Regulation of accounting, auditing and consulting firms in Australia

Options paper

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Consultation process

Request for feedback and comments

The purpose of this options paper is to seek stakeholder feedback on options for the Government to consider in relation to the regulation of accounting, auditing and consulting firms in Australia.

Closing date for submissions: 12 August 2026

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The options outlined in this paper have not received Government approval and are not yet law. While submissions may be lodged electronically or by post, electronic lodgement is preferred. For accessibility reasons, please submit responses sent via email in a Word or RTF format. An additional PDF version may also be submitted.

Confidentiality

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Please note that legal requirements, such as those imposed by the *Freedom of Information Act 1982*, may affect the confidentiality of your submission. For further information, please refer to Treasury's submission guidelines.

Glossary

Term	Definition / meaning
AAC	Authorised audit company
AASB	Australian Accounting Standards Board
AFSL	Australian financial services licence
ALRC	Australian Law Reform Commission
APES	Accounting Professional and Ethical Standard
APESB	Accounting Professional and Ethical Standards Board
ASA	Australian Auditing Standard
ASIC	Australian Securities and Investments Commission
ASQM	Australian Standard on Quality Management
ASX	ASX Limited or the financial market operated by ASX Limited
ATO	Australian Taxation Office
AUASB	Auditing and Assurance Standards Board
Audit firm	A partnership or AAC that consents to be appointed, or is appointed, as auditor of a company, registered scheme or registrable superannuation entity
Audit partnership	An audit firm that is a partnership
CA ANZ	Chartered Accountants Australia and New Zealand
CADB	Companies Auditors Disciplinary Board
External reporting	The periodic communication of financial and other information concerning an entity for the purposes of informing stakeholders external to the entity (for example, the preparation of annual reports). The term contrasts with reporting prepared for internal business purposes (such as management accounts)
FRC	Financial Reporting Council
IAASB	International Auditing and Assurance Standards Board
IESBA	International Ethics Standards Board for Accountants
IPA	Institute of Public Accountants
Largest multidisciplinary firms	Largest firms that provide services across many disciplines including accounting, auditing and consulting
Lead auditor	The registered company auditor primarily responsible to the AAC or audit partnership for an audit's conduct
NZ FMA	Financial Markets Authority (New Zealand)
Professional accounting body (or PAB)	An Australian professional accounting body (one of CA ANZ, CPA Australia and IPA)
PCAOB	Public Company Accounting Oversight Board (United States)
PIE	Public interest entity
2019 PJC Inquiry	Parliamentary Joint Committee on Corporations and Financial Services inquiry into regulation of auditing in Australia
2024 PJC Inquiry	Parliamentary Joint Committee on Corporations and Financial Services inquiry into ethics and professional accountability: structural challenges in the audit, assurance and consultancy industry
RCA	Registered company auditor
RSE	Registrable superannuation entity

Term	Definition / meaning
Reporting entity	An entity required to prepare financial and sustainability reports under the *Corporations Act 2001*, Ch 2M.3. This includes disclosing entities, public companies, large proprietary companies, registered schemes, registrable superannuation entities and certain small proprietary companies
Treasury's Issues Paper	The consultation paper published by Treasury on 3 May 2024, titled '*Response to PwC – regulation of accounting, auditing and consulting firms in Australia*'
TPB	Tax Practitioners Board
UK FRC	Financial Reporting Council (UK)
Legislation	
ASIC Act	*Australian Securities and Investments Commission Act 2001*
Corporations Act	*Corporations Act 2001*
Standards	
APES 110	Accounting Professional and Ethical Standard, APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*
ASA 102	Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*
ASQM 1	Auditing Standard ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*

Introduction

Integrity in our markets matters, because when people trust the system to be fair and honest, they are more willing to invest, innovate, and plan for their future. That confidence underpins a strong economy for everyone.

In recent years, we have seen behaviour from large accounting, auditing, and consulting firms in Australia that is not fair and honest. This behaviour has had real consequences. It has undermined trust in the firms themselves and raised broader questions about the resilience of the frameworks meant to uphold market integrity.

This paper sets out options to enhance the regulation and trust in the system and to ensure that the audit sector is accountable and that markets can continue to rely on it.

Background

On 6 August 2023, the Government announced that Treasury would examine the legal, policy, and governance frameworks applying to firms in the accounting, auditing, and consulting sectors.[1] This followed events that called into question whether regulatory settings are promoting appropriate conduct in the provision of services that are important for the functioning of the Australian economy.

In May 2024, Treasury released an Issues Paper[2] exploring a number of matters raised through previous inquiries, reviews, and research, including through evidence and submissions provided to the Parliamentary Joint Committee on Corporations and Financial Services' inquiry on '*Ethics and professional accountability: Structural challenges in the audit, assurance and consultancy industry*' (2024 PJC Inquiry).

Feedback to Treasury and recent events have confirmed that gaps exist in the regulation of the audit sector in relation to independence and ethics, audit firm culture and values, firm-wide monitoring systems and internal controls, and prioritisation of audit quality.

Treasury is seeking feedback on potential options to address these gaps to inform further advice to the Government.

Overarching considerations in evaluating new regulation

There are a number of overarching considerations relevant to evaluating the merits of regulatory measures. These were canvassed in Treasury's submission to the 2024 PJC Inquiry and Treasury's Issues Paper, and include:

- focusing on addressing market failure and taking a targeted, risk-based approach to incentivising improved behaviours and deterring misconduct
- recognising that regulatory responsibilities are shared with the states and territories and that some reforms will require collaboration across jurisdictions

1 The Hon Jim Chalmers (6 August 2023), joint media release, 'Government taking decisive action in response to PwC tax leaks scandal'.

2 See Treasury (2024), consultation paper, 'Response to PwC – regulation of accounting, auditing and consulting firms in Australia'.

- designing regulatory responses by weighing the potential benefits against the potential costs to the community, including smaller businesses and with consideration of any practical limitations on the effectiveness of the regulatory response.

Auditing is vital to the Australian economy

The options presented in this paper are focused on regulatory settings that affect the quality of audit services, noting that these services are commonly delivered by multidisciplinary firms that provide a broad range of services, such as consulting.

This focus reflects feedback in response to Treasury's Issues Paper that highlighted financial reporting and auditing are vital to the proper functioning of financial markets and the wider economy. A strong financial reporting system is fundamental to economic growth, as it promotes corporate integrity, investor confidence, capital inflows, and the efficient allocation of resources. In particular, auditing plays a key role in providing reasonable assurance of the accuracy of financial reports.

While auditing plays an important role in the integrity of markets and the functioning of the economy, other sectors, such as management consulting and advisory services, have less systemic significance.

Feedback indicated that stakeholders would have greater confidence in companies' external reporting if those reports were subject to audit activities conducted within a more robust regulatory framework.

Key stakeholders of financial reporting include:

- securityholders, who, in larger, widely-held entities, are generally separate from the entity's management, and rely on external reporting to hold management to account
- investors in financial markets and their advisers, who rely on the integrity of external reporting and disclosures made in financial markets to evaluate and compare investment opportunities and make investment decisions
- potential suppliers and creditors, who rely on external reporting to assess the credit, counterparty, and other risks of contracting with entities that generally have limited liability for their debts
- employees, government authorities, and the general public, who, including through their superannuation, have an interest in the financial standing and activities of corporate and other entities in the economy.

The focus on auditing recognises that audits are mandatory for the largest companies in Australia, and these companies in many cases are reliant on the specialist skills, staffing, and networks of the largest multidisciplinary firms. The non-audit services provided by multidisciplinary firms are covered in this paper to the extent that they have some potential to impact audit quality. The options in this paper complement related work by the Government, including:

- strengthening the TPB's powers to improve regulation and transparency within the tax profession in the *Treasury Laws Amendment (2023 Measures No. 1) Act 2023* (Cth)
- enhancing obligations for tax practitioners through the Tax Agent Services (Code of Professional Conduct) Determination 2024
- significant reforms related to tax agent services through the *Treasury Laws Amendment (Tax Accountability and Fairness) Act 2024* (Cth), including improving the ability of the ATO to target promoters of tax exploitation schemes and increasing applicable penalties, enabling the ATO and the TPB to refer ethical misconduct to professional associations for disciplinary action, and protecting whistleblowers when they provide the TPB with evidence of tax agent misconduct

- the Commonwealth Supplier Code of Conduct, developed by the Department of Finance, which commenced on 1 July 2024 and outlines behavioural standards expected from suppliers to the Australian Government, including consulting firms
- the review of confidentiality and conflict of interest procedures for the government's engagement with the non-government sector by the Department of Finance
- a statutory review of tax and corporate whistleblowing laws in Australia, currently open for consultation until 29 July 2026, which is considering whether the laws are working as intended[3]
- the introduction of legislation to create External Reporting Australia, a single standard-setting body for financial and sustainability reporting and audit.

Options should address drivers of improved audit quality

An ideal option set would take into consideration the key outcomes that an audit regulatory framework should encourage. These include:[4]

- technical expertise of individuals conducting audits and adequate resourcing
- effective application of independence and ethical standards
- firm culture and values focused on quality audits and professional scepticism
- firm-wide quality management and monitoring systems and internal controls to ensure professional standards are upheld by staff and that audits are delivered competently
- the prioritisation of audit quality, in an audit firm context, by individuals responsible for firm-wide decision making.

Consultation on Treasury's Issues Paper indicated that these elements are not promoted under the current regulatory settings. Treasury has identified a range of options to address the issues raised, drawing on stakeholder feedback and approaches adopted internationally.

These options vary in scope and level of intervention (see Appendix A for a summary).

As a general principle, more interventionist approaches may be appropriate where there is evidence of persistent or systemic issues that risk undermining the effectiveness or integrity of market-enabling services.

Some options could address multiple objectives. Some options could operate together, while others are mutually exclusive. In considering how best to target any regulatory changes, some options may only be suitable for larger audit firms.

Treasury welcomes feedback on:

- the benefits and costs of these options (with quantification where possible)
- insights on unanticipated consequences associated with implementation of any option and also potential interactions between options
- other options to enhance regulatory settings or improve audit quality not covered in this paper.

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3 Treasury, 'Statutory review of tax and corporate whistleblowing'.

4 International Auditing and Assurance Standards Board (2014), 'A Framework for Audit Quality', International Federation of Accountants; ICAEW (Institute of Chartered Accountants in England & Wales) (2002), 'Audit Quality'; ASIC (2022), 'Improving and maintaining audit quality (Information Sheet: 222)'; Public Company Accounting Oversight Board (PCAOB) (2015), 'Concept release on audit quality indicators'.

1. Ensuring accountability within the audit sector

Feedback on Treasury's Issues Paper highlighted that firm-level decisions that affect audit quality in Australia are not subject to appropriate external oversight.

Firm-level decisions affect audit quality

Currently, the lead auditor acts on behalf of an audit firm and must carry out their duties in accordance with relevant requirements set out in the *Corporations Act 2001* (Cth) (Corporations Act) and auditing standards, including by:

- ensuring sufficient and appropriate audit evidence is gathered
- exercising professional judgement and maintaining professional scepticism
- identifying matters of concern
- ensuring compliance with the financial reporting requirements
- ensuring compliance with regulator reporting obligations.

In practice, firm-level policies, processes, and decisions also impact the quality and integrity of audit services provided by the individual (lead) auditor, as set out in Table 1 below. The degree to which a firm may be held accountable for firm-level decisions depends on how it is structured.

Table 1 – Firm-level quality management decisions affecting audit quality

Decisions	Explanation
Control systems and processes	To ensure audit quality, firms are required to have systems in place to provide assurance that audits are conducted using an appropriate methodology, that engagement reports are appropriate, that staff have received relevant training and conduct themselves professionally, and that audit documentation requirements have been met.
Resourcing	Decisions on matters such as the number, and level of experience, of specific personnel and the amount of work taken on, can impact the quality and independence of work undertaken by those performing audit services.
Remuneration policies	The basis on which audit partners and employees are remunerated (including profit sharing with non-audit service lines) can create incentives that may affect the quality and independence of audits.
Conflict of interest requirements	Policies and procedures are generally set at the firm level. This means, for example, a lead auditor in an audit firm will generally be dependent on firm-wide sign off processes and systems to ascertain their independence to perform an audit.

Authorised audit companies are accountable for governance decisions through the Corporations Act

An authorised audit company (AAC) is a registered entity under the Corporations Act that is authorised to conduct audits of reporting entities. AACs must meet prescribed minimum registration requirements,[5] and can be penalised for breaching auditing standards.[6]

5 Corporations Act, s 1299B.

6 Appendix A to Treasury's Issues Paper sets out the relevant offences, including under s 307A of the Corporations Act, which requires audit companies to conduct audits in accordance with auditing standards.

There are no firm-level obligations imposed on audit partnerships

An unincorporated partnership does not have separate legal personality from its partners. In general partnerships, partners are jointly and severally liable for the partnership's operations. Despite this, under the Corporations Act, an 'audit firm' that is a partnership (rather than the lead auditor) is often appointed as auditor by reporting entities.

Partnership law is a matter for states and territories. Under current regulatory arrangements, partnerships cannot be meaningfully sanctioned for decisions that affect audit quality.[7] Only the lead auditor in a personal capacity is subject to the risk of deregistration and criminal penalties.[8] As a result, legal accountability does not extend to key decision makers within a firm who influence firm-wide quality and independence decisions (see Table 2).

This approach differs from overseas jurisdictions such as the United Kingdom (UK) and the United States (US), which allocate responsibility to the audit partnership as the 'auditor' for the purposes of compliance with certain auditing standards (including quality management and ethical standards).

Quality management standards help manage risks to audit quality

The Auditing and Assurance Standards Board (AUASB) has issued the Australian Standard on Quality Management 1 (ASQM 1), which sets out responsibilities for audit firms in Australia to establish and maintain a system of quality management to encourage high-quality audits.[9]

Robust quality management systems and procedures are essential to ensure that audit firms and their personnel fulfil their responsibilities under professional and legal standards. ASQM 1 provides that an audit firm's system of quality management is to address the eight components outlined in Table 2.[10]

Table 2 – Components of the system of quality management

Component	Description
1. Firm's risk assessment process	Designing and implementing a risk assessment process that sets quality objectives and identifies, assesses, and addresses quality risks.
2. Governance and leadership	Creating an environment that supports the system of quality management. This includes demonstrating a commitment to quality through a culture that recognises the firm's role in serving the public interest by consistently performing quality engagements.
3. Relevant ethical requirements	Establishing objectives, policies, and procedures that address the fulfilment of ethical requirements, including those related to independence.
4. Acceptance and continuance of client	Implementing procedures that address acceptance and continuance of business relationships and specific engagements.

7 Some obligations are imposed on audit partnerships (or their members) with regard to transparency reporting (see Corporations Act, Part 2M.4A) and auditor independence (see Corporations Act, Division 3 of Part 2M.4). However, these obligations are narrow and do not establish firm-level accountability, including for breaches of standards that could be enforced against an individual or body corporate.

8 Corporations Act, s 307A.

9 This standard is based on an equivalent international standard prepared by the International Auditing and Assurance Standards Board.

10 See Australian Auditing and Assurance Standards Board (AUASB) (2021), Auditing Standard ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements*, pp 9-10.

Component	Description
relationships and specific engagements	
5. Engagement performance	Establishing objectives that address the performance of quality engagements. This includes that engagement teams understand and fulfil their responsibilities in performing an audit, and that the work of less experienced team members is appropriately supervised and reviewed, among other things.
6. Resources	Ensuring that appropriate resources are available to perform quality audits. This includes employees with the required competence and capabilities to perform quality engagements.
7. Information and communication	Communicating information on the system of quality management internally and, where necessary, externally.
8. Monitoring and remediation process	Establishing a process for identifying and remediating deficiencies on a timely basis.

Feedback on Treasury's Issues Paper suggested that the Australian regulatory framework does not enable the Australian Securities and Investments Commission (ASIC) to effectively enforce quality management standards.

Quality management standards are not well aligned to Australia's legislative framework

The Corporations Act requires audits to be conducted in accordance with auditing standards,[11] but does not impose requirements on the general conduct of the registered company auditor (RCA) or audit firm.

As such, ASIC is limited in its ability to enforce ASQM 1 regarding firm-level management decisions affecting audit quality (for example, resourcing, training, and remuneration policies).

Despite ASQM 1 being internationally developed and representing a comprehensive standard for firm-level quality management, many of its requirements are principles-based and broadly worded, which may make it difficult for courts to determine non-compliance or impose penalties.

In summary, challenges associated with the current regulatory framework include:

- a focus on conduct during individual audits, which limits the ability to address broader firm-level decisions on the systems that support audit quality or more systemic misconduct occurring outside specific audit engagements
- the key standard (ASQM 1) being drafted broadly, making it difficult to enforce, and limitations in the penalties framework resulting in a lack of alternative civil or administrative regulatory responses (see Section 5 for further detail on penalties).

By contrast, quality control standards in the US[12] cover expectations on audit firms that are similar to ASQM 1, but contain more direct obligations, and are often used as a basis for enforcement activity (often imposing significant penalties) against audit firms by the Public Company Accounting Oversight Board (PCAOB).

11 See the Corporations Act, ss 307A and 989CA.

12 PCAOB (2024), 'A Firm's System of Quality Control and Other Amendments to PCAOB Standards, Rules and Forms, Release No. 2024-005-QC1000'.

Box 1 – Quality control standards in the US

Broadly, US audit firms are required to comply with quality control obligations designed to ensure they have policies and procedures in place which provide reasonable assurance, among other matters, that:

- the firm complies with professional standards in performing audits
- all its staff (partners and employees) comply with professional standards applicable to auditors, including that staff:
  - are independent of the audit client when performing audits and act ethically (with integrity and objectivity)
  - have the technical training, supervision, and proficiency required in the circumstances.
    - While a firm should not always be held responsible for the conduct of its staff, it should have systems in place to prevent and address poor conduct.
- before entering engagements, it is established that the firm can deliver the audit competently and that the engagement does not present risks
- the work performed by its staff meets applicable professional standards, regulatory requirements, and the firm's standard of quality.

Ethical standards should be comprehensively enforceable

Ethical conduct is a cornerstone of audit integrity and, by extension, public confidence in financial markets. Under current obligations, there are two related but distinct components to the 'ethical' requirements for auditors. These relate to whether:

- the auditor is **independent** and free of conflicts of interest when conducting an audit[13]
- auditors are ethical in their '**professional conduct**', including being 'fit and proper persons' and conducting themselves with integrity, objectivity, professional competence and due care, and ensuring confidentiality and professional behaviour.[14]

The Corporations Act creates obligations relating to both auditor independence and professional conduct. However, gaps in the design and application of these obligations (see Table 3) result in them having limited enforceability, enabling conduct that undermines trust in auditing.

The Corporations Act already imposes independence requirements

The Corporations Act directly and indirectly imposes obligations relating to independence on RCAs, AACs, lead auditors of AACs, and lead auditors and partners of audit partnerships. These obligations include:

13 As required by the Corporations Act and the AUASB standards, including ASA 102 (which applies APES 110) and ASQM 1.

14 As required by ASA 102 and APES 110.

- individual auditors, directors of AACs, and partners of audit firms being required to take all reasonable steps to ensure audit activity does not continue in conflict of interest situations, and to notify ASIC if a conflict continues (within seven days of becoming aware of the conflict)[15]
  - This requirement is supplemented by a non-exhaustive list of relationships that are treated as non-independent.[16]
- the Corporations Act, s 307C, which requires a lead auditor or individual auditor to provide an independence declaration to the directors of the audit client
- the Corporations Act, s 300(11B), which requires the directors' report for a listed company to include the amounts paid/payable to the auditor for non-audit services provided during the year, and whether the directors are satisfied that the auditor's independence was not compromised.

Independence and 'professional conduct' requirements

RCAs, AACs, and lead auditors of audit partnerships and AACs must conduct audits in accordance with auditing standards under the Corporations Act.

- The AUASB has issued Australian Auditing Standard (ASA) 102 as an auditing standard relating to ethics. ASA 102 requires auditors to have regard to the applicable requirements of Accounting Professional and Ethical Standard (APES) 110 *Code of Ethics for Professional Accountants (including Independence Standards)*. APES 110 details ethical standards, containing independence and 'professional conduct' requirements for members of certain professional accounting bodies (PABs).
- As noted in Table 3, many of the same problems that exist for ASQM 1 also exist for ASA 102. The system of quality management that audit firms are required to have in place under ASQM 1 also addresses independence and ethical requirements (see Table 2).

Several issues related to the effectiveness of the regulatory framework regarding ethical standards and how they are enforced have been identified. Table 3 provides a summary of these issues.

Table 3 – Issues associated with the application of current ethical standards

Issue	Description
Lack of audit firm-level obligations	A lead auditor would usually be reliant on systems of their audit firm to confirm whether conflicts of interest exist when engaging an audit client. Ensuring that conflicts of interest are appropriately managed, and that independence is maintained, is a firm-level consideration, but audit partnerships cannot be penalised for non-compliance. This could be addressed through specific independence-related quality management obligations. In addition, several independence obligations in APES 110 may be more appropriate as firm-level obligations. This may include certain prohibitions on non-audit services to audit clients (provided by non-audit partners).
Current ethical standards are challenging to enforce in the Australian legislative framework	The ethical and independence standards contained in APES 110 are not well suited to enforcement with criminal penalties by a court, nor for the Companies Auditors Disciplinary Board (CADB) to determine whether an RCA should be deregistered. This is because: • APES 110 is drafted to apply to 'members' of the PABs, whereas the obligation via ASA 102 (under the Corporations Act) is on RCAs, AACs, and lead auditors

15 Corporations Act, ss 324CA, 324CB, 324CC and 324CD.
16 Corporations Act, s 324CH.

Issue	Description
	• many of the expectations in APES 110 are principles-based and do not impose obligations directly relating to the conduct of audits (as is required by Corporations Act, s 307A).[17] Therefore, APES 110 is not suited for the application of penalties or consideration of whether an audit standard has been breached. Certain obligations are not relevant to RCAs, AACs, or lead auditors, and may not be enforceable by a court. For example, APES 110 requires 'members' to avoid any conduct that they know, or should know, might discredit the 'profession'. Another example is the requirement for members to 'have an inquiring mind' when applying the 'conceptual framework'.
The existing conflict of interest obligations in the Corporations Act would be more effective when combined with ethical standards that are better aligned to Australia's legislative framework	Unlike the prescriptive requirements relating to conflicts of interest under the Corporations Act, ASA 102 are APES 110 are code of ethics frameworks that are largely principles-based. ASA 102 and APES 110 require auditors to apply professional judgement when assessing professional or ethical issues that may arise in performing the audit function. ASA 102 and APES 110 also contain specific provisions to address key threats to auditor independence. Consequently, while the general auditor independence requirement in the Corporations Act is intended to cover all conflict of interest situations, there may be certain circumstances that do not contravene Corporations Act requirements. One example is the delivery of (certain) non-audit services by an audit firm to an audit client, which is prohibited under ASA 102, but not under the Corporations Act.
Using APES 110 for the purposes of a legislative instrument creates enforcement challenges and risks	Legislative instruments that attract penalties are best prepared by a government body to ensure legal and enforcement risks are appropriately managed. This would also address perceived conflicts of interest associated with members of a profession crafting their own standards.
'Fit and proper person' requirements are inconsistent between audit partnerships and AACs	Under current requirements, each director of an AAC must be an RCA (and therefore be required to be a 'fit and proper person'). Audit firms that are partnerships are not required to register with ASIC, and only RCAs operating within the partnership are required to meet 'fit and proper person' requirements. There may be partners in audit partnerships making decisions affecting audit quality that are not currently required to meet 'fit and proper person' requirements.

Stakeholder views

Audit firm registration and obligations

There is broad agreement from stakeholders that the Australian regulatory framework would benefit from certain professional standards, regulations, and laws applying at the firm level, whilst retaining the same requirements for individuals.

In response to Treasury's Issues Paper, the largest audit firms,[18] PABs,[19] and the Accounting Professional and Ethical Standards Board (APESB) supported the creation of firm-level standards and expectations on audit firms.

Regulators, including ASIC and the New Zealand Financial Markets Authority (NZ FMA),[20] also acknowledged the need for powers to take firm-level regulatory action, and supported the implementation of a registration or licensing regime for audit firms. ASIC noted that '[t]he limited

17 Corporations Act, s 307A requires an audit to be conducted in accordance with the auditing standards.
18 Submissions to Treasury's Issues Paper: Deloitte, p 3; PwC, p 10; EY, pp 2-3; KPMG, p 3.
19 Submissions to Treasury's Issues Paper: CA ANZ, p 10; IPA, p 5.
20 Submissions to Treasury's Issues Paper: ASIC, pp 2, 4-5; NZ FMA, p 4.

scope of the requirements in Australia reduces [ASIC's] ability to directly monitor, supervise and take enforcement action against firm-level conduct'.[21]

Professor Elise Bant suggested that, despite partnerships' different liability mechanisms compared to corporations, they still function as organisations and should be held accountable for misconduct.[22]

Other stakeholders suggested, however, that joint and several liability of partnerships is adequate to incentivise partners and to reinforce positive behaviour and proper governance.[23] For example, Forvis Mazars stated that joint and several liability 'provides for substantial risk to partners from significant events' (for example, litigation, bankruptcy, and so on) and that 'this liability is a strong incentive for appropriate governance structures'.[24]

Quality management obligations

The AUASB identified in its submission to the 2024 PJC Inquiry that its 'quality management standards' on audit and assurance may not be enforceable, noting that the International Auditing and Assurance Standards Board (IAASB) standards on which the ASQMs are based are not regarded as 'auditing standards'.[25] They are also drafted to apply generally, and to audit firms, rather than in the conduct of individual audits and to lead auditors.[26]

Several stakeholder submissions in response to Treasury's Issues Paper, including ASIC, highlighted ASIC's inability to enforce ASQM 1 at the firm level.[27] Deloitte suggested that public confidence in the management (by audit firms) of independence and conflicts could be strengthened by providing regulatory oversight of a firm's system of quality management to ASIC, similar to the remit of the PCAOB in the US.[28]

In considering the costs and benefits of quality management standards, Forvis Mazars suggested that ASQM 1 has increased compliance costs for most audit firms due to the resources required for documenting compliance, and that further time is required to enable auditors to respond to the requirements and improve their internal control arrangements.[29]

Ethical obligations on firms and individuals

The AUASB flagged in its submission to the 2024 PJC Inquiry similar issues in the application of ethical standards to the application of quality management standards. It noted that ASA 102 requires auditors, assurance practitioners, engagement quality reviewers, and firms to comply with APES 110. It also identified that auditing standards (including ASA 102) are only enforceable against the lead auditor in the context of an audit firm, and only in relation individual audits, whereas most of APES 110 is written to apply generally and not in the conduct of individual audits.[30]

Stakeholders expressed the view that previous ethical failures are evidence the system is not ensuring compliance with ethical standards and is not adequately incentivising firm-wide compliance.[31]

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21 Submission to Treasury's Issues Paper: ASIC, p 10.
22 Submission to the 2024 PJC Inquiry: Professor Elise Bant, p 5.
23 Submissions to Treasury's Issues Paper: Deloitte, p 2; Pitcher Partners, p 2; Forvis Mazars, p 9.
24 Submission to Treasury's Issues Paper: Forvis Mazars, p 9.
25 Submission to the 2024 PJC Inquiry: AUASB, p 7.
26 Submission to the 2024 PJC Inquiry: AUASB, pp 7-9.
27 Submissions to Treasury's Issues Paper: CA ANZ, pp 12-15; NZ FMA, p 4; ASIC, p 10; Governance Institute of Australia, p 2; Submission to the 2024 PJC Inquiry: AUASB, pp 7-9.
28 Submission to Treasury's Issues Paper: Deloitte, p 5.
29 Submission to Treasury's Issues Paper: Forvis Mazars, p 13.
30 Submission to the 2024 PJC Inquiry: AUASB, pp 8-9.
31 Submission to Treasury's Issues Paper: Peakstone Global, p 7; Submissions to the 2024 PJC Inquiry: APESB, pp 9-12; IESBA, p 2; FRC, p 2; The Ethics Centre, p 12; Institute of Internal Auditors, p 2.

Some stakeholders have expressed dissatisfaction with the disciplinary approach of the PABs.[32]

The PABs noted that the current regulatory model places primary statutory responsibility for oversight of ethical standards relating to audit on ASIC, and that the self-regulation model should be considered as supplementary to ASIC's primary role.[33]

The APESB noted that the role of professional associations could be enhanced, through increased engagement with government, to achieve better compliance with professional and ethical standards.[34]

Other matters emphasised by stakeholders regarding ethical conduct included the need to strengthen protections for whistleblowers, recognising that whistleblowing is a key mechanism to assist regulators with detecting misconduct.[35]

What are the options to increase accountability within the audit sector?

There is strong and compelling evidence in favour of imposing enforceable obligations on audit firms in relation to firm-level decisions affecting audit quality.

There are differing approaches internationally as to what obligations are placed on audit firms, with the UK imposing broad obligations to comply with auditing standards, while the US imposes quality controls and system obligations to provide reasonable assurance of particular outcomes.

These differing approaches appear to relate, at least partially, to how a partnership is treated from a regulatory standpoint (that is, a separate legal entity – a limited liability partnership – or partners with joint and several liability).

Regardless, enforceable quality management and ethical standards are essential minimum obligations for audit firms to support an effective regulatory audit framework. Stronger enforcement of quality management, independence, and professional conduct standards should reduce reliance in the system on the disciplinary processes of the PABs and the self-regulatory aspects of the current model.

Reforms to the scope and enforceability of quality and ethical standards would further mitigate risks associated with conflicts of interest.

Option 1A: Require reporting entities to obtain audit services only from audit firms licensed by ASIC, with quality management and ethical obligations imposed as ongoing conditions of holding their licence

This option would require all audit firms, including partnerships, to be licensed by ASIC in order for reporting entities to engage and continue to use them for the provision of audit services.[36]

Audit firms would be required to satisfy certain conditions to acquire and retain a licence to provide audit services to reporting entities.

32 Submissions to the 2024 PJC Inquiry: Submission 53 (Name Withheld), p 5; Mr Mark Gailey, pp 3-5.
33 Submissions to Treasury's Issues Paper: CPA Australia, p 2; CA ANZ, pp 24-25.
34 Submission to Treasury's Issues Paper: APESB, pp 9-10.
35 Submission to Treasury's Issues Paper: CA ANZ, p 30; Governance Institute of Australia, pp 11-12; Human Rights Law Centre; Transparency International Australia & Griffith University Centre for Governance and Public Policy, pp 2-6.
36 Registration requirements currently apply to companies to undertake audit work under the Corporations Act (they are registered as AACs) – no such requirements apply to audit firms structured as partnerships.

The conditions would include, but not necessarily be limited to, requirements relating to quality management, ethical standards, and governance. The conditions could apply at the firm-level and require ongoing compliance (rather than only in the course of an audit).

If a licenced audit firm did not comply with their conditions, ASIC, as the primary regulator responsible for auditing, could take action against that firm. This could include imposing additional licence conditions, issuing infringement notices, commencing proceedings to pursue civil penalties (see Option 5A), or suspending or revoking a licence.[37]

This would incentivise compliance with ongoing licence obligations.

A licencing scheme would also assign more direct accountability to those with authority and influence over audit quality within firms. The general licensing obligations imposed on Australian financial services licensees illustrate an approach to ensuring firm-level responsibility and obligations in the provision of professional services.

Require audit firms to comply with quality management standards as an ongoing licence condition

Compliance with quality management standards would be included as an ongoing licence condition for audit firms.

To ensure enforceability, the AUASB quality management standards could either be adapted (from ASQM 1) or redrafted (potentially mirroring US quality control or UK quality management obligations), or certain requirements could be specifically recognised directly in the Corporations Act.

While audit firms would be required to comply with firm-level quality management standards under this option, including ensuring their lead auditors do so, the condition would not be imposed directly on lead auditors, nor would they be subject to penalties for non-compliance RCAs can currently be penalised for breaches of ASQMs).[38]

Require audit firms to meet firm-level independence obligations as ongoing licensing conditions, and to protect client information

Audit firms would be required to maintain systems that provide assurance of independence from audit clients, as well as systems and controls for the effective management of client information, including safeguards to protect confidentiality.

The obligation on the audit firm for maintaining systems relating to ethics would extend to having reasonable assurance that employees are also conducting themselves in line with professional standards (that is, with integrity, objectivity, and so on).

Other independence obligations would also be imposed on audit firms, including responsibility for ensuring that adequate arrangements are in place to manage conflicts of interests and to prevent the provision of prohibited non-audit services to audit clients.

Some of the potential benefits and costs of this approach are set out in Table 4.

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37 CADB would require additional powers to consider audit firm licence and compliance matters, including in respect of audit firms structured as partnerships (see Option 5C).

38 ASA 220, however, which obliges lead auditors to implement quality control procedures at the engagement level, will continue to apply. There may be benefits in remaking ASA 220 as a quality management standard.

Table 4 – Potential benefits and costs of requiring audit services to be provided by a licensed audit firm (that is subject to ongoing obligations) (Option 1A)

Potential benefits	Potential costs
Improved accountability and regulatory scrutiny for firm-wide decisions.	The imposition of regulatory conditions for holding a licence, and the ability for a licence to be suspended or revoked if licencing conditions are not met, could affect the ability of reporting entities to obtain audits in the short term and the choice of audit firm in the longer term.
Enables better targeting of regulatory actions relating to the provision of audit services.	If an audit firm is deregistered, partners may attempt to circumvent rules through phoenixing.
Stronger incentives for audit firms to meet audit quality standards by addressing the regulatory gap for firm-level obligations.	There may be additional compliance costs from moving to full application of quality management requirements, including from documentation requirements.
Empowers ASIC to enforce firm-level quality management systems.	
Providing additional flexibility to ASIC to deal both rapidly and proportionately with conduct impacting audit quality, and to ensure that standards are applied and followed in a way that is consistent with their object and not overly legalistic.	

Option 1B: Require RCAs to comply with professional conduct obligations as an ongoing obligation of registration

This option would require RCAs to comply with basic professional conduct obligations as an ongoing condition of registration, broadening enforceable ethical obligations on RCAs.

These obligations could be applied either as a standard (that could be made by External Reporting Australia, once established),[39] or directly in the Corporations Act, similar to the code of professional conduct obligations that apply to tax agents (tailored to audit).

If applied as a standard, the obligations would be tailored to the Australian context.

This recognises that while there are benefits for the Australian financial system of having Australian ethical standards broadly aligned with international requirements, tailoring requirements to meet the needs of the domestic market, including domestic regulatory enforcement, is required.[40]

Some of the potential benefits and costs of this approach are set out in Table 5.

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39 The Treasury Laws Amendment (Financial Reporting System Reform) Bill 2026, currently before Parliament, will combine the Financial Reporting Council, the Australian Accounting Standards Board, and the AUASB into a single entity to be known as External Reporting Australia, with responsibility for performing those bodies' core financial reporting and sustainability standard-setting functions. As noted in the Explanatory Memorandum to the Bill, a benefit of consolidating the institutional arrangements for standard setting through the creation of External Reporting Australia is the ability to leverage the new body's flexible governance framework to more readily accommodate new standard-setting functions where such a need arises over time.

40 The UK Financial Reporting Council (UK FRC) attempts to align its ethical standards with the International Ethics Standards Board for Accountants (IESBA) Code of Ethics (which is the basis of APES 110). The UK has a tailored code that it has attempted to draft simply and provide additional clarity on the application of ethical standards. See UK FRC (2024) 'Revised Ethical Standard 2024'.

Table 5 – Potential benefits and costs of better alignment of ethical standards with legislative framework (Option 1B)

Potential benefits	Potential costs
Increased incentives for RCAs to comply with ethical standards, which supports investor and market confidence. Engagement quality reviewers and RCAs involved in an audit (though not necessarily as lead auditor) would now be exposed to regulatory action if ethical standards are breached.	RCAs may face additional compliance costs.
Greater clarity for RCAs on what is expected of them ethically.	Increased potential for differences in ethical requirements that apply across global audit firm networks.
Legal enforceability of ethical standards would underscore the importance of ethical conduct.	

Option 1C: Require all partners of multidisciplinary firms to meet 'fit and proper person' requirements to maintain audit firm registration

This option would increase trust and confidence in audit firms delivering audit services and ensure those responsible for making decisions affecting audit quality at the firm level are 'fit and proper persons' (including not being found guilty of offences relating to dishonesty). Under this option, the 'fit and proper person' requirements would be applied to all partners in an audit partnership. Similar obligations already exist for AACs.

Where a partner (whether involved in providing audit or non-audit services) is found to no longer be a 'fit and proper person' in an audit partnership, the firm would be subject to deregistration or the imposition of regulatory conditions for continued registration while/if the partner remains a partner. Firms could also be subject to fines if a partner is found to no longer be a 'fit and proper person'.

Alternatively, reporting entities could be required to only obtain audit services from audit firms that meet these obligations.

Some of the potential benefits and costs of this approach are set out in Table 6 below.

Table 6 – Potential benefits and costs of a new 'fit and proper person' requirement (Option 1C)

Potential benefits	Potential costs
The requirement would underscore the importance of appropriate standards of conduct and integrity from partners.	Deregistration of a large firm or the imposition of regulatory conditions for continued registration could affect its audit clients' abilities to issue audited reports in the short term.
The requirement would incentivise firms to put in place effective governance arrangements and processes to prevent, detect and act on instances where a partner does not adhere to appropriate standards of conduct and integrity.	

2. Managing structural conflicts of interest in multidisciplinary firms

The multidisciplinary nature of accounting, auditing, and consulting firms can offer benefits but also pose risks relating to conflicts of interest for audit clients and broader stakeholders. Auditors may be in a position to 'review their own firm's work', if the firm has provided advisory services related to financial reporting or internal controls.

The leadership, governance and culture of the firm can impact the perceptions of integrity and quality of audit services provided by the firm. It is important for audit partners to have adequate autonomy, control, and decision-making capacity in the context of a multidisciplinary firm to ensure that they can fulfil their responsibilities, and effectively manage risks to promote audit quality.

Section 1 proposed options to increase accountability within the audit sector, including in relation to audit independence and ethical standards. Some stakeholders have further suggested that the structure of multidisciplinary firms creates conflicts of interest that pose a substantial risk to the system that should be eliminated through structural interventions.

Conflicts of interest can arise in multidisciplinary firms for several reasons

The provision of non-audit services by multidisciplinary firms can lead to perceived or real concerns around the independence of the audit function. A summary of the key risks is provided below.

- Audit partners operating in business with non-audit partners may be incentivised to 'go soft' on audit findings due to financial incentives stemming from the remuneration structure of the firm. This might arise if:
  - audit partners are profiting from the cross-selling of non-audit services (due to distributions within the partnership), either contemporaneously or after the client ceases to be an audit client
  - the economic viability of an audit engagement is reliant on the cross-selling of non-audit services.
- Auditors may be in a position to 'review their own firm's work', if the firm has provided advisory services related to financial reporting or internal controls.
- Non-audit services may dominate the overarching culture of the firm, and this culture may be at odds with an auditor's role in challenging management and client perspectives.
  - Audit revenue comprised, on average, 20 per cent of total revenue in the four largest audit firms in Australia in 2025.[41] For the largest auditing, accounting, and consulting firms, the trend has been for non-audit revenue to consistently outpace audit revenue growth, with non-audit revenue growing from 73 per cent to 82 per cent of total revenue between 2013 and 2018.[42]

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41 Calculated from unaudited revenue disclosures in the FY2025 transparency reports for Deloitte, EY, KPMG, and PwC.

42 Carson E et al. (2023), 'The audit market for listed Australian companies from 2012 to 2018: A state of play', *Australian Journal of Management*, 48(3), 524-549.

- Increased familiarity with the management of audit clients, arising from the provision of non-audit services and/or cases where there are particularly long-term relationships between an audit firm and client, may compromise independence.
- Risks may arise from internal competition for resources within a multidisciplinary firm, especially from business units with typically higher margins and lower regulatory compliance costs (such as management consulting).
- More broadly, firms may not have effective controls on client information. Firms may also be both providing advice to government on the policy design of particular programs or legislation (including as part of a procurement and/or in the context of industry consultation), as well as advising clients on how to best benefit from these same programs or legislation, creating both real and potential conflicts.

The current regulatory framework seeks to mitigate conflicts of interest

In Australia, threats to auditor independence are currently managed through a number of requirements in the Corporations Act and APES 110.

- Auditors are required to take all reasonable steps to ensure audit activity does not continue in conflict of interest situations, and to notify ASIC if a conflict continues within seven days of the auditor becoming aware of the conflict.[43]
- Auditors are required to provide an independence declaration to the directors of the audit client,[44] and directors are required to make statements regarding the auditor's independence.[45]
- Public companies are required to appoint auditors by shareholder resolution at an annual general meeting.[46]
- Public companies are required to disclose the procurement of non-audit services from their auditor in their directors' report.[47]
- Audit firms should have a system of quality management in place addressing independence and ethical requirements.[48]
- Auditors need to act independently and make an unbiased assessment when providing auditing services to clients. Where safeguards cannot eliminate or reduce independence threats to an acceptable level, the auditor is required to decline or terminate the relevant client engagement. There is a prohibition on providing non-audit services where threats to auditor independence

43 Corporations Act, ss 324CA-CG.

44 Corporations Act, s 307C.

45 Corporations Act s 300. See also ASIC (2021), 'Audit quality – The role of directors and audit committees (Information Sheet 196)'.

46 Corporations Act, s 327B.

47 The Corporations Act, s 300(11B) provides the client must: (a) disclose amounts paid/payable for non-audit services; (b) state whether its directors are satisfied that non-audit services provided are compatible with the general Corporations Act standard of auditor independence; and (c) state the directors' reasons for being satisfied that non-audit services did not compromise the auditor.

48 AUASB (2021), ASQM 1.

cannot be reduced to an acceptable level.[49] For instance, audit firms must not provide accounting and bookkeeping services (strict prohibition) to audit clients that are 'public interest entities' (PIEs) or controlled by PIEs.

- Broadly, auditors playing significant roles in the audit (such as lead auditors and engagement quality reviewers) must be rotated to new RCAs (who can be from the same audit partnership or AAC) after a number of years – generally five out of the last seven successive years.[50]

The Australian requirements do not incorporate the following independence-related mechanisms adopted by some overseas jurisdictions:

- US – audit committees of public companies are required to pre-approve all audit and non-audit services from their auditor firm.
- UK – operational separation of audit practices from non-audit functions.[51]Reforms to the scope and enforceability of quality and ethical standards will further mitigate risks associated with conflicts of interest.

Stakeholder views

Stakeholders expressed a range of views regarding the extent to which it is possible to manage conflicts of interest arising from the provision of non-audit services to audit clients, with some stakeholders considering it necessary to eliminate the conflict through stronger means (that is, prohibiting the provision of non-audit services, or structural separation).[52]

The largest audit firms argued they have adequate procedures in place to address any potential conflicts relating to their multidisciplinary offerings, including providing non-audit services to audit clients,[53] such as:

- barriers or 'walls' in place within the firm to mitigate conflicts of interest
- policies, procedures, and remuneration strategies to ensure audit partners and employees prioritise audit quality.

The largest audit firms also argued that there are spill-over benefits to being multidisciplinary. Knowledge gained in one role (for example, tax advisory) can assist in the quality delivery of services in another role (in this context, auditing).[54]

A number of other stakeholders raised concerns around how existing regulatory arrangements address conflicts of interest, noting that:

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49 Under APES 110, the prohibitions are more extensive for audit clients that are public interest entities (such as listed companies) and include services such as internal audit services and IT consulting for internal controls, valuations, and litigation support (all based on materiality thresholds).

50 Corporations Act, ss 324DA–DD and APES 110, paragraph 540.

51 Separation is also intended to enhance audit quality and eliminate any cross-subsidies for audit practices from non-audit divisions. The four largest UK firms (Deloitte, EY, KPMG and PwC) have voluntarily agreed to implement operational separation in advance of the planned legislation and agreed to meet the UK FRC's 2020 'Principles for Operational Separation of Audit Practices'.

52 See, for example, submissions to Treasury's Issues Paper: CPSU, pp 2-3; Prof Allan Fels AO, email submission.

53 Submissions to Treasury's Issues Paper: Deloitte, pp 5-7; EY, pp 10-13; KPMG, pp 22-24; PwC, pp 13-15.

54 Certain stakeholders also suggested that this undermines the argument that there are barriers/walls in place preventing conflicts of interest.

- large multidisciplinary firms should not be conducting both audit and advisory services for the same client[55]
- remuneration structures and the knowledge that another part of the same firm had provided advice to an entity can create conflicts of interest[56]
- conflicts of interest may not always be managed appropriately, potentially reflecting inconsistent interpretations across consulting firms of what constitutes a conflict of interest[57]
- senior management, not just individual partners, should be held accountable for conflict of interest breaches, as well as the directors of the companies engaging the auditor.[58]

Some stakeholders suggested that more types of non-audit services should be prohibited, while acknowledging that some non-audit service provision could have a neutral to positive impact on audit quality, with one noting 'consulting that is focused on enhancing the quality of corporate reporting, or the quality of a client's information systems, work well with audit and is clearly consistent with the objectives of external auditing'.[59] Another stakeholder recommended that all non-audit service provision to audit clients be banned, except where the fees from such services were 'clearly trivial'.[60]

Professor Fels AO has argued that 'the complicated suite of independence rules show[s] that there is a difficult and costly conflict management issue in the market as it is currently constructed'.[61]

Further, Professor Samuel AC has argued that 'major accounting firms should not be conducting both audit and advisory roles for the same client', and that '[i]t is impossible to erect an effective impenetrable … [w]all between departments of the same firm'.[62] When two parts of a firm provide separate services and have separate relationships with the same client, Professor Samuel argues that 'the very knowledge of the existence of those relationships must create a conflict of interest which, even subconsciously, will impact on the rigour and integrity of the audit'.[63] The Tax Justice Network supported the substance of Professor Samuel's argument.[64]

The CPSU similarly asserted that perceived and actual conflicts of interests cannot be overcome in multidisciplinary firms and advocated for the 'structural separation of the audit, advisory and consultancy functions of the Big Four'.[65]

What are the options to eliminate structural conflicts of interest in multidisciplinary firms?

In recent years, we have seen behaviour from large accounting, auditing, and consulting firms that suggest a different approach is required.

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55 Submission to Treasury's Issues Paper: Community and Public Sector Union (CPSU), p 2.

56 Submissions to Treasury's Issues Paper: Tax Justice Network Australia, p 2; Submission to the 2024 PJC Inquiry: Professor Graeme Samuel AC, p 3.

57 Submission to Treasury's Issues Paper: APESB, p 7 (including extract from Senate Finance and Public Administration References Committee's final report of its inquiry into management and assurance of integrity by consulting services).

58 Submissions to Treasury's Issues Paper: PKF Australia, p 2.

59 Submission to Treasury's Issues Paper: Carey & Tanewski, pp 5, 6.

60 Submission to Treasury's Issues Paper: Forvis Mazars, p 12.

61 Submission to the 2024 PJC Inquiry: Professor Allan Fels AO, p 5.

62 Submission to the 2024 PJC Inquiry: Professor Graeme Samuel AC, p 3.

63 Submission to the 2024 PJC Inquiry: Professor Graeme Samuel AC, p 3.

64 Submission to Treasury's Issues Paper: Tax Justice Network, pp 1, 2.

65 Submission to Treasury's Issues Paper: CPSU, pp 1, 2.

The broader structural intervention options outlined below (see Options 2A, 2B and 2C) could eliminate conflicts of interest altogether.

Option 2A: Prohibit reporting entities from engaging their auditor for non-audit services

This option would prevent reporting entities from procuring non-audit services from their audit firm.

This approach directly addresses the key risks to both the real and perceived independence of auditors in multidisciplinary firms. For example, it would remove the possibility that a partnership's non-audit revenue from an audit client could compromise an auditor's independence and would address perceptions that multidisciplinary firms use audit as a 'loss leader' to cross-sell non-audit services. The final report of the 2024 PJC Inquiry made recommendations to address these considerations.[66]

There may need to be limited exceptions under this option, particularly where non-audit services are required as part of the audit process itself, or are otherwise necessary for the effective conduct of the audit.

Some of the potential benefits and costs of this approach are set out in Table 7 below.

Table 7 – Potential benefits and costs of prohibiting the provision of non-audit work to audit clients (Option 2A)

Potential benefits	Potential costs
Directly addresses the potential for perceived and real conflicts of interest to arise in multidisciplinary firms.	May increase the costs of audit and non-audit services for reporting entities.
Preservation of auditor independence and integrity, and greater confidence in the operation of a market system.	May cause disruption for multidisciplinary partnerships offering non-audit services to audit clients.

While multidisciplinary firms would reduce their service offerings to audit clients, it is anticipated that the overall demand by audit clients for non-audit services would remain the same. As such, it is anticipated that available non-audit work would most likely be redistributed among other firms, and would therefore not significantly affect overall revenue. To the extent that non-audit work is redistributed to alternative firms, this option may improve competition and market dynamism.

Multidisciplinary firms may respond by bidding for fewer audit engagements or seeking to recoup any cross-subsidies, potentially increasing costs. However, this may have the effect of increasing the competitiveness of audit-only firms.

Option 2B: Achieve operational separation within existing structures

Under this option, multidisciplinary firms that provide audit services would be required to implement a level of operational separation within their business to manage conflicts of interest between the provision of audit and non-audit services.

This operational separation would occur within the organisation and allow for an ongoing relationship between audit and non-audit parts of the multidisciplinary firms (for example, enabling auditors to leverage the use of specialised tax expertise in other parts of the firm).

Multidisciplinary firms that provide audit services would be required to implement an internal arrangement to separate the running of the audit practice from the rest of the firm.

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66 2024 PJC Inquiry Final Report, Recommendation 8.

This option would require the audit service line to have a separate:

- CEO and chair (with the non-audit service line retaining its own CEO and chair)
- governance board, with clear terms of reference and a focus on a culture of audit quality
- clear and transparent policy linking partner (and, potentially, staff) remuneration to audit quality
- financial report that would be made available to the public.

Under this option, consideration would be given to also separating remuneration structures of audit partners and staff.

These changes would effectively 'ring fence' the audit practice (that is, audit and audit-related services) from other services, without requiring the firms to spilt into two separate entities. The final report of the 2024 PJC Inquiry made recommendations to address these considerations.[67]

Some of the potential benefits and costs of this approach are set out in Table 8 below.

Table 8 – Potential benefits and costs of operational separation (Option 2B)

Potential benefits	Potential costs
Improved governance arrangements, including conflict of interest management.	Establishing separate structures and systems could involve significant transition costs for multidisciplinary firms in the short term, a portion of which would be passed on to clients and consumers. It may also increase the costs of audit services for reporting entities.
Increased confidence in audit quality, to the extent that internal operational separation is trusted.	Operational separation may reduce collaboration and opportunities for synergies between audit and non-audit functions within an audit firm, potentially impacting overall firm efficiency and knowledge sharing.
Alignment with the UK, which has already implemented operational separation.	The effectiveness of operational separation may be tested in practice (for example, firms may find ways to erode the separation mechanisms).
	Governance separation alone would not reduce a broader firm's exposure to the commercial pressures and culture of non-audit services.

Option 2C: Mandate structural separation

This option would mandate that reporting entities can only procure audit services from firms that do not offer non-audit services.[68]

Structural separation would remove the influence of non-audit services on the conduct of audit services and address any real and perceived risk of non-audit services' culture affecting audit quality.

Some of the potential benefits and costs of this approach are set out in Table 9.

Table 9 – Potential benefits and costs of structural separation (Option 2C)

Potential benefits	Potential costs
Increased confidence in audit quality.	Potential to reduce audit quality, if it reduces access to non-audit staff and the international network on audits.

67 2024 PJC Inquiry Final Report, Recommendation 9.

68 This option recognises there may need to be certain exceptions, particularly where the provision of non-audit services is required in the context of an audit.

Potential benefits	Potential costs
Determining compliance with existing conflict of interest requirements will no longer need to take into account the independence concerns that can arise from multidisciplinary firms.	Structural separation removes opportunities for synergies and collaboration between audit and non-audit functions, potentially impacting overall firm efficiency and capability.
Potential for greater competition. Audit practices previously attached to multidisciplinary firms would have access to a wider range of potential clients by no longer having conflicts of interest related to those services.	There are likely to be implementation challenges, including significant complexity in implementing structural separation. Significant transitional costs would be passed on to clients and consumers.
	Audit-only firms may become more financially dependent on a smaller number of large audit clients.

Option 2D: Broader reform

Firms may have conflicts of interest across different client engagements. Client information received in one context may be subsequently used in another. This is a particular risk when advising government on the design of policy and programs. The Government has implemented significant reforms to procurement and conflict management frameworks to manage risks to the Commonwealth arising from conflicts.

However, there may be other reforms to address broader conflicts of interest associated with the operation of large multidisciplinary firms. In addition to the other options in this paper relating to managing firms' audit functions and conflicts of interest, Treasury is interested in options to reduce or manage the actual or perceived conflicts for large multidisciplinary firms that both advise government on policy and program design (as part of procured services and/or through industry consultation) and advise non-government clients on navigating those same policies or accessing funding through those programs.

3. Internal governance of audit partnerships

Governance plays a critical role in supporting the quality and independence of audit services. Governance arrangements influence how audit firms manage conflicts of interest, enforce quality standards, respond to risks, and uphold ethical obligations.

Feedback in response to Treasury's Issues Paper highlighted concerns about whether current governance arrangements in large multidisciplinary firms are sufficient to safeguard the integrity of audit services, particularly where conduct in non-audit parts of the firm may influence audit outcomes.

Partnerships determine their own governance arrangements

In a traditional partnership structure, accountability is shared amongst partners, who are jointly exposed to the liabilities, assets, and risks of the partnership's operations. As a result, partners are expected to hold each other to account. Recent events suggest that this may not be happening as desired.

Partnerships currently determine their own governance arrangements. Larger partnerships typically operate under governance structures which aim to facilitate effective decision-making and oversight of the firm, including:

- a 'management' team (such as a CEO and CFO) accountable for the operational management of the partnership
- a 'board' of partners, to represent the broader partnership's interests, and to whom the management team are contractually accountable
- contractually defined rights, responsibilities, and liabilities that apply differentially to partners (for example, specific rights to remuneration and penalties for fines incurred).

Based on information provided to Treasury by state and territory governments, the formation, operation, or winding up of general partnerships is not subject to active oversight.

The size of an association or partnership can impact its arrangements. The Corporations Act established a general partnership limit of 20 members. The *Corporations Regulations 2001* specify higher limits for certain types of partnerships (see Table 10 below). Accounting partnerships are permitted to have up to 1,000 partners.

Table 10 – Membership limits for specific types of partnerships or associations

Kind of partnership or association	Membership limit
Actuaries, medical practitioners, patent attorneys, sharebrokers, stockbrokers or trademark attorneys	50
A partnership or association, the primary purpose of which is collaborative scientific research, and which includes as members at least one university and one private sector participant	50
Architects, pharmaceutical chemists or veterinary surgeons	100
Legal practitioners	400
Accountants	1,000

The justification for the increased maximum number of 'accounting' partners appears to be limited.

The policy underpinning the partnership limit in the Corporations Act may, in part, recognise the risks to the public that large partnership structures can present once a partnership goes beyond a particular

size. It may reflect a judgement on the prospects of members of a partnership being able to hold each other to account. Arguably, the larger and more diverse a partnership, the greater the risk of governance failures, as governance decisions become harder due to complexity and challenges of communication and agreement.

In addition, the boundaries of the partnership limit are not clear. For example, the regulation prescribing a higher number of partners for selected partnerships does not define terms such as 'accountant' and 'legal practitioner'. As a result, some large accounting partnerships may include partners that may not be considered 'accountants' in a traditional sense.

When including non-equity partners, some firms have reported having over 1,000 partners in recent years. Additionally, it is possible to add more partners by structuring a partnership with entities that have a separate legal status, such as limited partnerships.

Stakeholder views

Governance

Selected representatives of the audit sector suggested that there are adequate incentives for accounting, auditing, and consulting partnerships to design and implement governance systems appropriate for their practice.[69] These submissions contend that partnerships which do not implement appropriate governance systems will be unsuccessful over time, and the risk created from 'joint and several liability' creates strong incentives for appropriate governance structures.

CPA Australia indicated that Professional Standards Schemes plays a governance role, as it obliges each PAB to 'report on quality review programs, professional conduct regimes, root cause analysis and risk mitigation support for their members participating in the scheme'.[70]

The PABs suggested that the existing regulatory framework regarding governance is complex and includes overlapping obligations.[71]

Certain stakeholders were of the view that confidence in the quality and independence of audit services is key to the effective functioning of capital markets, and that sound governance facilitates trust in the quality of a firm's output.[72]

There is broader public sentiment indicating low confidence in self-prescribed governance arrangements being sufficient to safeguard the public interest and the interests of non-owner stakeholders of audit firms. A number of submissions argued for the imposition of minimum standards of governance and greater consistency across audit firms.[73]

The Institute of Public Accountants' (IPA) position is that 'large unincorporated professional firms should be subject to clearer and more comprehensive governance standards, such as those that apply with respect to ASX listed companies'.[74]

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69 Submission to Treasury's Issues paper: Deloitte, p 2; EY, p 2; Forvis Mazars, p 9.

70 Submission to Treasury's Issues Paper: CPA Australia, p 4. CPA Australia also indicated that Professional Standards Schemes, which cap liability, do not diminish partners' fiduciary obligations to one another.

71 Submissions to Treasury's Issues Paper: CPA Australia, p 4; CA ANZ, pp 23-24; IPA, pp 11-12.

72 Submissions to Treasury's Issues Paper: Deloitte p 3; Governance Institute of Australia, p 6.

73 Submissions to Treasury's Issues Paper: EY, p 2; KPMG, p 3; PwC, p 3; Deloitte, p 3; APESB, pp 3-5; CA ANZ, p 7; Governance Institute of Australia, p 2.

74 Submission to Treasury's Issues Paper: IPA, p 5.

A number of stakeholders, including representative bodies for the accounting profession and business, supported a strong, well-resourced regulator to oversee governance arrangements of large accounting firms, in line with powers to regulate company governance arrangements.[75]

Partnership limits

Representatives of mid-tier or mid-size accounting firms raised some differing views on the potential to reduce the partnership limit, including whether any reduction would allow firms to remain of sufficient size to provide audit services to Australia's largest reporting entities.[76] The Tax Justice Network suggested that 'partnership limits should be set so that the partners can hold each other to account for governance and ethical conduct'.[77]

Some stakeholders did not favour amending partnership limits,[78] and considered concerns about governance issues may be better addressed through alternative means,[79] such as increased transparency.[80] The largest accounting, auditing, and consulting firms did not consider there was a need to reduce the partnership limit, with some arguing that the number of partners does not impact a firm's ability to maintain good governance.[81]

What are the options to support increased governance of audit firms?

There is a strong case for reforms that incentivise improved governance standards.

Option 3A: Impose new governance requirements on large audit firms

This option would create minimum governance structures for large audit firms, such as:

- a board for decision-making, strategic direction, and oversight
- a minimum number of independent board members to strengthen board independence
- new, specific tailored duties (akin to directors' duties under the Corporations Act) imposed on key personnel.

By adopting some of the minimum governance and accountability requirements that apply to corporations, this option would reduce the risks to the public associated with large partnership structures determining their own governance arrangements, and is consistent with fostering high standards of audit quality. This option targets key personnel (that is, the 'board' and 'management') within a firm, and ASIC would have enforcement powers if key personnel fail to comply with their duties.

Some of the potential benefits and costs of this approach are set out in Table 11.

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75 Submissions to Treasury's Issues Paper: Business Council of Australia, p 10; CA ANZ, pp 9-10; Professor Peter Carey and Professor George Tanewski, p 4.
76 Submissions to Treasury's Issues Paper: Forvis Mazars, p 9; Moore Australia, p 2; WLF Accounting & Advisory, p 5.
77 Submission to Treasury's Issues Paper: Tax Justice Network, p 1.
78 Submissions to Treasury's Issues Paper: Business Council of Australia, p 3; Pitcher Partners, p 2.
79 Submission to Treasury's Issues Paper: CPA Australia, p 5.
80 Submission to Treasury's Issues Paper: IPA, p 4.
81 Submissions to Treasury's Issues Paper: Deloitte, p 4; EY, p 9; KPMG, pp 3-4; PwC, p 11.

Table 11 – Potential benefits and costs of new governance requirements (Option 3A)

Potential benefits	Potential costs
This option would apply transparent, consistent, and enforceable duties on key personnel of large audit firms.	Imposing these corporate style obligations on partnerships may conflict with the nature of what a partnership is at law.
Creating consistent structures and identifying key personnel would help improve accountability for decision-making.	There may be regulatory and law design challenges in creating requirements that could accommodate a broad range of firms with or without non-audit members.
	The existence of a board and independent board members does not guarantee improved governance.

Option 3B: Reduce the partnership limit for accounting firms and require a percentage of partners to be registered to deliver regulated services

This option would reduce the maximum number of partners (currently 1,000) that can comprise an accounting partnership.

The maximum number of partners would be set at a level in which the partners of a firm are expected to be able to jointly manage the firm's affairs, in compliance with their legal obligations. Guidance and methodology for developing this determination would be required. As a guide, legal partnerships are limited to 400 partners. Legal practitioners are also subject to other conduct requirements. The final report of the 2024 PJC Inquiry made recommendations to address these considerations.[82]

Under this option, partners of accounting partnerships would be limited to natural persons and the definition of 'accounting partnership' would be clarified. A percentage of partners would be required to be registered (as, for example, tax agents, RCAs, and insolvency practitioners) to deliver the relevant regulated services. Each of these partners would be subject to code of conduct requirements (including ongoing ethical obligations and 'fit and proper person' requirements) to maintain their relevant registration.[83] Having a minimum percentage of partners personally exposed to deregistration and civil and criminal penalties is likely to incentivise these practitioners, and the firms in which they practise, to operate in accordance with ethical standards. Requiring a percentage of partners to be registered would also more closely align the registration requirements of AACs with audit partnerships.

Some of the potential benefits and costs of this approach are set out in Table 12 below.

Table 12 – Potential benefits and costs of reduced partnership limits (Option 3B)

Potential benefits	Potential costs
Increases the likelihood that self-prescribed governance arrangements are robust by increasing the number of partners that are required to comply with code of conduct requirements.	Firms may face costs without providing any minimum governance standards by itself.
Reduces the risk and impact of governance failures, as smaller partnerships are inherently less complex, and the scale of reputational damage or failure would be less significant to the wider economy.	Stakeholder feedback suggests that larger firms can offer the necessary depth of expertise for auditing large and complex entities. Careful consideration would need to be given to ensure that a reduced partnership limit would allow firms to maintain capacity to audit large and complex entities.
Removes legislative inconsistency, as the justification is unclear as to why the accounting partnership limit is currently higher than that of other sectors.	The largest partnerships would need to restructure, which would result in transitional costs that may be passed on to clients and consumers.

82 2024 PJC Inquiry Final Report, Recommendation 3.
83 This would bring the requirements closer to the registration requirements of an AAC.

This option only targets the limit relating to accounting partnerships. Any broader review into the regulation of partnerships, including the complexities of overlapping jurisdictional issues and partnership limits more broadly, would require close co-operation with and by the states and territories.

Option 3C: Require reporting entities to obtain audit services only from an authorised audit company

This option would require reporting entities to obtain audit services only from AACs, precluding the provision of audit services to these entities by any other entity, including RCAs or partnerships, and resulting in the existing regulations for AACs applying to all audit firms servicing these clients.

Requiring audit services to be delivered out of AACs may resolve a number of concerns around these services being delivered out of partnerships, such as a lack of independence, governance, or enforceable standards. Registration requirements on AACs relating to auditor ownership and control of the company are likely to result in audit being the primary focus of AACs. The company structure allows for clearer lines of authority, and directors would also be subject to directors' duties. ASIC would also be able to hold the company accountable for decisions made at the firm level or by the lead auditor through the existing imposition of requirements on AACs. This option would facilitate a unified regulatory regime, without the need to develop bespoke laws for different entity types.

This option would still allow a multidisciplinary firm to offer audit services from an AAC within its broader business structure, similar to the way in which legal services are offered by some of the largest firms.[84] The final report of the 2024 PJC Inquiry made a recommendation aligning with this option.[85]

Some of the potential benefits and costs of this approach are set out in Table 13.

Table 13 – Potential benefits and costs of requiring audit services to be provided by an authorised audit company (Option 3C)

Potential benefits	Potential costs
Harmonises audit regulation and facilitates consistent application of regulations by subjecting all audit firms to equivalent regulatory scrutiny and requiring compliance with relevant standards.	This option may not be suitable for smaller audit partnerships, where partners are capable of holding each other to account, and where there is benefit from participation of owners in management and firm oversight.
Larger accounting partnerships already adopt several management processes akin to corporations to deal with the practicalities of their broad ownership. Adopting a formal corporate structure is consistent with these existing practices and would enhance the integrity of their approach to dealing with the separation of ownership and management.	A corporate model has limited liability, which is not the case for general partnerships, and may increase the risk tolerance of audit firms.[86]
AACs may be a separate auditing legal entity, which would partially address risks to auditor independence and conflicts of interest in a multidisciplinary firm, as an AAC would require separate governance processes and separate accounts.	Moving audit services into a separate entity would attract transitional costs for audit firms, a portion of which may be passed on to clients and consumers.

84 Note, however, that this may require amendments to the shareholding requirements for registration as an AAC under the Corporations Act, s 1299B.
85 2024 PJC Inquiry Final Report, Recommendation 19.
86 In practice, general partnerships (whilst not benefitting from limited liability) may benefit from a cap on liability due to the operation of Professional Standards Schemes.

Potential benefits	Potential costs
Enhanced accountability for decision-makers of the company (for example, directors), including through the application of directors' duties, which are enforceable by ASIC. In contrast, the fiduciary duties of a partner to a partnership can only be enforced by other partners. Additional obligations on directors of AACs could also be imposed to enhance management focus on audit quality.	If an audit partnership is of sufficient size to meet the thresholds of a large proprietary company, restructuring to an AAC would require it to comply with additional reporting requirements, potentially adding to regulatory burden.
Enables better targeting of penalties relating to the provision of audit services to identified responsible persons.	Audit firms may need to increase available capital within the corporation due to the move to limited liability.
Applying the existing criminal penalty regime would allow higher penalties to be imposed where audit services contravene requirements.	

4. Improving audit surveillance

ASIC is the primary regulator responsible for financial reporting and auditing, including requirements relating to audit conduct and auditor independence. ASIC's role reflects its central position within the regulatory framework and includes:

- encouraging compliance by providing guidance to inform market participants of their obligations and ASIC's approach to regulation
- providing relief from regulatory obligations in appropriate circumstances
- registering RCAs and AACs
- conducting auditor oversight through surveillance and investigations to ensure compliance with legislative requirements
- responding to instances of non-compliance by taking enforcement action, as appropriate.

ASIC's role within the broader financial regulatory system, including its oversight of financial reporting, markets, and corporate conduct, means it is best placed to undertake audit surveillance activities. This integrated role enables ASIC to draw on insights from across its regulatory functions to identify risks and target audit oversight effectively.

Option 1A (audit firm licence and ongoing conditions) would further strengthen ASIC's role by extending its oversight from the individual auditor level to the firm level. This would enable ASIC to more directly monitor and enforce compliance with firm-wide systems and practices that influence audit quality, including quality management, resourcing, and independence controls.

ASIC's audit oversight activities therefore play a critical role in shaping behaviour across the audit profession. Effective surveillance and enforcement support higher standards of audit quality and independence, and in turn promote confidence in financial reporting and the integrity of Australia's financial markets.

ASIC's risk-based audit surveillance approach

Audit file selection

ASIC is an independent regulator with discretion to determine its approach to audit surveillance.

In 2022–23, ASIC integrated its financial reporting surveillance and audit surveillance programs. Under the integrated program, ASIC reviewed audit files primarily where it had detected a potential deficiency in the underlying financial report.[87]

- An audit file review involves the review of specific sections of an audit file, usually financial statement line items that are selected on a risk basis, to assess the substance of the audit work performed and whether the auditor obtained sufficient and appropriate evidence to support their conclusions.[88]

ASIC has noted that its integrated approach has the potential to more effectively detect poor quality audits by leveraging its intelligence and the link between financial reporting quality and audit quality. Such risk-based sampling supports the outcome of identifying non-compliance, but is unlikely to provide generalisable data on audit quality and compliance with other obligations more broadly.

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87 ASIC (2023), 'ASIC releases first integrated financial reporting and audit surveillance report for 12 months to 30 June 2023'.

88 ASIC (2023), 'ASIC financial reporting and audit surveillances (information sheet – 224)'.

On 19 May 2025, ASIC announced that it would change its approach by reviewing an increased number of audit files in 2025–26, including through random selection.[89] This was later confirmed to be 25 audit files (up from 15 in 2024–25). On 18 May 2026, in setting out its focus areas for 2026–27, ASIC advised that it would again review 25 audit files, selected on both a random and risk basis.[90] Continuing this approach has the potential to improve sector-level data on audit quality.

Transparency of findings

ASIC's approach to selecting audit files means that multiple files are reviewed at all six of the largest audit firms in each financial year. Prior to 2022–23, ASIC published annual audit quality 'report cards' detailing inspection outcomes for those firms. In 2022–23, it replaced these with a single de-identified report covering all firms, removing firm-level attribution of inspection results. In 2024–25, ASIC identified the firms reviewed during the period, but did not attribute specific findings to them. Report cards can be a useful transparency mechanism. However, to meaningfully rely on the report cards, the underlying inspection data should be comparable across firms and drawn from a reasonable sample.

International approach to surveillance

Audit regulators in comparable jurisdictions typically have legislatively prescribed intervals for the surveillance of audit firms, with the largest firms subject to annual inspection and smaller firms subject to periodic, less frequent inspection (see Box 2). Within these prescribed requirements, audit regulators typically adopt risk-based and random methods to inspect the audit files of these firms.

Box 2 – International comparison of auditor inspection activity

US: The PCAOB inspects firms that audit 100 or more issuers annually, and firms that audit up to 100 issuers triennially, under legislation. The PCAOB can amend this through its rules.

UK: The Financial Reporting Council (UK FRC) is required under legislation to inspect a statutory auditor at least once every six years. In practice, it inspects larger auditors of PIEs more frequently – annually for the seven largest auditors of significant entities (PIEs and 'major local audits'), and generally triennially for firms that audit more than 10 PIEs. The remaining firms are inspected, in line with the legislation, once every six years.

Canada: The Canadian Public Accountability Board inspects firms that audit 100 or more reporting issuers annually, firms that audit 50 to 99 reporting issuers biennially, and firms that audit fewer than 50 reporting issuers triennially, pursuant to its rules.

New Zealand: The NZ FMA is required to conduct a quality review of each registered audit firm and licensed auditor at least once every four years under legislation. In practice, the NZ FMA conducts audit quality reviews more often. From the 2023–24 review cycle, it increased to an annual cadence for most audit firms (with some smaller firms subject to biennial reviews).

ASIC has a broad remit and its resourcing decisions are subject to trade offs

ASIC's resourcing decisions for its regulatory functions are made in the context of its broad mandate.[91]

89 ASIC (2025), 'ASIC announces financial reporting and audit focus areas for FY 2025–26'.
90 ASIC (2026), 'ASIC sets financial reporting, audit and sustainability focus areas for FY 2026–27'.
91 ASIC's regulatory costs are funded through an annual appropriation from the Commonwealth, which it allocates across its functions, consistent with its objectives. These costs are recovered from its regulated population through industry funding levies (charged to 52 subsectors) and fees for service.

As such, ASIC's enforcement activities and priorities, which include acting in relation to auditor misconduct, shift in response to its assessment of market conditions, emerging risks, and other factors to ensure it remains able to achieve its overall objectives.

ASIC is well positioned to leverage the benefits of its broad remit, including intelligence from related compliance activities (particularly in financial reporting) to target high-risk audits more efficiently.

For example, in 2024–25, in addition to reviewing company[92] and registrable superannuation entity (RSE) audit files,[93] ASIC undertook a thematic surveillance of auditor compliance with independence and conflict of interest obligations, and later published a report on its findings from this surveillance.[94]

However, ASIC's finite resourcing means that its audit surveillance program is balanced with the needs of competing regulatory priorities.

While the number of audit files reviewed has declined over time (see Table 14 below), ASIC increased this to 25 files from 2025–26 and will continue to maintain this level of surveillance.

Table 14 – Number of audit inspections performed by ASIC

	2015–16*	2017–18*	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25
Files	93	98	58	53	45	45	15	15	15
Firms	23	20	19	13	16	14	11	11	8

Source: ASIC data.
Note: years marked with an asterisk ('*') relate to an 18-month reporting period; all other years covered a 12-month period.

It is difficult to establish what the optimal level of audit surveillance is, and the optimal level is likely to vary depending on changes in compliance and audit quality.

The Financial Reporting Council (FRC) previously noted that it considers the number of audit files reviewed by ASIC to be small, given there are over 3,000 RCAs (over 500 of whom are audit-listed entities) and 200 AACs (of which 50 are audit-listed companies).[95]

With the current level of audit file reviews and non-periodic coverage, certain audit firms and auditors may be subject to less frequent scrutiny.

The role of advice and reporting on audit quality issues

In addition to ASIC's role in audit surveillance and enforcement, the FRC currently has responsibility for strategic policy advice and reporting in relation to audit quality. This function involves providing advice and reports to the Minister and PABs on both the role of PABs and broader issues affecting audit quality (see Table 15).

While the FRC performs an advisory and reporting function, ASIC's frontline responsibility for ensuring compliance with financial reporting and audit obligations places it at the centre of Australia's audit regulatory framework.

In practice, ASIC's surveillance and enforcement activities provide the primary source of insights into audit quality, which underpin broader policy advice and reporting.

92 ASIC (2025), REP 819 ASIC's oversight of financial reporting and audit 2024–25 | ASIC.
93 ASIC (2025), REP 816 Accounting for your super: ASIC's review into the financial reporting and audit of super funds | ASIC.
94 ASIC (2025), REP 817 Building trust: Auditors' compliance with independence and conflict of interest obligations | ASIC.
95 FRC (2023), 'Oversight of Audit Quality in Australia', p 21.

ASIC also has a function of providing advice and recommendations to government in relation to issues arising with the legislation it administers, including the financial reporting and audit provisions in the Corporations Act.[96]

Table 15 – Specific matters the FRC is tasked with reporting on regarding audit quality

Advice in relation to the role of the PABs affecting audit quality	Advice in relation to other aspects of audit quality
The investigations and disciplinary procedures of the PABs applicable to auditors.	The internal systems used by auditors to comply with their audit obligations.
The PABs' planning and performance of quality assurance reviews of audit work and the actions taken by the PABs and auditors in response to those reviews.	The adequacy of the Corporations Act audit provisions, the auditing standards, and applicable codes of professional conduct in light of international developments.
The teaching of professional and business ethics by, or on behalf of, the PABs.	

Stakeholder views

Stakeholders indicated that ASIC's audit surveillance is a valued regulatory activity, with stakeholders (including audit committees) benefitting from the publication of audit surveillance findings and supplementary measures of audit quality.[97]

The Governance Institute of Australia noted that '[c]ompanies used ASIC's reports to review their auditor's practices in the areas identified', and that some of its members reported that 'where a company had engaged an auditor identified in an ASIC report, the audit committee would engage with the relevant firm to understand the issues raised and the actions taken by the firm to address ASIC's finding'.[98]

Stakeholders were generally supportive of increased activity in audit surveillance, including reviewing more files and the adoption of periodic oversight.[99] Stakeholders supported increased transparency over audit surveillance, including publication of findings and grading firms against quality benchmarks.[100]

To promote regular, transparent oversight of auditors, the FRC has recommended that ASIC adopt an overall objective to review all auditors over a given period, selecting audit files based on a risk and rotational basis.[101]

The FRC, along with the Parliamentary Joint Committee on Corporations and Financial Services in its 2019 inquiry into the regulation of auditing in Australia (2019 PJC Inquiry), recommended the publication of more detailed audit inspection results, including the identification of individual firms.[102] The 2019 PJC Inquiry also commented that 'ASIC should continually review its methodology with the aim of producing reports of greater sophistication and clarity', and have 'due regard to the need for greater nuance'.[103]

96 See ASIC Act, s11(2)(b) and (3).
97 Submissions to Treasury's Issues Paper: CA ANZ, p 19; Governance Institute of Australia, p 9; Business Council of Australia, p 11.
98 Submission to Treasury's Issues Paper: Governance Institute of Australia, p 9.
99 Submissions to Treasury's Issues Paper: AICD, p 6; Business Council of Australia, pp 11-12; PKF Australia, p 2; APESB, p 9.
100 Submissions to Treasury's Issues Paper: PKF Australia, p 2; KPMG, p 27; Moore Australia, p 4.
101 FRC (2023), 'Oversight of Audit Quality in Australia', p 6.
102 FRC (2019), 'Review of Auditor Disciplinary Processes', p 7; 2019 PJC Inquiry Interim Report, p 52.
103 2019 PJC Inquiry Interim Report, p 51.

Some stakeholders suggested that establishing a new, dedicated audit regulator would be consistent with overseas practice.[104] The Business Council of Australia stated that '[t]here may be merit in consolidating bodies around auditor registration, oversight and enforcement under a single body', and that '[t]he [US'] Public Company Accounting Oversight Board adopts a similar approach, and is a well resourced, active and capable regulator'.[105]

Stakeholders raised concerns about ASIC's resourcing and supported an increase in its resources for audit regulation.[106]

What are the options to strengthen audit surveillance?

There is scope for ASIC's audit surveillance program to more effectively incentivise audit quality. Observations regarding the low number of audit file reviews by ASIC are typically made with reference to the total population of RCAs and AACs, as well as practices in comparable jurisdictions.

Consideration could be given to whether elements of the practices of international regulators, such as prescribed minimum surveillance and transparency, may be appropriate for the Australian context, including whether ASIC could commit to implementing such approaches. ASIC's independence to direct its resources to respond to priority areas is a key institutional feature. At the same time, it may be appropriate for audit to be subject to more regular oversight and coverage to promote confidence and transparency in the sector.

The strengthened mechanisms for improving audit quality proposed in this paper reflect a shift away from reliance on the work of the PABs and other self-regulatory aspects of the current arrangements. ASIC is best placed to continue to assess the internal systems of auditors and firms, and has access to broad compulsory powers and an investigative remit to assess and report on firm-level systems. A number of options proposed in this paper enhance ASIC's capacity to conduct this work.

Option 4: Mandate the frequency of audit reviews, increase the level of surveillance, and publish findings

This option would mandate a minimum level of surveillance activity by ASIC. This could be done in a number of ways, borrowing from different approaches adopted internationally.

A key feature in many foreign jurisdictions is to set review frequency based on the size of an audit firm. This would focus scrutiny on the audit firms that are likely to have a more material impact on the quality of audits across the economy.

Mandates could require audit files to be selected on both a randomised and risk basis, which is consistent with the risk-based targeting and random selection currently adopted by ASIC. This approach would aim to ensure that all audit firms engaged in significant audit activity would be subject to scrutiny on a rolling basis. It would also improve the regulator's visibility of individual audit firms and the audit sector more broadly.

Another important feature internationally is mandating the publication of audit surveillance findings, including those identified at the firm level. This aims to increase the transparency of ASIC's activities, as well as to provide better information to audit clients on the quality of audit firms' work, assisting

104 Submissions to Treasury's Issues Paper: Professor Peter Carey and Professor George Tanewski, p 4; Business Council of Australia, p 10.

105 Submission to Treasury's Issues Paper: Business Council of Australia, p 10.

106 Submissions to Treasury's Issues Paper: Forvis Mazars, p 13; Australian Small Business and Family Enterprise Ombudsman, p 2; IPA, p 10; Business Council of Australia, pp 11-12; Deloitte, p 12; CA ANZ, pp 12-13.

with firm selection and potentially improving competition. The final report of the 2024 PJC Inquiry made recommendations to address these considerations.[107]

Publishing firm-level findings is consistent with ASIC's prior practice for large firms (audit quality report cards), and its existing power to publish 'audit deficiency reports' for any firm.[108] Under Option 1A, ASIC will have a mandate to review the quality management systems of firms that are licensed by ASIC. This includes all of the components set out in Table 2, which licenced firms will be required to implement under ASQM 1.

Some of the potential benefits and costs of this approach are set out in Table 16 below.

Table 16 – Potential benefits and costs of improved surveillance (Option 4)

Potential benefits	Potential costs
This option ensures a minimum level of scrutiny of audit firms, targeting the largest auditors.	This option may require additional resourcing to equip ASIC with the staff and regulatory tools to expand its approach and increase its level of surveillance. Under ASIC's industry funding model, additional resourcing focused on audit would either be borne by increased costs to industry and/or result in reduced resourcing for other functions within ASIC's remit.
A randomised approach provides ASIC with greater understanding of the audit sector and whether audit quality is being maintained. It also acts as an incentive for audit firms to comply with requirements.	
Publication requirements would support decision-making of reporting entities when selecting their auditor by increasing the availability of relevant information on the quality of an audit firm's work, and providing further incentive for audit firms to improve their audit quality.	

107 2024 PJC Inquiry Final Report, Recommendations 11 and 12.
108 Audit deficiency reports are dealt with under the ASIC Act (section 50C).

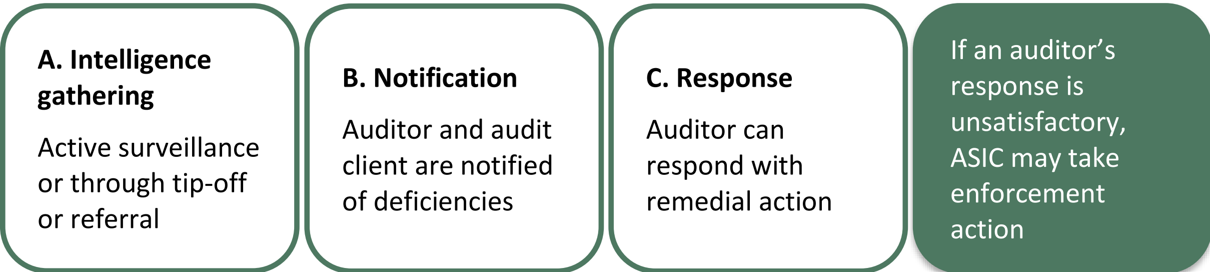
5. Enhancing disciplinary processes and sanctions

Regulatory frameworks are effective at incentivising compliance when underpinned by robust and credible enforcement action. This requires timely enforcement actions that are proportionate to the severity of the contravention of the law.

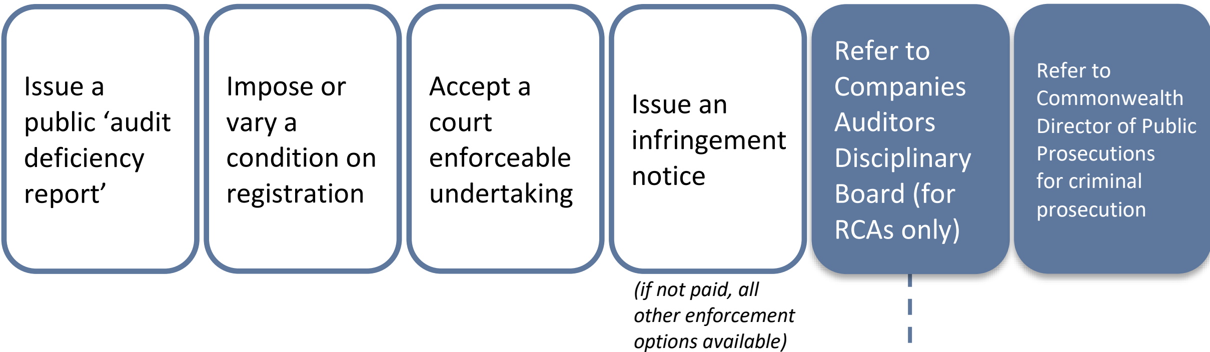
The diagram below illustrates the typical audit enforcement process and pathways available to ASIC.[109]

Auditor disciplinary process

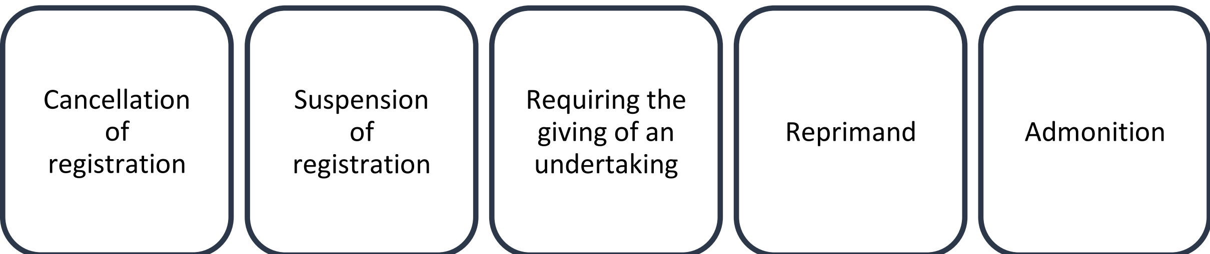
1. ASIC surveillance



2. ASIC enforcement action



3. If referred, CADB can make findings in relation to an RCA



109 This diagram is not exhaustive. ASIC possesses other powers, including the ability to commence civil proceedings in the name of a person under the ASIC Act, s 50.

The current penalty framework is limited

Criminal penalties (or issuing infringement notices) are currently the only means for ASIC to seek pecuniary regulatory penalties for breaches of auditor requirements.

Where an audit partnership is appointed auditor, only the lead auditor is liable for criminal penalties for contravention of auditor requirements. Under the current regime, these lead auditors are subject to lower pecuniary penalties than AACs for the same contraventions. This means that the same misconduct (for example, a breach of audit standards) may be penalised to different degrees based on a firm's structure, potentially creating incentives for auditors to adopt non-corporate structures.

Unlike other regulated services,[110] ASIC does not have the power to commence civil penalty proceedings for contraventions of auditor requirements.

- A civil penalty is typically a pecuniary penalty imposed by the court in civil proceedings (as distinct from a fine in criminal proceedings), and must be proven on the balance of probabilities (rather than beyond a reasonable doubt).

The contravention of audit requirements may not consistently warrant criminal offences, such as for conduct that is regulatory in nature (for example, lodging a document within the required timeframe).

Deterrence may be achieved more effectively through civil penalties with higher pecuniary imposts.

Pecuniary penalties for contraventions of auditor requirements are low

The availability and application of proportionate penalties play a key role in encouraging compliance and deterring misconduct. Under current law, the largest criminal penalty applicable to an RCA is for the fault-based failure to conduct an audit in accordance with auditing standards, at a maximum of two years' imprisonment and/or a fine of $87,360.[111] The same offence committed by an AAC carries a maximum penalty of $873,600 (calculated as the fine for an individual multiplied by ten).[112]

The possibility of imprisonment clearly provides a significant deterrent for an individual, but should only be reserved for the most severe misconduct. Consistent with this, most criminal offences for audit provisions do not include a term of imprisonment, and instead rely on a criminal fine. In the largest auditing, accounting, and consulting firms, the current maximum pecuniary penalties (in the form of criminal fines) may be inadequate to provide a sufficient deterrent for lead auditors, or to influence the firm-level systems they rely on.

The maximum amount of audit-related pecuniary penalties are low both by international standards and relative to other Corporations Act penalties. As noted above, ASIC cannot pursue civil penalties for breaches of auditor requirements, which can have large pecuniary values. For example, a company director may be subject to a maximum civil penalty of the greater of $1,820,000 (5,000 penalty units) or three times the value of the benefit obtained and detriment avoided[113] for the improper use of their position to gain an advantage or cause detriment (see Table 17 for a comparison of selected domestic penalties).

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110 Including those provided by tax agents and Australian financial services licensees.

111 Note: in this options paper, the pecuniary values of penalties are calculated using the value of a Commonwealth penalty unit for acts committed on or after 1 July 2026 (that is, $364), following indexation on that date. The previous amount (applicable between 7 November 2024 and 30 June 2026) was $330.

112 Corporations Act, s 1311C(1b) – (2).

113 Corporations Act, s 1317G(3).

Internationally, the UK FRC and the PCAOB in the US have issued fines on audit firms of over $20 million for breaches of auditing standards and breaches of quality control standards respectively.[114]

Table 17 – Comparison of penalties for breaches of different Commonwealth laws[115]

Contravening directors' duties			Contravening AFSL obligations		Contravening auditing obligations (on RCAs)	
Director / officer duty	Civil penalty	Criminal penalty	Obligation	Civil penalty	Obligation	Criminal penalty
Act in good faith in the best interests of the corporation and for a proper purpose	The greater of $1,820,000, or three times the value of the benefit obtained and detriment avoided[116]	15 years imprisonment, and/or a fine the greater of $1,638,000 or three times the value of the benefit obtained and detriment avoided because of the offence[117]	*Do all things necessary to ensure that the financial services covered by the licence are provided efficiently, honestly, and fairly*	The greatest of $18,200,000, three times the value of the benefit obtained and detriment avoided because of the contravention, or 10 per cent of the licensee's annual turnover (capped at $910 million)[118]	*Conducting an audit in accordance with the auditing standards*	2 years imprisonment and/or $87,360[119]
Improper use of position to gain advantage or cause detriment	The greater of $1,820,000, or three times the value of the benefit obtained and detriment avoided[120]	15 years imprisonment, and/or a fine the greater of $1,638,000 or three times the value of the benefit obtained and detriment avoided because of the offence[121]			*Reporting a potential contravention to ASIC*	1 year of imprisonment and/or $43,680 against an individual or lead auditor[122]

Although auditing firms cannot limit liability for civil penalties arising from proceedings brought by ASIC, partners can cap occupational liability for certain civil claims arising from the performance of professional services through Professional Standards Schemes established under state and territory professional standards legislation (except in cases involving a breach of trust, fraud, or dishonesty). These schemes do not affect the application of regulatory penalties under Commonwealth law.[123]

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114 UK FRC (2023), 'Sanctions against KPMG LLP, KPMG Audit plc and two former partners'; PCAOB (2024), 'PCAOB Imposes Record $25 Million Fine on KPMG Netherlands and Bars a Firm Leader After Exam Cheating, Misinforming Investigators'.
115 Consistent with footnote 111, the values in this table assume a penalty unit value of $364.
116 Corporations Act, s 181(1).
117 Corporations Act, s 184(1).
118 Corporations Act, s 912A(1)(a). See also Corporations Act, s 912A(5A) and Corporations Act, s 1317G(4).
119 Corporations Act, s 307A(2). See also Corporations Act, s 1311B(1b) – (3).
120 Corporations Act, s 182(1).
121 Corporations Act, s 184(2).
122 Corporations Act, s 311. See also Corporations Act, s 1311B(1b) – (3).
123 For additional comments on Professional Standards Schemes, see Submission to Treasury's Issues Paper: CA ANZ, p 10.

Accounting and auditing bodies primarily operate under Professional Standards Schemes administered by the PABs, which limit partners' liability depending on the type of service provided and the engagement fee.[124] For example, under CA ANZ and CPA Australia's schemes, a maximum liability cap of $75 million applies in relation to the provision of audit services and $20 million in relation to general services (including consulting and tax advisory services). Members of PABs' Professional Standards Schemes must also hold professional indemnity insurance for damages of up to $2 million.

Remediation powers

Where ASIC has identified a significant risk of a material misstatement which has not been addressed in an audit report, it is unable to formally require the correction of that audit report. ASIC must instead rely on less timely and less direct powers, namely public notification through the issuance of an 'audit deficiency report', or by taking action in respect of the individual (lead) auditor through referral to CADB and/or the Commonwealth Director of Public Prosecutions for audit offences.

The absence of remediation powers may impact ASIC's ability to prevent market harm in a timely manner. For example, ASIC must wait more than six months after it identifies a relevant breach to publish an audit deficiency report, which can only be prepared if the breach has not been appropriately remediated.[125] Other auditor disciplinary processes, such as to have an RCA sanctioned by CADB, often take further time.

CADB disciplinary capability

ASIC may apply to CADB to seek sanctions against an RCA.[126] CADB evaluates whether there has been a contravention of auditor requirements and makes orders as to sanctions and costs. Sanctions can include:[127]

- cancellation of registration
- suspension of registration
- requiring the giving of an undertaking*
- reprimand*
- admonition.*

See Appendix B for further information on CADB's disciplinary capabilities, including the matters it can hear, its process, and a high-level summary of application outcomes between 2011–12 and 2024–25.

CADB's caseload is determined by ASIC,[128] which typically makes a small number of referrals to CADB, with reference to the RCA population, as shown in Table 18.

124 See CA ANZ Professional Standards Scheme for the period 2025 – 2030.

125 An audit deficiency report may only be prepared after a six-month notification period in which the auditor can make submissions to ASIC, under the ASIC Act, s 50C. Prior to publishing an audit deficiency report, ASIC must consult with the relevant auditor on the report for a three-week period, under the ASIC Act, s 50E.

126 ASIC's power to make an application to CADB is given under s 1292 of the Corporations Act. ASIC retains the power to directly deregister an RCA where: 1) the individual requests deregistration under s 1290 of the Corporations Act; or 2) the individual does not pay the applicable industry levy under s 1291 of the Corporations Act.

127 CADB can only make orders for the sanctions marked with an asterisk (*) for contraventions under the Corporations Act, s 1292(1)(d) – failing to perform the duties/functions of an auditor or failing to be a fit and proper person and may make these orders in addition to or instead of cancellation or suspension.

128 In respect of a matter under the Corporations Act, s 1292.

Table 18 – ASIC applications to CADB 2011–12 to 2024–25

	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24	2024–25
Conduct application	0	0	2	1	0	1	1	0	0	5	1	3	0	3
Administrative application	0	1	0	0	0	0	0	0	0	36	1	1	2	0
Total RCA population	4,985	4,852	4,729	4,596	4,483	4,365	4,226	3,962	3,781	3,553	3,441	3,290	3,182	3,073

Source: CADB 2011–12 to 2024–25 annual reports; ASIC, *Licensing and professional registration activities: 2025 update*, p 20.

CADB publishes its decisions to impose sanctions, which provides sector guidance on the interpretation and application of audit requirements, and incentivises compliance.

Under the current framework, there are factors that suggest the CADB framework could be enhanced to incentivise compliance (see Table 19).

Table 19 – Factors that can reduce the effectiveness of disciplinary processes

Risk	Detail
RCAs can circumvent disciplinary processes through voluntary deregistration.	CADB's jurisdiction is limited to individuals who are currently registered as RCAs. An RCA may request deregistration at any time. Voluntary deregistration may allow an RCA to prevent formal (public) findings being made against them, including after they have been referred to CADB.
An RCA, who is under investigation, can continue to deliver audit services.	In some circumstances, there are risks associated with allowing RCAs to continue operating while under CADB consideration. CADB, however, does not have the ability to issue an interim suspension order in respect of an RCA's registration while CADB proceedings are underway.
Once deregistered, a former RCA can continue working on audit matters.	There is no banning capability or prohibition against former RCAs performing audits under the Corporations Act. As a result, an individual whose registration was cancelled (voluntarily or for cause) can continue to work on audit matters, so long as they are within an audit firm with at least one other RCA who remains registered.[129]
CADB does not have jurisdiction against AACs or audit partnerships.	Applications cannot be brought to CADB against any type of audit firm in respect of their conduct. CADB's jurisdiction is limited to imposing sanctions against a 'person' who is registered as an auditor under s 1292 of the Corporations Act.
ASIC is required to make applications to CADB on 'administrative' matters.	'Administrative' matters refer to a standard set of grounds for deregistration, such as failing to return an annual statement to ASIC, no longer being resident in Australia, or being disqualified from managing corporations (see Appendix B for a complete list).[130] Requiring referral to CADB (a specialist body) to resolve administrative matters may be unnecessary to protect procedural fairness, given the objective nature of these matters.
Some administrative, procedural and process matters can be cumbersome for CADB to administer.	There are minor legislative provisions that are reducing the efficiency of CADB's operations.[131]

129 CADB has described this outcome under the current framework as anomalous, see CADB submission to the 2019 PJC Inquiry, p 14.

130 NB: CADB distinguishes between 'administrative' and 'conduct' matters. The latter are generally more complex and require subjective deliberation, often going to the exercise of professional judgement.

131 For example, there may be difficulties with concluding a matter where a member of a CADB panel (constituted under the ASIC Act, s 210A) becomes unavailable before the completion of the proceedings. There may also be merit in clarifying CADB's role as an expert disciplinary tribunal that can rely upon its members' expertise, notwithstanding recent litigation that upheld this principle, see *Williams v CADB* [2025] FCA 629 at [62].

Risk	Detail
Applications to CADB can take time to resolve.	Despite a general obligation to conduct hearings as expeditiously as permitted,[132] matters referred to CADB take a significant amount of time to resolve. On average, from 2013 to 2025, it has taken 12 months to conclude an auditor conduct matter.[133] Long timeframes associated with CADB referrals may create an incentive for ASIC to utilise alternative disciplinary pathways, such as court enforceable undertakings.[134]

Stakeholder views

Stakeholders expressed concerns that the current penalties for misconduct are inadequate to deter future misconduct.[135] Some stakeholders criticised previous penalties imposed for breaches centred around conflicts of interest as not reflecting the severity of the violation.[136]

Forvis Mazars raised concerns relating to ASIC's level of enforcement, stating that 'the lack of regulatory enforcement since the introduction of 'force of law auditing standards' has resulted in legal and regulatory risk in audit services being inadequately priced and understood in the Australian market'.[137] Forvis Mazars argued that, despite the lack of enforcement, the potential for criminal prosecution is a substantial risk to auditors, and as a result, audit services are being underpriced (that is, auditors are not being adequately remunerated for this risk).[138]

ASIC has indicated that disciplinary processes for individual auditors can be costly and time-consuming (for example, where they are intended to lead to efficient administrative outcomes), and that criminal penalties for non-compliance with audit standards and requirements, which apply only to individual auditors or partners, are comparatively low.[139] There are also no civil penalties for violations of auditor obligations. As a result, ASIC noted that the current penalty regime may not sufficiently incentivise firm-wide compliance.[140]

What are the options to improve sanctions and penalties?

Stakeholder feedback and enforcement outcomes suggest there is a strong case for reviewing whether the current audit penalty framework is achieving its intended deterrent effect — both at the individual and firm level. The current reliance on criminal penalties for most provisions, which do not apply to audit partnerships, may limit the effectiveness of regulatory responses.

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132 ASIC Act, s 218(1)(a).

133 Based on CADB decision notices 2013 to 2025. NB: The ASIC Act, s 203, provides that CADB's membership ought to comprise six accounting members and six business members. For much of the period since 2017, CADB has only had two accounting members and two business members. The absence of a full complement of members may have impacted CADB's ability to form decision-making panels and deal with matters expeditiously. Relatedly, there may be difficulties with concluding a matter where a CADB panel member (constituted under the ASIC Act, s 210A) becomes unavailable before the completion of the proceedings.

134 ASIC may accept a court enforceable undertaking (CEU) from an RCA that they request deregistration. There are benefits to CEUs, as they may be accepted quickly, and, where contravened, ASIC may apply for penalties to be imposed. However, CEUs are less transparent than CADB decisions. While ASIC generally publishes CEUs that it accepts in an online register, these legal documents are high-level and, unlike CADB decisions, provide little guidance for the sector through technical consideration of the matters at hand.

135 Submission to Treasury's Issues Paper: WLF Accounting & Advisory, p 7; Moore Australia, p 5; CPSU, p 3.

136 Submission to Treasury's Issues Paper: Moore Australia p 5; CPSU, p 3.

137 Submission to Treasury's Issues Paper: Forvis Mazars, p 17.

138 Submission to Treasury's Issues Paper: Forvis Mazars, p 17.

139 Submission to Treasury's Issues Paper: ASIC, pp 11-12.

140 Submission to Treasury's Issues Paper: ASIC, p 8.

At the firm level, extending existing AAC penalty provisions to audit partnerships would promote consistency and ensure that misconduct can be deterred, regardless of a firm's structure.

Introducing civil penalty provisions for audit firms and individuals could also increase deterrence, due to the lower burden of proof in civil proceedings and the potential for higher maximum penalties (relative to criminal audit offences).[141]

If civil penalties were introduced, it would be important to consider how they would interact with existing criminal provisions to ensure that the most serious forms of misconduct continue to attract appropriately serious sanctions, including potential imprisonment.

In parallel, there is merit in examining the administrative and disciplinary powers available to ASIC and CADB. Strengthening the capacity of these bodies to take administrative or remedial action, in addition to court-ordered penalties, may support better regulatory outcomes over time.

Option 5A: Introduce civil penalties for contraventions of auditor requirements

This option would reform the current penalties regime by introducing civil penalties on RCAs, AACs, and audit partnerships for the contravention of audit obligations under the Corporations Act.[142] This would provide a more agile and robust sanctions and penalty framework in relation to auditing.

Consideration would be given to the maximum monetary civil and criminal penalties applicable to RCAs, AACs, and audit partnerships,[143] as well as the scope of penalties on audit partnerships. For example, whether to apply civil penalties to breaches of all auditing standards, or particular standards (such as quality management standards), and the alignment of the penalty regime on all audit firms.

In addition, a new tier of penalty for a 'significant global entity' (SGE) (that is, an entity with at least $1 billion turnover) could be introduced that draws on the approach to maximum civil penalties for SGEs under the promoter penalty regime.

Legislated penalties under the promoter penalty regime are the greater of $18,200,000; three times the value of the benefits received or receivable (directly or indirectly) by the SGE and its associates in respect of the tax exploitation scheme; or 10 per cent of aggregated turnover, capped at $910 million, consistent with the maximum pecuniary penalties under the Corporations Act.[144]

The introduction of an SGE tier would provide a credible and proportionate deterrent to the largest firms, ensure they are held accountable, and prevent partners from treating contraventions of auditor requirements as a cost of doing business.

This option would empower ASIC to impose more appropriate sanctions better suited to addressing misconduct and incentivising compliance. Consideration could be given to how a civil penalty regime would interact with existing criminal penalties. The final report of the 2024 PJC Inquiry made recommendations to address these considerations.[145]

Some of the potential benefits and costs of this approach are set out in Table 20.

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141 By contrast, in CADB proceedings, which are administrative, there is no onus of proof to be discharged, see *Williams v CADB* [2025] FCA 629 at [73].

142 If Option 1A (firm licensing) is not also proceeded with, it may be appropriate to align the penalties applicable to lead auditors and AACs to ensure that audit firm partnerships and AACs face the same penalties, regardless of their structure.

143 The maximum amounts would be increased in line with comparable regulatory regimes.

144 Corporations Act, s 1317G.

145 2024 PJC Inquiry Final Report, Recommendation 4.

Table 20 – Potential benefits and costs of introducing civil penalties (Option 5A)

Potential benefits	Potential costs
Higher (civil) penalties applying to audit firms will ensure those responsible for making decisions are held accountable.	If maximum pecuniary penalties are set too high, it may dampen willingness of auditors to offer services, increase insurance premiums, and/or increase the fees for audits.
A more appropriate civil penalty regime and associated lower burden of proof will empower ASIC to incentivise compliance.	
Current maximum penalties are lower than the costs associated with proceeding to the court for ASIC, creating disincentives for enforcement. This would be reversed.	

Option 5B: Enhance administrative powers of ASIC

This option would provide ASIC with additional administrative and remedial powers relating to auditor registration and deficient audit work.

This option would allow ASIC to investigate, suspend, and cancel the registration of RCAs for specified 'administrative' contraventions of auditor requirements, shifting responsibility for deliberation of these matters from CADB to ASIC. This could include non-lodgement of annual statements, bankruptcy or insolvency events, loss of residency requirements, failure to maintain required practical experience, disqualification from managing corporations, and other objective registration eligibility criteria.

While such matters go to important eligibility criteria for holding registration as an RCA, they can generally be established through documentary evidence and would not ordinarily require the exercise of professional judgement. Transferring responsibility for these matters to ASIC would enable more timely regulatory outcomes, allowing CADB to focus its resources on more serious conduct matters as the expert disciplinary tribunal.

Rights to procedural fairness in relation to these matters would be maintained by requiring ASIC to invite submissions from the RCA, prior to making a decision to cancel or suspend their registration. Equivalent administrative powers could also be applied to licensed audit firms if Option 1A is adopted.

This option would also strengthen ASIC's audit deficiency reporting framework and provide additional remediation powers. These could include requiring remediation of deficient audits where a material misstatement is identified, removing firms from engagements if issues remain unaddressed, and enabling more timely market disclosure. Ancillary powers may include requiring supplementary audit procedures, independent remediation reviews, and further corrective actions to address deficiencies.

Existing audit deficiency notice powers would be amended to allow immediate publishing of audit deficiency reports. These powers would be directed towards mitigating market harm and improving audit outcomes, and would operate independently of enforcement, disciplinary, or court actions.

Some of the potential benefits and costs of this approach are set out in Table 21 below.

Table 21 – Potential benefits and costs of enhancing administrative powers (Option 5B)

Potential benefits	Potential costs
This option would allow ASIC to make timely decisions regarding objective registration matters and avoid unnecessary specialist body processes for matters where facts can be established through documentary evidence. It would enable CADB to focus on conduct matters involving professional judgement and disciplinary considerations.	N/A.

Potential benefits	Potential costs
This option would provide ASIC with remediation tools to address audit deficiencies and strengthen confidence in the reliability of audited financial reports in a timely manner, before market harm escalates or to reduce its impact.	

Option 5C: Improve CADB's disciplinary capability

This option would expand CADB's role in applying sanctions to auditors who contravene auditor requirements, such as:

- increasing its scope to deal with historical contraventions
  - CADB would be able to deal with applications relating to conduct that occurred when an RCA was registered, even if they are no longer registered. This would increase the deterrent effects of CADB referrals, as it would no longer allow an RCA to avoid scrutiny (and the possibility of adverse findings and publicity) by requesting deregistration.
- extending the power to issue interim suspension orders during proceedings in circumstances where CADB holds concerns for public or market harm in respect of an RCA named in an application
- providing a new power to make banning orders preventing an individual from participating in audits, including as an employee of an audit firm under an RCA, for a determined period of time
- extending CADB's power to consider conduct related matters for audit firms (if Option 1A concerning licensing is also adopted)
- making minor administrative and machinery amendments to promote CADB's proper functioning (for example, by clarifying matters regarding the maintenance of proceedings where a CADB member becomes unavailable).

The final report of the 2024 PJC Inquiry made recommendations to address these considerations.[146]

Some of the potential benefits and costs of this approach are set out in Table 22 below.

Table 22 – Potential benefits and costs of enhancing disciplinary powers (Option 5C)

Potential benefits	Potential costs
Expanding CADB's ability to apply sanctions may support better compliance and improve regulatory outcomes.	N/A.
Authorising CADB to make banning orders resolves a gap in the current regulatory settings that allows a former RCA to continue audit work with less accountability, where they are employed by an audit firm, but not as a lead auditor.	

146 2024 PJC Inquiry Final Report, Recommendation 21.

6. Enhancing audit market dynamism for reporting entities

The market for the provision of audit services to large, listed companies is highly concentrated in Australia, with approximately 96 per cent of the top 200 entities and 76 per cent of the next 300 largest entities being audited by the top four firms in 2022.[147] This might reflect, at least in part, the economies of scale and scope that larger multidisciplinary audit firms offer.

In general, audit market concentration would be expected to reduce choice (of auditor) for directors and securityholders, weaken resilience of the audit sector, and create risks to the supply of high-quality audit services in case of adverse events (such as an audit firm collapse).[148]

Procurement practices and rotation requirements may be hindering dynamism

Audit appointment

The Corporations Act (s 327A) requires the directors of a public company to appoint an auditor within one month from when the company is registered.[149] The auditor then holds office until the company's first annual general meeting, where the appointment is confirmed by the members, or another auditor is appointed.

Generally, audit firms are appointed auditors of large companies in Australia. Rotation requirements apply only at the individual level for key auditors, including the lead auditor and engagement quality reviewer.[150] This allows the audit firm to continue as the appointed auditor indefinitely, provided that key auditors are rotated within that appointment.

Currently, reporting entities are not required to undertake mandatory tendering when engaging an audit firm, nor report information such as the tenure of their audit firms.

The average tenure of audit firms for the top 200 entities was 13.2 years in 2022 (and ranged from one year to 58 years).[151] Audit firm tenure tends to increase in less competitive market segments.[152]

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147 S Hossain and G Monroe, 'Audit Market Structure, Concentration, and Competition in Australia 2019-2022', p 3. CPA and CA ANZ financially supported this study. Note: the top 200 and next 300 entities are based on total assets.

148 UK Competition and Markets Authority (2019), 'Statutory Audit Services Market Study', pp 6, 96-97.

149 This applies unless the company had appointed an auditor at a general meeting.

150 APES 110, s 540 and the Corporations Act, ss 324DA-DD contain auditor rotation requirements. Broadly, those playing significant roles in the audit (such as lead auditors) of a listed entity, registrable superannuation entity or PIE must be rotated to new RCAs (who can be from the same audit partnership or AAC) after a number of years (after more than 5 consecutive years or more than 5 out of the last 7 successive years).

151 S Hossain and G Monroe, 'Audit Market Structure, Concentration, and Competition in Australia 2019-2022', pp. 28-29. CPA and CA ANZ financially supported this study. Across all 2,132 ASX-listed entities, the average audit firm tenure was 7.4 years in 2022, reflecting shorter tenures for medium and small entities (including 5.9 years for the smallest 500 companies). Note: The top 200 and smallest 500 entities are based on total assets.

152 S Hossain and G Monroe, 'Audit Market Structure, Concentration, and Competition in Australia 2019-2022', p 34. CPA and CA ANZ financially supported this study.

There are transaction costs to rotating auditors. Multi-year appointments may provide benefits in terms of reduced ongoing costs and the accumulation of engagement specific expertise. Notwithstanding this, there are theoretical benefits to mandatory audit firm rotation. This is based on the proposition that long-term audit engagements undermine the independence and objectivity of the auditor, decreasing audit quality. These benefits and costs may well vary with the size and complexity of an audit client.

The UK and the European Union (EU) have mandatory firm rotation requirements every 10 years, which can be extended to 20 years through a mandatory tender.[153] The UK also requires audited companies to report on audit-related matters, including the tenure of their audit firm and auditor appointment and tendering information.[154] Notably, the US has taken a contrary approach, amending its legislation to prohibit mandatory auditor rotation by its regulator.[155]

Stakeholder views

Stakeholders have observed that the dominance of large audit firms in providing audit services to large, listed companies reflects the resources, expertise, and scale required to carry out an effective audit of these entities.[156] While there are no regulatory barriers for mid-tier firms to take on such engagements, some stakeholders noted that 'preferential bias' toward large audit firms, resource constraints, skill gaps, and insurance costs may act as a barrier to entry.[157]

There were concerns that the level of market concentration represents a risk to the economy and results in outcomes contrary to government economic policy.[158] That said, while the audit sector is systemically important, individual firms in the sector are not – with resources re-deployable should a firm in the sector exit the market.

The AUASB and the Australian Institute of Company Directors have recommended that internal audit committees conduct a comprehensive review of the audit quality of their entity's external auditor every five years.[159]

Some stakeholders submitted that firm rotation should be mandated to improve audit quality, reduce the familiarity and tenure of audit firms, and improve dynamism. Tax Justice Network Australia submitted that '[c]orporations should also be required to have regular rotations of audit firms', and that '[u]sing the same audit firm for an extended period could result in an overly friendly relationship where certain audit issues may be overlooked'.[160] PKF Australia submitted that mandatory rotation of audit firms allows firms to 'scale up' to accept large international clients.[161]

Conversely, other stakeholders outlined concerns regarding mandatory audit firm rotation. Stakeholder concerns included that the existing audit partner rotation requirements are already

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153 See UK FRC (2023), 'Audit Committees and the External Audit: Minimum Standard', and The Statutory Auditors and Third Country Auditors Regulations 2016, SI 2016/649, United Kingdom. For the European Union (EU), see Regulation (EU) No 537/2014.
154 UK FRC (2023), 'Audit Committees and the External Audit: Minimum Standard'.
155 The *Audit Integrity and Job Protection Act* amended the *Sarbanes-Oxley Act of 2002* to prohibit the PCAOB from requiring that audits be conducted by a specific auditor or that such audits be rotated to different auditors.
156 Submissions to Treasury's Issues Paper: CPA Australia, p 15, CA ANZ, pp 33-34.
157 Submissions to Treasury's Issues Paper: Moore Australia, pp 7-8, Forvis Mazars, p 23.
158 Submission to Treasury's Issues Paper: Forvis Mazars, p 2.
159 AUASB (2022), 'Periodic Comprehensive Review of the External Auditor Guide for Audit Committees', p 8.
160 Submission to Treasury's Issues Paper: Tax Justice Network Australia, p 2.
161 Submission to Treasury's Issues Paper: PKF Australia, p 11.

appropriate,[162] that changes would negatively impact small and medium practices and risk a diminished understanding about specific clients,[163] and that costs would increase as new auditors take time to familiarise themselves with an organisation.[164]

It was also broadly observed that audited companies, investors, and stakeholders are increasingly focusing on auditor tenure,[165] and that the manner in which Australian listed companies manage audit tenure contributes to 'healthy competition'.[166]

The 2019 PJC Inquiry recommended amending the Corporations Act to implement a mandatory tendering regime. It acknowledged that 'there is an inherent trade-off between familiarity auditors develop with an entity over time, which may increase their competence [but] also threaten their independence', and that 'audit arrangements that remain in place for many decades … undermine stakeholder confidence in the system as a whole'.[167] The 2024 PJC Inquiry further recommended a mandatory tendering regime requiring PIEs to undertake a public tender process every ten years.[168]

The 2019 PJC Inquiry also recommended the disclosure of auditor tenure in annual financial reports, including the tenure of the external auditor and the lead auditor, characterising this as a 'relatively simple and low-cost regulatory change that w[ould] have considerable benefits for stakeholder perceptions of Australia's audit market'.[169] Some stakeholders in that inquiry supported additional disclosures, such as the Australian Shareholders' Association and several large audit firms.[170]

What are the options to improve dynamism in the audit market?

Increasing transparency over audit tenures and requiring audit clients to actively test the market through a periodic tendering process are likely to promote audit quality and audit market dynamism. Mandatory audit firm rotation would reduce the risk of familiarity. However, it would impose transition costs on reporting entities and audit firms.

Option 6A: Additional reporting obligations for reporting entities regarding auditor tenure

To increase transparency of relationships between entities and their auditors, reporting entities would be required to disclose information about those relationships in their annual reports, including:

- audit firm and lead auditor tenure
- current lead auditor commencement
- most recent auditor tender date.

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162 Submission to Treasury's Issues Paper: Deloitte, p 7.
163 Submission to Treasury's Issues Paper: WLF Accounting & Advisory, p 6.
164 Submission to Treasury's Issues Paper: AICD, p 5.
165 Submission to Treasury's Issues Paper: PwC, p 21.
166 Submission to Treasury's Issues Paper: EY, p 24.
167 2019 PJC Inquiry Final Report, p 3. At least one audit firm submitted that tendering activity has already increased voluntarily following this recommendation (Submission to Treasury's Issues Paper: EY, p 33). Another indicated that the market has also moved voluntarily in related areas, including more regular reviews of audit firm tenure and tender processes (Submission to Treasury's Issues Paper: Deloitte, p 6).
168 2024 PJC Inquiry Final Report, Recommendation 15.
169 2019 PJC Inquiry Final Report, p 2.
170 2019 PJC Inquiry Interim Report, pp 84-85.

The requirement to report this information would encourage reporting entities to give due consideration to the length of their auditor engagements and its impacts on audit quality. The final report of the 2024 PJC Inquiry made recommendations to address these considerations.[171]

Some of the potential benefits and costs of this approach are set out in Table 23 below.

Table 23 – Potential costs and benefits of increased transparency regarding auditor tenure (Option 6A)

Potential benefits	Potential costs
Improved financial reporting quality and enhanced accountability.	Increased reporting costs for reporting entities, which may be passed on to consumers.
Enhanced transparency would strengthen investor confidence in financial reporting.	

Option 6B: Mandatory periodic tendering for audit services

All reporting entities, both existing and new, would be required to publicly tender for audit services every 10 years, with new reporting entities first required to do so upon becoming a reporting entity. A mandatory tendering regime aligned with this option was recommended by the 2024 PJC Inquiry.[172]

Tendering processes may foster the participation of firms beyond the largest four to promote audit market diversity and resilience. The process would be expected to commence sufficiently in advance to allow tendering firms to exit relationships that may give rise to a conflict of interest.

Some of the potential benefits and costs of this approach are set out in Table 24 below.

Table 24 – Potential benefits and costs of mandatory tendering (Option 6B)

Potential benefits	Potential costs
Increased competition among audit firms and opportunities for 'mid-tier' firms to improve dynamism in the market.	Increased costs for both audit firms and reporting entities, which may be passed on to consumers.
Improved audit quality, including by incentivising firms to enhance the quality of their audits and processes to win and retain business.	
Improved transparency and accountability. The tender process itself could benefit broader stakeholders by improving public trust in the audit process.	

Option 6C: Mandatory audit firm rotation

This option would limit the period of time that an audit firm could be appointed as auditor of a reporting entity, after which the reporting entity would be required to appoint a different audit firm. The period would be set at 20 years.

If this option were applied together with Option 6B, a reporting entity would be required to go out to tender every 10 years, and rotate their audit firm every 20 years. This is consistent with the approach in the UK and the EU, which both require mandatory audit firm rotation together with mandatory tendering.[173]

171 2024 PJC Inquiry Final Report, Recommendations 13 and 40.
172 2024 PJC Inquiry Final Report, Recommendations 15 and 40.
173 See UK FRC (2023). 'Audit Committees and the External Audit: Minimum Standard'. For the EU, see Regulation (EU) No 537/2014.

The 2019 PJC Inquiry did not recommend mandatory firm rotation, noting costs from organisational disruptions to the audit client and audit firm, and reduced client knowledge by the auditor.[174] It stated that some countries have subsequently reversed their policies requiring rotation,[175] and that the US has prohibited mandatory firm rotation.[176] The most common reason that countries provided for this policy reversal aligned with the position of the 2019 PJC Inquiry that it added unnecessary costs.[177]

To mitigate concerns raised in the 2019 PJC Inquiry, consideration could be given to allowing the reporting entity, where it does not appoint a different audit firm after 20 years, to provide an explanation in its annual report.

Some of the potential benefits and costs of this approach are set out in Table 25 below.

Table 25 – Potential benefits and costs of mandatory rotation of auditors (Option 6C)

Potential benefits	Potential costs
Requiring rotation of audit firms would reduce the risk of familiarity between auditors and the management of reporting entities. This would reduce perceived or real conflicts of interest, and improve integrity in the audit sector, potentially improving audit quality.	Mandatory rotation would impose additional costs on reporting entities and auditors due to more frequent tendering and organisational change.
	Potential difficulties for the reporting entity in finding a suitable auditor with the appropriate specialist skills, knowledge, and requirements.

174 2019 PJC Inquiry Interim Report, p 88.

175 The 2019 PJC Inquiry noted submissions raised countries including South Korea, Brazil, Argentina, Singapore, Spain and Canada have reversed their policies on mandatory firm rotation.

176 See Interim report of the 2019 PJC Inquiry, p 83. The 2019 PJC Inquiry stated the *Audit Integrity and Job Protection Act* amended the *Sarbanes-Oxley Act of 2002* to prohibit the PCAOB from requiring that audits be conducted by a specific auditor or that such audits be rotated to different auditors.

177 Lennox, C. (2014), Auditor tenure and rotation. In D. Hay, W. R. Knechel, & M. Willekens (Eds.), The Routledge Companion to Auditing (pp. 89-106), Routledge.

Appendix A: Summary of options

No.	Option
1A	Require reporting entities to obtain audit services only from audit firms licensed by ASIC, with quality management and ethical obligations imposed as ongoing conditions of holding their licence
1B	Require RCAs to comply with professional conduct obligations as an ongoing obligation of registration
1C	Require all partners of multidisciplinary firms to meet 'fit and proper person' requirements to maintain audit firm registration
2A	Prohibit reporting entities from engaging their auditor for non-audit services
2B	Achieve operational separation within existing structures
2C	Mandate structural separation
2D	Broader reform
3A	Impose new governance requirements on large audit firms
3B	Reduce the partnership limit for accounting firms and require a percentage of partners to be registered to deliver regulated services
3C	Require reporting entities to obtain audit services only from an authorised audit company
4	Mandate the frequency of audit reviews, increase the level of surveillance, and publish findings
5A	Introduce civil penalties for contraventions of auditor requirements
5B	Enhance administrative powers of ASIC
5C	Improve CADB's disciplinary capability
6A	Additional reporting obligations for reporting entities regarding auditor tenure
6B	Mandatory periodic tendering for audit services
6C	Mandatory audit firm rotation

Appendix B: Further information on the Companies Auditors Disciplinary Board

Matters in respect of which CADB can hear an application

Each of the matters below provides grounds for the deregistration (or suspension) of an RCA under section 1292 of the Corporations Act. CADB's guidance categorises these matters as either 'administrative' or 'conduct', respectively.[178]

'Administrative' matters relate to allegations that an RCA:

a) has failed to lodge an annual statement required by s 1287A of the Corporations Act
b) has ceased to be resident in Australia
c) is disqualified from managing corporations under Part 2D.6 of the Corporations Act
d) is incapable, because of mental infirmity, of managing his/her own affairs.

'Conduct' matters relate to allegations that an RCA:

a) has contravened the individual rotation requirements and performed a significant role in an audit without being eligible to do so
b) failed to comply with a condition of registration as an auditor
c) did not perform any (or any significant) audit work for 5 years and as a result has ceased to have the necessary practical experience
d) either:
    (i) failed to carry out or perform adequately and properly the duties of an auditor
    (ii) failed to carry out or perform adequately and properly any duties or functions required by an Australian law to be carried out or performed by an RCA
    (iii) is otherwise not a fit and proper person to remain registered.

CADB hearings process

CADB's internal guidance and procedures set out a framework for hearing matters, consisting of five general stages, as set out below.[179]

1. Case Preparation: The applicant (ASIC)[180] files an application with CADB for an order(s) under Corporations Act, s 1292 against the respondent (RCA). Attached to the application is a 'concise outline' of the alleged misconduct and the evidence that the applicant proposes to present, against which the respondent may file a 'concise response'.
    - The respondent may indicate their willingness to enter mediation in their 'concise response', which would occur with the applicant prior to the pre-hearing conference.[181]

178 See CADB (2020), 'Practice Note 1: Guidance for parties involved in CADB disciplinary proceedings on case preparation, hearing and decision procedures' (Practice Note 1).

179 The process summary is based on CADB (2020), Practice Note 1. See the full guidance for additional details.

180 The Australian Prudential Regulation Authority can also make referrals to CADB, but has not exercised this power to date (as of CADB 'Annual Report 2024–25'.

181 For details on the mediation process and potential outcomes, see CADB (2020), 'Practice Note 2: Guidance for parties on pre-hearing mediation'.

- Following lodgement and receipt of the 'concise response' (and subject to any mediation occurring) the parties must jointly produce an 'issues summary' that details the matters in contention and create a draft timetable for consideration by the CADB chair, prior to the pre-hearing conference.

2. **Pre-Hearing**: The CADB chair convenes a pre-hearing conference to settle procedural matters and case preparation directions, including for summoning witnesses. This process is based on the issues summary and draft timetable.
3. **Hearing**: The CADB panel conducts a formal hearing where both sides may present their cases, including witness testimonies and submissions. The duration of the hearing varies considerably depending on the nature of the matter and extent of issues in contention.
4. **Deliberation**: Following the hearing, the CADB panel adjourns to prepare and formulate a 'determination', in which it sets out whether or not it is satisfied regarding the alleged breaches of duty or other grounds for the application.
   - The parties are given an opportunity to respond to the determination, if favourable to the applicant and the proposed orders. Depending on the type of matter and the sanction(s) proposed, the parties may be invited to file additional documents/evidence, or to attend a final hearing in relation to sanctions.
5. **Final decision and costs**: Following a final hearing/consideration of submissions of the parties, the CADB panel issues a written final decision. The document sets out the panel's findings and reasons including any orders as to sanction(s). CADB has power to publish its decision and reasons if favourable to the applicant, and does so as a matter of practice.[182] CADB usually delivers a separate written decision on costs and publicity and has no express power to publish this decision.

Table 26 – Application outcomes by sanction type 2011–12 to 2024–25

Application Outcome	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21[183]	2021–22	2022–23	2023–24	2024–25
Registration cancelled	1	1	3		1			1		9	1			1
Registration suspended			3	1	1	1					1		1	1
Admonition				1										1
Reprimand														
Undertaking required to be given			2	1	1	1					1		2	2
Dismissed														
Withdrawn by ASIC	2	1					1			27		1	3	

Source: based on CADB data from annual reports 2011–12 to 2024–25.
Note: data prior to 1 March 2017 (2016–17) combines CADB sanctions for RCAs and liquidators.

182 Corporations Act, s 1296(1B).
183 2020–21 saw a higher than usual referral load of 41 matters, comprising 36 administrative matters (failure to lodge annual statements with ASIC) and 5 conduct matters. All 36 of the administrative matters were finalised in 2020–21, resulting in 9 cancellations by CADB. The remaining 27 applications were withdrawn by ASIC, as the RCAs opted to voluntarily cancel their registration after they were notified of their CADB referral. For further details, refer to CADB 'Annual Report 2020–21'.