AUSTRALIAN
SHAREHOLDERS'
ASSOCIATION

Submission to Treasury: Regulation of accounting, auditing and consulting firms in Australia

July 2026 Options Paper

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1. Introduction

The Australian Shareholders' Association (ASA) welcomes the opportunity to respond to Treasury's *Regulation of accounting, auditing and consulting firms in Australia – Options Paper*, released in July 2026.

ASA is Australia's largest independent shareholder advocacy organisation, representing the interests of Australia's approximately 7 million retail and individual shareholders and advocating for well-functioning capital markets, strong corporate governance, transparency and accountability. From a shareholder perspective, the integrity and independence of the external audit function is fundamental to confidence in financial reporting and therefore to confidence in the Australian capital market.

Audited financial statements, and an organisation's annual and half-yearly reports, are not simply a compliance exercise. They are an important part of the chain of assurance on which shareholders, boards, creditors, employees, regulators and the broader community rely. Shareholders generally cannot independently test the financial information presented to them and therefore rely on boards, audit committees, management, internal auditors, external auditors and regulators to perform their respective roles effectively.

ASA therefore strongly supports Treasury's central proposition that audit quality, independence, professional ethics, firm culture, governance and effective regulatory oversight must work together to maintain confidence in Australia's financial reporting system.

Recent sector developments demonstrate that these issues are not theoretical. The PwC tax leaks scandal and more recent concerns involving KPMG have raised legitimate questions about confidentiality, conflicts of interest, professional conduct, whistleblower treatment, governance, institutional trustworthiness and the effectiveness of existing regulatory safeguards.

Audit independence is not merely a technical issue. For shareholders, it goes to the heart of trust and transparency. Investors are entitled to expect that the financial information on which they make investment decisions has been subject to independent, objective, thorough and appropriately sceptical scrutiny.

ASA considers that the regulatory response should therefore be sufficiently effective to restore and maintain broad-based investor and stakeholder confidence.

Summary of ASA's position

ASA broadly supports the direction of Treasury's proposed reforms and recommends that the Government:

1. Strengthen firm-level accountability through ASIC licensing and enforceable obligations covering audit quality, ethics, independence and confidentiality.
2. Strengthen auditor independence through a clear prohibited-services regime and stronger separation where conflicts cannot be effectively managed.
3. Improve governance and accountability of large multidisciplinary firms, including appropriate fit-and-proper requirements for relevant partners.
4. Strengthen ASIC surveillance and enforcement, including greater audit surveillance, meaningful publication of findings, stronger penalties and effective disciplinary processes.
5. Improve shareholder transparency through disclosure of auditor tenure, tendering, non-audit services and independence, supported by competitive tendering at least every 10 years and an expectation of audit firm change within 20 years.
6. Require periodic independent review of the regulatory framework to assess whether the reforms remain effective.

These recommendations are aligned with ASA's previous advocacy in relation to audit reform and the Parliamentary Joint Committee on Corporations and Financial Services' inquiries into auditing and the consulting industry. ASA has advocated for, among other measures, disclosure of audit firm tenure, periodic tendering, restrictions on non-audit services, greater transparency concerning professional services firms and stronger regulatory oversight.

2. The shareholder perspective

Audit independence is a shareholder issue

Shareholders are among the principal users of financial reports. They need to be able to rely on audited financial statements when deciding whether to buy, hold or sell securities, whether to support directors, and whether to approve significant corporate actions.

The external auditor therefore performs a public-interest function extending beyond the contractual relationship between the audit firm and the company.

The fact that an auditor is appointed and paid by the company does not alter the auditor's responsibility to provide independent assurance for the benefit of shareholders and other users of financial reports.

ASA is concerned that the current structure can create competing incentives. Large multidisciplinary firms may receive substantially greater revenue from consulting, tax and advisory work than from audit. Treasury notes that audit revenue represented, on average, only approximately 20 per cent of total revenue of the four largest audit firms in Australia in 2025. Treasury also identifies risks that non-audit services may influence firm culture, remuneration, resource allocation, client relationships and auditor independence.

Those structural issues cannot be addressed solely by asking individual auditors to exercise professional judgement.

The regulatory framework must ensure that the incentives created by the firm itself do not undermine the obligations imposed on the individual auditor.

3. Firm-level accountability and licensing

ASA supports Option 1A

ASA strongly supports **Option 1A – requiring 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 the licence**.

This is one of the most important reforms proposed in the Options Paper.

The existing distinction between audit companies and audit partnerships creates an unacceptable regulatory gap. Treasury identifies that partnerships undertaking audit work are not subject to equivalent firm-level obligations and that legal accountability may not extend to the people responsible for firm-wide decisions affecting audit quality and independence.

ASA previously raised this concern in its evidence to the Parliamentary Joint Committee, noting that partnership structures can allow important areas of revenue, governance and non-audit activity to fall outside the transparency and accountability mechanisms applicable to companies.

The solution should be straightforward: the legal structure chosen by an audit firm should not determine the level of regulatory accountability to which it is subject.

Licensing should impose enforceable ongoing obligations concerning:

- audit quality;
- quality management systems;
- independence;
- conflicts of interest;
- confidentiality and information barriers;
- professional ethics;
- whistleblower protection and treatment;
- resourcing and competency;
- remuneration and incentive structures;
- governance;

- risk management;
- monitoring and remediation; and
- cooperation with ASIC and other regulators.

ASIC should have powers to impose conditions, require remediation, issue infringement notices, seek civil penalties and suspend or cancel a firm's licence where appropriate.

ASA supports this approach because it moves regulation from a predominantly individual-auditor model to a model that recognises that firms create the systems, incentives and culture within which individual auditors operate.

4. Ethical obligations and fit-and-proper requirements

ASA supports Options 1B and 1C

ASA supports **Option 1B**, requiring registered company auditors to comply with professional conduct obligations as an ongoing condition of registration.

ASA supports the objective of **Option 1C**, with fit-and-proper requirements applying at least to partners with material influence over audit quality, governance or independence.

Ethical standards should be enforceable rather than aspirational.

The current framework contains important ethical and independence requirements, but the effectiveness of those requirements is diminished when enforcement is difficult or when firm-wide decision makers are outside the scope of meaningful accountability.

Treasury has appropriately identified the distinction between ethical standards and enforceable legal requirements. ASA agrees that professional bodies have an important role in developing standards and maintaining professional competence, but ultimate regulatory accountability should rest with an appropriately independent public regulator.

This is particularly important where conduct involves confidentiality, conflicts of interest or the misuse of information.

The PwC experience demonstrated the potentially serious consequences of confidential information obtained in a professional capacity being used for other purposes. The KPMG matters have similarly highlighted the importance of confidentiality, conflicts, governance and the treatment of individuals who raise concerns.

For shareholders, it is not sufficient to know that an individual auditor has signed an independence declaration. Shareholders need confidence that the systems, incentives and culture of the entire firm support that declaration, and that they are capable of withstanding regulatory scrutiny.

5. Non-audit services and structural conflicts

ASA supports stronger restrictions on non-audit services

ASA supports **Option 2A – prohibiting reporting entities from engaging their auditor for specified non-audit services**, and recommends the Government establish a clear statutory list of prohibited-services.

ASA's longstanding position is that there should be a clear list of prohibited non-audit services, rather than relying exclusively on complex principles-based conflict assessments.

ASA previously supported the prohibition of most tax services to audit clients and greater transparency regarding the nature and value of other services provided by auditors. ASA also supported periodic changes of audit firms and stronger disclosure of non-audit payments.

The Government should also consider the UK approach of capping non-audit services provided by the same firm at 70 per cent of the audit fee, averaged over a three-year period.

These risks are particularly significant where the same firm is expected both to challenge management and to sell substantial advisory services to that management.

A clear prohibited-services list

ASA recommends that the Government establish a clear statutory list of prohibited non-audit services for audit clients. At a minimum, the list should prohibit services that create a risk that the auditor could:

- audit its own work;
- assume management responsibility;
- advocate for the audit client;
- design or implement material financial reporting systems;
- provide certain tax structuring or tax advisory services that create a conflict with the audit;
- provide internal audit services;
- provide valuation or similar services where the resulting valuation is material to the financial statements; or
- otherwise assume a role that compromises or could reasonably be perceived to compromise independence.

The prohibited-services list should be reviewed periodically to ensure that it remains effective as audit and advisory business models evolve and new forms of non-audit services emerge.

Operational and structural separation

ASA recognises that **Option 2C – mandatory structural separation** is a more interventionist measure and would have significant implementation costs.

ASA's previous position was that full separation may ultimately be desirable, but that defining prohibited non-audit activities would be quicker and more effective to implement.

The current environment, however, strengthens the case for structural separation if less interventionist measures prove insufficient.

Accordingly, ASA recommends a staged approach:

1. immediately introduce a comprehensive prohibited-services regime;
2. impose enforceable operational separation, including independent governance, remuneration and performance structures for audit practices;
3. require transparent reporting of non-audit revenues and relationships; and
4. provide for mandatory structural separation if evidence demonstrates that operational separation has not adequately protected audit independence.

The objective should not be to punish multidisciplinary firms, but to remove structural incentives that are inconsistent with the public-interest role of audit.

6. Transparency of non-audit services and firm revenues

ASA considers that Treasury should go further on transparency.

Current disclosure requirements regarding non-audit services should be expanded so that shareholders can understand:

- the nature of each category of non-audit service;
- the fees paid for those services;
- whether the service is a specific engagement or an ongoing engagement, such as one-off advice compared with ongoing taxation compliance or management consulting services;
- non-audit fees as a percentage of audit fees;
- the audit firm's total revenue from the relevant company;
- the audit firm's total non-audit revenue;
- significant relationships between the audit firm and the company's management or directors; and
- the firm's broader conflicts and independence safeguards.

ASA previously recommended that non-audit payments be disclosed by category, including taxation-related and assurance services. ASA also raised concerns that transparency reports did not provide sufficient visibility over the wider non-audit activities and revenue of large partnerships.

This information is particularly relevant to shareholders because an auditor's independence is partly a matter of substance and partly a matter of reasonable perception.

A relationship may technically satisfy an independence test while still giving shareholders reasonable cause to question whether the auditor is sufficiently independent.

Transparency is therefore a low-cost and important regulatory safeguard.

7. Governance of large audit partnerships

ASA supports stronger governance requirements

ASA supports **Option 3A – new governance requirements for large audit firms**.

The largest professional services partnerships are economically significant organisations whose governance can have consequences extending well beyond their partners.

The argument that partners are jointly and severally liable is not, by itself, sufficient protection. As partnerships become very large and complex, individual partners may have limited visibility over firm-wide decisions and may not be able to exercise meaningful oversight over risks arising elsewhere in the organisation.

ASA therefore supports requirements addressing:

- board or equivalent governance structures;
- independent oversight;
- audit quality as a primary governance responsibility;
- conflicts of interest;
- risk management;
- remuneration and partner incentives;
- whistleblower systems;
- information management;
- quality management;
- regulatory compliance; and
- accountability for firm-wide decisions.

Partnership size

ASA supports consideration of **Option 3B**, but does not consider changes to partnership size and composition a substitute for the substantive governance and accountability requirements proposed under Option 3A.

A smaller partnership can still have inadequate governance, while a large organisation can potentially have robust governance.

If a numerical limit is introduced, it should be accompanied by substantive governance obligations.

ASA is particularly concerned about structures that allow the effective size of a partnership to be increased through non-equity partners or related entities. Treasury has identified this issue in the Options Paper.

The regulatory framework should therefore focus on economic and governance reality rather than legal form.

8. Audit services through authorised audit companies

ASA supports consideration of Option 3C for larger firms

ASA supports **Option 3C**, particularly for large audit firms that undertake audits of reporting entities.

Requiring audit services to be delivered through an authorised audit company would provide greater consistency in regulatory treatment and clearer accountability for governance, financial reporting and decision-making.

Treasury notes that the corporate model would provide a clearer framework for directors' duties and ASIC enforcement, while also creating separate governance and accounting structures for audit practices.

ASA recognises that this approach may not be appropriate for every small audit practice and should therefore be implemented proportionately.

9. ASIC surveillance, audit reviews and published findings

ASA strongly supports Option 4

ASA strongly supports **Option 4 – mandating the frequency of audit reviews, increasing surveillance and publishing findings**.

ASIC's audit surveillance program is an important component of the chain of assurance.

To influence behaviour, surveillance must be sufficiently frequent, risk-based and transparent.

ASA supports:

- minimum surveillance frequencies based on firm size and risk;
- both random and risk-based file selection;

- greater scrutiny of the largest firms;
- review of firm-wide quality management systems;
- review of remuneration and incentive structures where relevant;
- review of independence and conflict management;
- review of confidentiality controls;
- publication of meaningful findings;
- appropriate grading of deficiencies; and
- publication of remediation outcomes.

ASA previously expressed support for a risk-based approach to audit surveillance, while emphasising that its effectiveness should be assessed after implementation.

ASA also supports Treasury's observation that ASIC's published findings are valuable to audit committees and companies. Publication should be directed toward improving market transparency and audit quality, rather than being punitive in character. Its purpose should be to provide useful information to the market about audit quality and the actions taken to address identified deficiencies.

ASIC must also have sufficient resources and specialist expertise to undertake this work effectively.

10. Penalties and enforcement

ASA supports Options 5A, 5B and 5C

ASA supports:

- **Option 5A – civil penalties for auditor contraventions;**
- **Option 5B – enhanced administrative powers for ASIC; and**
- **Option 5C – improved CADB disciplinary capability.**

A regulatory framework is ineffective if misconduct does not attract meaningful consequences.

ASA previously stated that market forces alone are insufficient to overcome self-interest and uncosted externalities, and that regulation, qualifications, oversight, disclosure and penalties are necessary.

Penalties should be:

- proportionate to the seriousness of the conduct;
- sufficiently large to deter misconduct;
- capable of applying to firms as well as individuals;
- capable of addressing financial benefit obtained from misconduct;
- supported by timely administrative action; and

- transparent enough to provide guidance to the market.

ASA particularly supports ASIC having the ability to require remediation of deficient audits and, where appropriate, to remove a firm from an engagement where material deficiencies remain unresolved.

Penalties imposed only on individuals are inadequate if the organisational incentives that contributed to the misconduct remain unchanged.

11. Shareholder disclosure of audit tenure

ASA strongly supports Option 6A

ASA strongly supports **Option 6A – mandatory disclosure of auditor tenure and tendering information**.

This is a relatively simple, low-cost reform that would provide significant benefits for shareholders.

Annual reports should disclose:

- the number of years the audit firm has served;
- the number of years the current lead auditor has served;
- the date the current lead auditor commenced;
- the date of the most recent competitive tender;
- whether a tender was conducted during the previous 10 years; and
- the reasons for retaining the auditor where the relationship is particularly long-standing.

Treasury notes that the average audit firm tenure among the top 200 entities was 13.2 years in 2022, with relationships ranging from one year to 58 years.

Long tenure is not automatically evidence of poor audit quality. Familiarity can provide valuable company-specific knowledge.

However, long relationships can also create familiarity threats and weaken the perception of independence.

Shareholders should not have to reconstruct this information from multiple annual reports.

This information should be presented clearly and consistently in the annual report.

12. Mandatory tendering

ASA strongly supports Option 6B

ASA strongly supports **Option 6B – mandatory periodic tendering for audit services every 10 years**.

This is consistent with ASA's previous position that listed companies should be required to undertake a public tender every 10 years or explain in their annual report why they have not done so.

Periodic tendering provides an important market test.

It does not necessarily require the incumbent auditor to be replaced. Instead, it requires the company and audit committee to demonstrate that they have actively considered alternatives and assessed whether the incumbent remains the best auditor for shareholders.

The tender should be meaningful rather than merely procedural.

Audit committees should consider:

- audit quality;
- independence;
- professional scepticism;
- industry expertise;
- engagement team capability;
- technology and audit methodology;
- quality management;
- regulatory history;
- non-audit relationships;
- tenure; and
- the quality and responsiveness of the auditor's engagement with the audit committee.

The outcome of the tender should be explained to shareholders at an appropriate level of detail.

13. Mandatory audit firm rotation

ASA supports a 20-year maximum tenure

ASA supports **Option 6C**, subject to appropriate transitional arrangements and recognition of the costs associated with changing auditors.

ASA's established position has been that audit firms should generally be changed periodically, with a requirement for an explanation where an audit firm has served for more than 10 years and an expectation that the firm will change within 20 years.

The 20-year period proposed by Treasury provides a pragmatic balance between:

- familiarity and accumulated client knowledge;
- independence;
- market competition;
- audit quality; and

- the costs of transition.

ASA would not support an arrangement under which a company could indefinitely retain the same auditor simply by repeatedly explaining its decision.

If the Government proceeds with a 20-year maximum tenure, any exemption should be narrowly defined and subject to transparent shareholder disclosure.

14. The role of boards and audit committees

Regulation of auditors cannot substitute for effective board oversight.

Boards and audit committees have an important responsibility to assess whether the external auditor remains appropriate for the company and its shareholders.

ASA recommends that the Government strengthen expectations concerning audit committee disclosure, including disclosure of:

- how auditor independence was assessed;
- the nature and value of non-audit services;
- auditor tenure;
- the most recent tender;
- significant regulatory or quality issues involving the auditor;
- the steps taken to address identified audit deficiencies; and
- how the audit committee assessed the auditor's professional scepticism and challenge of management.

When the appointment or reappointment of an auditor comes before shareholders, it should be treated as a genuine governance issue rather than a routine resolution.

The notice of meeting should clearly explain the basis on which the auditor was selected or retained.

Shareholders are not expected to inspect audit files or second-guess accounting judgements. Their role is to hold boards and audit committees accountable for effective oversight.

15. Whistleblowers, confidentiality and professional culture

ASA considers that whistleblower protection should form part of the broader regulatory framework.

The recent conduct issues in the sector demonstrate that culture matters.

An organisation may have extensive policies on independence and confidentiality, but those policies have limited value if employees and partners do not feel able to raise concerns safely or if concerns are not investigated appropriately.

Audit firm licensing and quality management requirements should therefore include:

- confidential internal reporting channels;

- protection against retaliation;
- independent investigation of significant allegations;
- escalation to regulators where required;
- appropriate oversight by the firm's governing body; and
- regular testing of the effectiveness of whistleblower arrangements.

Confidentiality controls should similarly be treated as a core component of audit quality and independence.

A professional services firm that holds confidential information for one client must be able to demonstrate that the information cannot be improperly accessed, transferred or used to benefit another client or business unit.

16. Regulatory coordination and periodic review

ASA supports Treasury's risk-based approach and considers that the regulatory architecture should be reviewed periodically.

The experience of recent years demonstrates that regulatory gaps can emerge as business models change.

ASA previously supported the concept of a central clearing-house or coordinating mechanism for professional regulation, with appropriate accountability and periodic independent review.

The establishment of External Reporting Australia provides an opportunity to strengthen coordination around accounting, auditing and assurance standards, while ASIC should remain a strong and independent enforcement and surveillance regulator.

The Government should also ensure effective coordination between:

- ASIC;
- External Reporting Australia;
- the Tax Practitioners Board;
- the Australian Taxation Office;
- professional accounting bodies;
- relevant state and territory authorities; and
- other regulators where professional services firms operate across regulatory boundaries.

No regulatory framework should be regarded as permanent.

ASA recommends that the Government commit to an independent review of the effectiveness of these reforms after three to five years, including consideration of:

- audit quality;
- audit market concentration;
- auditor tenure;
- tendering outcomes;
- non-audit service restrictions;
- enforcement activity;
- penalties;
- whistleblower outcomes;
- regulatory costs; and
- investor confidence.

This is particularly important given Treasury's recognition that some reforms will require ongoing assessment of their costs and effectiveness.

17. Proportionality and the role of smaller audit firms

ASA supports Treasury's principle that regulation should be proportionate and risk-based.

The problems identified in this consultation are principally associated with large multidisciplinary firms and their role in auditing major reporting entities. The regulatory burden should therefore be calibrated to the systemic and public-interest risk presented by each firm and its clients.

ASA recognises that some reforms may increase audit costs, require significant transition arrangements or affect the availability and choice of auditors, particularly for smaller reporting entities. These consequences should be addressed through proportionate implementation and appropriate transition periods, but should not prevent reform where there is a clear benefit to audit quality, independence and investor confidence.

ASA does not support imposing unnecessary compliance costs on small audit practices that do not present the same concentration or systemic risks.

At the same time, proportionality should not become an excuse for leaving regulatory gaps. Where a smaller firm undertakes audits of entities with substantial public-interest implications, the relevant audit should be subject to appropriate safeguards.

A tiered approach may be appropriate, with the most comprehensive obligations applying to larger entities and audit firms with the resources and public-interest impact to warrant full compliance, while smaller entities are encouraged to comply with selected requirements or phased into them where this would improve audit quality without imposing disproportionate cost.

18. Additional reforms recommended by ASA

In addition to the options presented by Treasury, ASA recommends consideration of the following measures.

18.1 Mandatory disclosure of audit quality information

The Government should consider developing standardised audit quality indicators that allow audit committees and shareholders to assess audit performance over time.

These could include appropriately designed measures relating to:

- inspection findings;
- restatements;
- audit adjustments;
- staff turnover;
- engagement partner changes;
- independence issues;
- significant audit deficiencies; and
- remediation.

Such measures must be carefully designed to avoid encouraging inappropriate behaviour or reducing audit quality to simplistic numerical targets.

18.2 Stronger disclosure of non-audit fees

Non-audit fees should be disclosed by meaningful category rather than aggregated into a single figure.

18.3 Disclosure of audit tender outcomes

Listed companies should publicly disclose, in their annual report and preferably as part of the audit committee or corporate governance disclosures, the date and outcome of their most recent audit tender, including where the incumbent auditor was re-appointed. The disclosure should also set out, at an appropriate level, the key factors considered by the audit committee in reaching its decision.

This would improve transparency around auditor appointment and re-appointment without requiring companies to disclose commercially sensitive information or detailed deliberations of the audit committee.

18.4 Greater transparency of large professional partnerships

Large professional services partnerships that perform public-interest functions should be subject to greater transparency concerning:

- governance;
- financial scale;
- audit and non-audit revenue;
- remuneration structures;
- regulatory matters; and
- quality management.

ASA has previously supported approaches that would increase transparency of large professional services firms while allowing them to retain an appropriate legal structure.

18.5 Review of partner remuneration incentives

The regulatory framework should expressly consider whether remuneration arrangements encourage partners to prioritise non-audit revenue or cross-selling over audit quality and independence.

19. Conclusion

ASA welcomes the Options Paper and considers it an important opportunity to strengthen the integrity of Australia's audit market.

The objective should not simply be to respond to recent misconduct. The Government should establish a regulatory framework that remains effective as firms, technologies, business models and financial markets evolve.

For shareholders, the central concern is that audit regulation should reinforce independence, accountability, transparency and trust.

Taken together, these measures would strengthen the chain of assurance on which Australia's capital markets depend and provide shareholders with greater confidence that financial reporting is subject to independent, objective and effective scrutiny.

High-quality audit is a public-interest function. The regulatory framework should recognise that responsibility by ensuring audit firms, firm leaders, boards, audit committees and regulators are each accountable for protecting audit quality and independence.

ASA would welcome the opportunity to discuss these matters further with Treasury as the reforms are developed.

Regards,

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Chief Executive Officer

Australian Shareholders’ Association