another provides consulting to the same client), the firm might need to partition such resources or refrain from sharing key personnel to preserve independence. If this is not feasible, the entities should acknowledge that they form a network and manage auditor independence accordingly (which might include not serving the same clients).

27. Determining network status and scope is not just a one-time exercise at closing of the PE transaction. It requires ongoing monitoring. The firm should periodically reassess whether anything has changed in how the audit firm and the PE investor's other entities operate. New initiatives, joint projects, or personnel moves could create a network when one did not exist initially. By keeping the lines of communication open with the PE fund's leadership, the firm can stay ahead of any developments (for example, the fund acquiring another advisory business that it wishes to integrate with the firm) and respond in compliance with the Code.

Determining Relevant Individuals Whose Roles Might Impact Independence

28. When providing either an audit engagement, the following individuals' roles might impact the firm's independence with respect to the audit client. It is important to identify all relevant parties to assess their independence before accepting or continuing an engagement:
 - **Engagement team members** include all partners and staff in the firm who perform the audit engagement, and any other individuals who perform procedures on the engagement, excluding external experts and internal auditors who provide direct assistance on the engagement. Engagement team members include individuals from a network firm, a firm that is not a network firm, and any other service providers.

²⁹ Paragraphs R400.53(a) and (f)

- **Audit or assurance team members** include, in addition to engagement team members, any individual within or engaged by the firm who can directly influence the outcome of the audit engagement, and any other individuals within a network firm who can directly influence the outcome of the engagement. These individuals may include, for example, board members who recommend the compensation of the engagement partner in connection with the performance of the audit engagement, or those who provide direct supervisory, management or other oversight over the engagement partner in connection with the performance of the engagement.
29. The concept of a “covered person” under certain regulatory frameworks is broader in scope compared to the “audit team” as defined in the Code. While the Code focuses on individuals directly involved in the audit engagement or capable of directly influencing its outcome, the “covered person” definition used in some jurisdictions often extends to a wider group, including those in supervisory or oversight roles, and in some cases, individuals with indirect influence. It is important to understand jurisdiction-specific requirements in addition to the provisions set out in the Code when evaluating independence.

Reviewing All Relationships and Services

30. The third step is to evaluate all relationships and services between relevant parties. As mentioned above, this includes checking for or otherwise identifying any financial interests, business relationships, or family and personal relationships between the firm (and network firms) and individuals and any audit clients that would be impermissible or might create threats to independence. For example, from an audit perspective:
- Holding a **financial interest**, whether directly or indirectly through an intermediary, in an audit client might create a self-interest threat. The level of threat depends on factors such as the individual's role, the nature of the interest (direct or indirect), and its materiality.³⁰ For instance, where a PE firm is considered part of the audit firm by virtue of control, the Code would prohibit the PE firm from holding a direct financial interest or a material indirect financial interest in an audit client of the firm.
 - **Business relationships** between a firm, network firm, or audit/assurance team member and an audit client, including its management, might create self-interest or intimidation threats. The Code prohibits such relationships unless any financial interest or business relationship is immaterial or insignificant to the relevant parties. Further consideration is required when a firm, network firm, audit team member, or their immediate family has a business relationship with an audit client or its directors or officers.³¹ Within PE structures, independence considerations may arise as business relationships form or evolve.
 - **Family and personal relationships** with audit client personnel might give rise to self-interest, familiarity, or intimidation threats. The Code prohibits individuals from participating in an audit engagement when their immediate family holds specified roles within the client.³² Where a PE firm is considered part of the audit firm, these provisions extend to family and personal relationships involving individuals within that PE firm.

³⁰ See Section 510, *Financial Interests*

³¹ See Section 520, *Business Relationships*

³² See Section 521, *Family and Personal Relationships*



D. Conclusion

31. The Code provides extensive guidance on ethics and independence matters to assist firms contemplating PE investment, or that have already received such investment, in meeting their ethical and independence responsibilities under the Code. If a novel situation arises, firms are also advised to consult with a relevant professional body or legal counsel. Regulators or jurisdictional standard setters may also have guidance on alternative practice structures. While this Staff Alert focuses on the Code, firms should also be mindful of applicable laws and regulations. For example, some jurisdictions have ownership and independence rules that may go beyond the Code. In all cases, firms are advised to document any consultations they undertake on ethics and independence matters arising from PE investment, and the rationale for their conclusions on such matters.

Key Contacts

Ken Siong, IESBA Program and Senior Director (kensiong@ethicsboard.org)

Linda Biek, IESBA Director (lindabiek@ethicsboard.org)

Jeanne Viljoen, IESBA Principal (jeanneviljoen@ethicsboard.org)

About the IESBA

The [International Ethics Standards Board for Accountants](#)[®] (IESBA[®]) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting high-quality, international ethics (including independence) standards as a cornerstone to ethical behavior in business and organizations and to public trust in financial and non-financial information that is fundamental to the proper functioning and sustainability of organizations, financial markets and economies worldwide.

Along with the [International Auditing and Assurance Standards Board](#) (IAASB), the IESBA is part of the [International Foundation for Ethics and Audit](#) (IFEA). The [Public Interest Oversight Board](#) (PIOB) oversees IESBA and IAASB activities and the public interest responsiveness of the standards.

Through intellectual property and service level agreements, the International Federation of Accountants manages requests to translate or reproduce IAASB and IESBA content. For permission to reproduce or translate this or any other publication or for information about intellectual property matters, please visit [Permissions](#) or contact Permissions@ifac.org.

The IESBA[®], the International Foundation for Ethics and Audit[™] (IFEA[™]) and the International Federation of Accountants[®] (IFAC[®]) do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.