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# Regulation of accounting, auditing and consulting firms in Australia

The Super Members Council (SMC) welcomes the opportunity to respond to Treasury's consultation on the regulation of accounting, auditing and consulting firms in Australia.

Australia's audit framework sits at the heart of confidence in capital markets, superannuation and corporate reporting. Yet over the past decade, a series of regulatory reviews, Parliamentary inquiries and surveillance activities have identified recurring concerns about audit quality, accountability and governance. Collectively, these reviews suggest that while individual auditors are well regulated, many of the factors that drive audit quality are determined at the firm level, where regulatory oversight and accountability are insufficient. These recent scandals and reviews paint a clear picture that Australia's regulatory framework has not kept pace with the scale, complexity and conduct of large audit, accounting and consulting firms.

Super funds and the 12 million Australians whose retirement savings they steward rely heavily on the integrity of Australia's audit system in two distinct but connected capacities. The first is as investors. Super funds invest across listed and unlisted markets, directly and through external managers, and rely on the accuracy and integrity of audited financial statements across the economy when assessing investee companies, counterparties and market risk. Audit accuracy and consistency in this context is not simply a problem for one company or one engagement. It weakens the information environment into which super funds invest and can ultimately reduce returns and retirement savings for members.

The second capacity is as regulated reporting entities in their own right. Registrable superannuation entities are themselves subject to audit requirements and, in that context, super funds are audit and advisory clients. They require the audits of their own operations, financial reporting and controls to be robust, independent, and capable of supporting confidence in trustee decision-making. They need confidence that information they are legally required to provide to auditors will be used only for the audit purpose for which it was provided, and not repurposed for unrelated commercial, consulting, data analytics or product development purposes.

These two capacities explain why audit firms operate as critical gatekeepers for the super system. Their work supports the reliability of information that super funds use to invest the retirement savings owned by millions of everyday Australians and provides assurance of the funds' own regulated reporting obligations. For super funds, rigorous audits test more than financial statements. They also examine compliance frameworks, unit pricing frameworks, risk management frameworks, internal control design and operational effectiveness. When audits are not rigorous enough, practical harms can follow. They provide an independent examination of funds risk functions, operational processes and financial and investment systems. A strong and trusted audit framework supports market integrity, member protection and confidence that trustees are meeting their obligations in members' best financial interests. In this submission, SMC makes seven recommendations focused on strengthening audit quality, accountability and ultimately market confidence.

## About the Super Members Council

We are a strong voice advocating for the interests of 12 million Australians who have over $1.9 trillion in retirement savings managed by profit-to-member super funds. Our purpose is to protect and advance the interests of those millions of super fund members throughout their lives, advocating on their behalf to ensure super policy is stable, effective, and equitable. We produce rigorous research and analysis and work with Parliamentarians and policy makers across the full breadth of Parliament.

**SMC recommends that Treasury support:**

1) **Option 1B**: ongoing professional conduct obligations for registered company auditors as a condition of registration, so independence, integrity, competence and professional scepticism are enforceable throughout an auditor's registration.
2) **Option 1C**: fit and proper person requirements for partners in multidisciplinary firms who can influence audit quality, governance, culture, resourcing, remuneration or conflict management.
3) **Option 2B**: operational separation and stronger conflict controls within multidisciplinary firms where audit and non-audit services sit together, so audit quality and independence are protected from broader commercial pressures.
4) **Option 3A**: stronger governance requirements for large audit firms, including a board with responsibility for decision-making, strategic direction and oversight, independent board members, and governance accountabilities for key personnel responsible for running the firm.
5) **Option 4**: stronger audit surveillance by ASIC, including more regular risk-based and random reviews, publication of meaningful firm-level findings, and scrutiny of governance, independence controls, resourcing, remediation and quality management systems.
6) **Options 5A and 5B**: stronger disciplinary processes and sanctions, including civil penalties and enhanced ASIC administrative powers, so misconduct can be addressed in a timely, credible and proportionate way at both the individual and firm (conglomerate) level.
7) **Options 6A, 6B and the policy intent of 6C**: greater audit market transparency and dynamism through disclosure of audit firm tenure, lead auditor tenure and recent tender activity, and through proportionate periodic tendering or rotation settings that strengthen independence without unnecessary disruption to reporting entities.

## Why reform is needed: evolving evidence of audit quality, governance and accountability challenges

### Why reform is needed

The case for reform has evolved through three significant reviews: the 2019 Parliamentary Joint Committee (PJC) inquiry into the regulation of auditing in Australia, the 2024 PJC inquiry into ethics and professional accountability in the audit, assurance and consulting industry, and ASIC's 2025 review of super fund financial reporting and audit practices in Report 816. Together, they paint a consistent picture that trust in the audit system depends not only on the competence of individual auditors, but also on the governance, culture and incentives of the firms in which they operate.

### A common thread across all three reviews

While these reviews examine different issues, they reach a similar conclusion.

– Current accountability arrangements are not keeping pace with the structure of modern firms. Much of the regulatory framework focuses on individual auditors, while many of the decisions that shape audit quality are made at a firm level, including decisions about governance, remuneration, resourcing, culture and independence systems.
– Conflicts of interest continue to attract scrutiny. Policymakers and stakeholders are increasingly questioning whether existing safeguards adequately address the risks associated with multidisciplinary business models and the provision of both audit and non-audit services.
– There is growing consensus that stronger oversight and greater transparency are required. Across the reviews, there have been repeated calls for more effective surveillance, stronger enforcement powers, clearer firm-level obligations and improved public visibility of audit quality.

**2019 PJC Inquiry: concerns about audit quality and transparency**

The 2019 PJC inquiry highlighted longstanding concerns about auditor independence, declining public confidence in audit quality, conflicts created by the provision of consulting services by audit firms, market concentration among the Big Four, and the effectiveness of regulatory oversight and enforcement. The inquiry underscored the need for reforms to strengthen accountability, enhance audit quality and restore trust in the integrity of Australia's audit framework

**2024 PJC Inquiry: governance, culture and conflicts of interest**

Prompted by governance failures and the PwC tax leaks scandal, the 2024 inquiry moved the debate beyond technical audit quality to the governance, culture and accountability of large multidisciplinary firms. It highlighted how commercial incentives, advisory cross-selling and partnership structures can create real or perceived conflicts with audit's public interest role – particularly where firm-level decisions on remuneration, resourcing and strategy affect audit quality. Its 40 recommendations rest on the proposition that audit quality is shaped by governance, independence, culture and accountability, not technical standards alone. Treasury's 2026 options paper builds directly on this, focusing on firm-level accountability, conflict management, governance standards and stronger oversight.

**ASIC Report 816: evidence that concerns persist in practice**

ASIC Report 816 tests these concerns against evidence. Reviewing 60 super fund financial reports and audit files across five major firms, spanning a sector then managing around $3 trillion in retirement savings, ASIC found inconsistent valuation and disclosure of unlisted assets, varied fair value classifications and limited disclosure that hindered comparability. It also found auditors did not always obtain sufficient evidence, challenge external valuations or apply appropriate materiality thresholds.

## Ensuring accountability within the audit sector

SMC supports Option 1B requiring registered company auditors to comply with professional conduct obligations as an ongoing condition of registration. Strong ethical and professional conduct obligations are fundamental to maintaining confidence in the integrity, independence and reliability of audit services. Auditors play a critical public interest role in providing assurance over financial reporting, and the standards expected of them should be clear, enforceable and subject to appropriate regulatory oversight. In our view, improving the enforceability of these obligations would help reinforce trust in audited financial information and support confidence in Australia's financial reporting framework.

ASIC Report 816 reinforces why these obligations should be clear and enforceable. ASIC found that RSE auditors did not always obtain sufficient audit evidence, applied materiality levels that could reduce the audit work performed, and did not always adequately challenge inputs provided by external parties, calling on auditors to apply stronger evidence-gathering and professional scepticism.[1] Those findings show that auditor accountability is not abstract: weaknesses in evidence, challenge and judgement can affect the reliability of financial reports and member confidence in the information used to safeguard retirement savings. Ongoing conduct obligations should therefore be capable of reinforcing the standards ASIC identified as necessary in practice – independence, professional scepticism, sufficient audit evidence, appropriate materiality and timely remediation where deficiencies are found.

Whether professional conduct obligations are incorporated into legislation or established through standards issued by an appropriate standard-setting body is ultimately a matter for Government. SMC's primary interest is that the obligations are clear, effective and enforceable, and that they support consistently high standards of professional conduct across the audit profession.

SMC also supports Option 1C, to extend fit and proper person requirements to partners in multidisciplinary firms where those partners may influence audit quality and governance. In large multidisciplinary firms, audit quality can be affected by decisions made beyond the audit practice itself. It is therefore appropriate that minimum integrity standards apply to those with authority or influence over firm-level settings that may affect audit independence and quality. Partners who shape firm strategy or commercial priorities should be able to demonstrate that they meet appropriate standards of honesty, competence, integrity and sound judgement.

Fit and proper requirements are a basic governance expectation across reporting entities and regulated sectors. It would be inconsistent for audit firms, whose work underpins confidence in reporting entities' financial information, to be subject to lower integrity expectations than the entities and directors who rely on their assurance. This reform would help address the risk that non-audit partners, or partners not directly registered as auditors, can influence the incentives and operating environment of the audit function without being subject to equivalent standards of integrity.

## Managing structural conflicts of interest in multidisciplinary firms

SMC supports Option 2B reforms that address structural conflicts of interest in multidisciplinary firms. All audits are performed in a commercial market, but audit's public interest role requires stronger safeguards where the same firm also sells consulting, advisory or technology services. The regulatory framework should more clearly separate audit from non-audit work so that audit quality, resourcing, partner incentives and professional judgement are not compromised by broader firm commercial priorities.

Where audit and non-audit services sit within the same firm, real and perceived conflicts can and do arise even if individual auditors act appropriately. Audit clients may become targets for cross-selling, audit partners may operate within revenue and remuneration structures shaped by non-audit growth, and stakeholders may question whether audit conclusions are sufficiently independent. Stronger structural separation and conflict controls would help protect the audit function from these pressures and reinforce confidence in financial reporting.

**Protecting confidential information obtained through audit engagements**

Super funds are legally required to provide auditors with access to information necessary to perform the audit. That access is fundamental to the audit process. Information obtained or developed through an audit engagement should be used <u>only</u> for the purpose of performing that audit, and not for unrelated commercial, consulting, product development, data analytics or other business purposes without clear authority. Clear authority should simply not be a waiver included in standard terms included in a contract or agreement, but be specific to the information to be used, and its purpose. Confidential audit data should not be used to gain commercial leverage in other functions of an accounting firm conglomerate.

This is particularly important where audit or multidisciplinary firms seek contractual rights to use client information in broad ways, including where outputs are de-identified or anonymised. While de-identification may reduce some risks, it does not necessarily address the broader concern that information provided compulsorily for audit purposes could be used to generate commercial insights, support other client work, or inform firm-wide products and services. These risks are heightened where information may be shared with third-party suppliers or used in technology systems in ways that are not transparent to the audit client.

SMC considers that the regulatory framework should make it abundantly clear that confidentiality, independence and conflict management obligations apply to the use of information obtained through audit engagements. Treasury should consider whether statutory obligations are needed to ensure that audit-related information cannot be used for purposes unrelated to the audit, despite any contractual term to the contrary. This would support confidence that information provided to auditors because of a legal obligation is protected and used only for the purpose for which it was provided. In practice, this would prevent an audit firm from using information obtained during an audit (for example, insights into a client's systems, risk exposures or commercial position) to pursue or cross-sell non-audit services within the same firm or a related entity, even where the client's engagement letter purports to permit this. A statutory obligation would override any such contractual term, so a client could not be asked to waive the protection as a condition of engaging the firm. It would apply regardless of which part of a multidisciplinary firm holds the information, closing the gap where confidentiality is treated as an internal firm matter rather than a legal obligation attaching to the information itself.

## Internal governance of audit partnerships

SMC supports Option 3A to introduce minimum governance requirements for large audit firms. These requirements mean that large audit firms must establish a board responsible for decision-making, strategic direction and oversight, appoint a minimum number of independent board members, and apply specific governance duties to key personnel responsible for running the firm, similar to directors' duties under the Corporations Act. Large audit partnerships perform a significant public interest function but have historically had considerable discretion to design their own governance frameworks. That discretion is no longer sufficient for firms whose audit work underpins confidence in financial reporting, capital markets and the super system.

Similar governance requirements have improved other regulated sectors. In banking, insurance and super, APRA standards require sound governance frameworks, competent boards, independent leadership, board renewal and performance assessment, and audit and risk committees.

These standards support prudent management, stronger risk oversight, better challenge of management and public confidence in institutions with important public functions. The same principles apply to large audit firms. Clearer boards, independent oversight and duties for those running audit firms would align their governance more closely with the entities they audit and make responsibility for audit quality, independence, conflicts and resourcing more visible and accountable.

For super fund members, these obligations matter because audit firms assure more than financial statements: they also assess compliance, unit pricing, risk management, internal controls and operational effectiveness, and support the reliability of information used to invest members' retirement savings. Clearer boards, independent oversight and duties for those running audit firms would help ensure audit quality, independence and resourcing are core governance responsibilities, not matters left solely to individual engagements.

## Improving audit surveillance

SMC supports Option 4 to give ASIC the powers and resources needed to assess audit quality in practice. ASIC's current surveillance role includes reviewing lodged financial reports, undertaking targeted audit surveillances and audit file reviews, communicating findings to companies and auditors, seeking remedial action, and considering enforcement action in more serious cases.

That work is important, but it remains structurally limited. Sample-based audit file reviews are not systematic market-wide assurance. They can identify deficiencies in selected engagements, but they do not necessarily reveal broader firm-level drivers of audit quality, including governance issues. These limitations are particularly significant for multidisciplinary firms, where decisions that shape audit quality may sit above or outside the individual audit engagement.

ASIC should have capacity to undertake regular, risk-based and random surveillance, but also broader powers to look beyond individual audit files to the firm-level systems that influence audit quality. Stronger surveillance should include scrutiny of governance, resourcing, independence controls, conflict management, remediation tracking, breach reporting patterns and quality management systems. This would better equip ASIC to identify systemic risks early, require remediation and support confidence that audit firms are maintaining the controls needed to deliver high-quality audits on an ongoing basis.

## Enhancing disciplinary processes and sanctions

Confidence in financial reporting depends on a regulatory framework that can respond effectively when audit failures occur. SMC therefore strongly supports Option 5A and 5B in relation to disciplinary processes and sanctions for auditor misconduct. Where audit quality or independence is compromised, the consequences can extend beyond a single engagement and undermine confidence in financial reporting, capital markets and the broader assurance framework on which investors and reporting entities rely. An effective regulatory framework requires sanctions that are credible, proportionate and capable of deterring misconduct at both the individual and firm level. Disciplinary and penalty settings must be strong enough to ensure audit firms and auditors do not treat non-compliance as a cost of doing business. Penalties should reflect the seriousness of conduct that undermines audit integrity, confidence in financial reporting and trust in Australia's regulatory framework. The framework should enable ASIC and relevant disciplinary bodies to respond effectively to misconduct, require remediation where appropriate and act against both individuals and firms where the relevant conduct or governance failure sits at the firm level.

In SMC's view, stronger disciplinary processes and sanctions are a necessary complement to reforms aimed at improving audit accountability and governance. Without credible consequences for misconduct or governance failures, reforms to audit governance and accountability will not deliver the confidence in financial reporting, market integrity and regulatory oversight that those reforms are intended to achieve.

## Enhancing audit market dynamism for reporting entities

SMC supports improved disclosure under Option 6 of audit firm tenure, lead auditor tenure and recent tender activity, as this would assist reporting entities, investors and other stakeholders to assess independence and familiarity risk. Greater transparency may also encourage boards, audit committees and trustees to periodically consider whether audit arrangements remain appropriate, without imposing unnecessary prescription in every circumstance.

In relation to mandatory audit firm rotation, SMC considers that any decision by Treasury should be balanced against reporting entity requirements and the operational implications of changing auditors. Reforms to audit market dynamism should ultimately be assessed against whether they strengthen independence, audit quality and market confidence without creating avoidable disruption for reporting entities or members.

A balanced approach should promote regular market testing and scrutiny of long audit relationships, while recognising that audit continuity can also support institutional knowledge, efficient audit processes and effective assurance in complex entities such as super funds.