Australian Institute of Company Directors

Level 5
No.1 Martin Place
Sydney NSW 2000

1300 739 119
contact@aicd.com.au
aicd.com.au

ABN 11 008 484 197

12 August 2026

Director
Responsible Business Conduct Unit
Digital Policy and Corporations Division
The Treasury
Langton Crescent PARKES ACT 2600

Email: DPCDConsultations@treasury.gov.au

Dear Treasury

Regulation of accounting, auditing and consulting firms in Australia

Thank you for the opportunity to provide a submission in response to Treasury's options paper, the *Regulation of accounting, auditing and consulting firms in Australia* (**Options Paper**).

The Australian Institute of Company Directors Limited (**AICD**)'s mission is to be the independent and trusted voice of governance, building the capability of a community of leaders for the benefit of society. The AICD's membership of more than 54,000 includes directors and governance leaders of not-for-profits (**NFPs**), large and small businesses and the public sector.

Our submission builds on previous AICD submissions, including to Treasury's earlier consultation on the regulation of accounting, auditing and consulting firms in Australia in 2024 and the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into the regulation of auditing in Australia in 2019 (**2019 PJC Inquiry**).[1]

Enclosed at **Attachment A** are our detailed responses to Treasury's proposals in the Options Paper. The AICD's submission has been informed by extensive consultation with our policy committees, experienced company directors, including Audit Committee Chairs of ASX listed companies, legal experts and industry bodies.

1. Executive Summary

High-quality external audit and assurance is a critically important component of Australia's corporate governance framework. A rigorous audit process is essential to directors in discharging their duties and financial reporting obligations through independent scrutiny of management's financial statements. At the same time, the audit function plays a significant role in promoting investor confidence in the integrity of corporate reporting. Maintaining public trust in the audit profession is essential to the well-functioning of Australia's capital markets.

At a principles level, the AICD supports reform options aimed at improving governance, firm-level accountability and regulatory oversight of the audit sector.

[1] AICD submission on the regulation of accounting, auditing and consulting firms in Australia (2024), available here; AICD submission to the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into the regulation of auditing in Australia (2019), available here.

However, the AICD does not consider there is sufficient evidence to suggest that audit quality in Australia is experiencing systemic decline. To the contrary, consistent member feedback indicates that audit quality remains strong and that boards continue to have confidence in the rigour of the audit process and professionalism of the sector.

The AICD is supportive of targeted and proportionate reforms that prioritise and support audit quality and independence, as a key governance concern. We caution against proposals for broad structural reforms and a "one size fits all" or blunt application to both firms and reporting entities that could lead to unintended consequences. These include outcomes that could result in a reduction in audit quality and market capacity as well as access to capability and expertise within Australia's largest multidisciplinary firms.

We are particularly concerned that certain reform options would also impose significant and disproportionate costs on audit firms and, indirectly, reporting entities of all sizes and sectors, and ultimately their shareholders. In the AICD's view, this outcome would be inappropriate given reporting entities are not the source of the conduct issues the reforms are intending to address. These downstream costs would come at a time when Australian businesses are already burdened by significant regulatory costs and where productivity remains a core national priority.

As outlined in **Attachment A**, if certain reform options are pursued, the AICD strongly recommends a proportionate application (for example, application to large, systemically important audit partnerships and large, systemically important reporting entities), as appropriate.

We also recommend that Treasury undertake a comprehensive Regulatory Impact Statement (**RIS**) of the reforms in their totality prior to bringing any legislation to Parliament. A rigorous cost benefit analysis is an important policy making step that will provide visibility on how the policy objectives have been weighed against the costs for the audit sector and ultimately, reporting entities as a result of any changes. Additionally, where reform options are pursued, it is important that there is an appropriate transition period with grandfathering arrangements, given the complexity and costs for reporting entities and firms in meeting any new obligations.

Finally, in our detailed response in **Attachment A** we have identified, where appropriate, alternative mechanisms across the reform package that may advance the intended policy objectives without the need for new prescriptive legislative requirements. These include, for example, an audit firm governance code, principles-based measures to increase transparency and consistency in public company disclosures, and the use of 'comply or explain' disclosures or shareholder/member approval mechanisms. We strongly encourage Treasury to consider these alternatives to rigid regulatory mandates to preserve flexibility, reduce compliance costs and avoid unnecessary regulatory burden.

In **Attachment A** we have responded in detail to Treasury's proposals in the Options Paper. Our key points on the proposals are as follows:

Ensuring accountability within the audit sector

- The AICD supports measures to strengthen firm-level accountability in the audit sector, including appropriately tailored audit firm licensing. We recognise there is an existing accountability gap at the firm/partnership-level under the current regulatory framework.
- While we support the introduction of a licensing regime, we caution against conditions that create overlap with existing legislative requirements and quality management standards. We also consider that any licensing requirements should be proportionate and apply on a tiered basis to reflect differences in firms' scale, complexity and risk profile.

Managing structural conflicts of interest in multidisciplinary firms

- The AICD in-principle supports restrictions on large reporting entities engaging their auditor for non-audit services, provided that any such measures are subject to materiality thresholds and relevant exceptions. Consultation with senior directors has confirmed well-established governance processes over non-audit services, with boards, audit committee and management oversight to safeguard auditor independence. Restrictions would, to an extent, represent a codification of these practices.

- If regulatory restriction is deemed necessary, it is critical that access to specialist expertise that is closely connected to the audit function is preserved. We recommend that clear and workable exceptions apply for assurance services that are required to be delivered as part of the audit process or for related assurance purposes which the auditor is best placed to undertake due to their knowledge of the entity. We recommend detailed consultation with reporting entities on these issues, and consideration of disclosure mechanisms in place of regulatory restrictions.

- We do not support proposals for operational or structural separation of multidisciplinary firms. These options would represent disproportionate interventions in the sector that are unlikely to deliver clear audit quality or independence benefits when weighed against their complexity and potential for significantly increased costs for reporting entities. We are particularly concerned that these options would substantially weaken the benefits of integrated professional expertise and in case of structural separation, put large Australian entities who rely on these capabilities in audit and assurance services at a disadvantage compared to their international counterparts.

Internal governance of audit partnerships

- The AICD supports new minimum governance standards for large audit firms, including requirements for an independent chair, a minimum number of independent directors and duties for key personnel. We consider enhanced governance requirements, combined with audit firm licensing with ASIC oversight under Option 1A, could achieve the intended policy objectives. These requirements could be embedded as part of any new licensing regime or adopted under a United Kingdom (**UK**) style audit firm governance code.

- We do not support options to reduce partnership limits or mandate audit firm incorporation. Directors have raised concerns that such proposals would reduce market capacity and audit firm depth.

Improving audit surveillance

- The AICD supports a mandated minimum level of ASIC audit surveillance, including increased audit file reviews selected on both a randomised and risk basis and publication requirements. We strongly encourage these measures to be accompanied by increased resourcing to support more active and comprehensive surveillance by the regulator, given ASIC's existing broad remit.

Enhancing disciplinary processes and sanctions

- The AICD in-principle supports the introduction of proportionate civil penalties, enhanced administrative powers for ASIC and measures to improve the Companies Auditors Disciplinary Board's (**CADB**) disciplinary capability.

- The introduction of a civil penalty framework would also complement the licensing regime contemplated under Option 1A by providing ASIC an appropriate regulatory response for breaches of firm-level obligations and licensing conditions. We caution however against introducing a civil penalty framework that creates duplicative enforcement options should a licensing regime be established. We encourage consideration of streamlining available sanctions to reduce legal complexity.

Enhancing audit market dynamism for reporting entities

- The AICD supports additional reporting obligations for large reporting entities regarding auditor tenure.
- We also support a periodic tendering requirement for large reporting entities every 10 years. In our view, a periodic tendering requirement strikes an appropriate balance between promoting market dynamism, while also preserving board discretion to maintain auditor continuity in the interests of audit quality. It is important that the drafting of any periodic public tender obligation provide scope for exceptions (for example, with regulator approval) where specific circumstances faced by a reporting entity make a public tender impractical at a designated time. As an alternative to a regulatory requirement, we also encourage consideration of options such as a "comply or explain" disclosure and/or shareholder approval being obtained to extend the period for tendering, where necessary.
- The AICD does not support a mandatory audit firm rotation requirement every 20 years. We are not persuaded that mandatory audit firm rotation would, of itself, deliver better audit outcomes. The proposal does not adequately reflect the realities of Australia's audit market, where large complex reporting entities have a limited number of viable audit providers. We are also concerned that a prescriptive firm rotation requirement, in addition to a periodic tendering requirement, could undermine the objectives of a competitive tender process given existing market constraints.
- On balance, the AICD considers that a combination of existing audit partner rotation requirements and a comprehensive auditor review every 5 years, as well as a periodic tendering requirement every 10 years, are effective mechanisms to incentivise market dynamism. These measures preserve the board's discretion to make determinations about auditor tenure, taking into account an entity's specific circumstances and shareholder interests.

2. Next Steps

We hope our submission will be of assistance. If you would like to discuss any aspects further, please contact Laura Bacon, Senior Policy Adviser, at lbacon@aicd.com.au, Sean Dondas, Policy Adviser, at sdondas@aicd.com.au, or Simon Mitchell, Acting Head of Policy, at smitchell@aicd.com.au.

Yours sincerely,

Louise Petschler GAICD
General Manager, Education & Policy Leadership

Australian Institute of Company Directors

Level 5
No.1 Martin Place
Sydney NSW 2000

1300 739 119
contact@aicd.com.au
aicd.com.au

ABN 11 008 484 197

Attachment A – Responses to proposals

Proportionality and application to firms and reporting entities

New regulatory obligations should be proportionate and risk-based, recognising the significant variation in the size, structure and complexity of accounting and audit firms operating in Australia.

Regulatory requirements should also be calibrated to the size and significance of the reporting entities being audited, ensuring that compliance costs and governance burdens remain commensurate with the risks being addressed.

Firms

At various points the consultation paper uses 'large audit firms', 'multidisciplinary firms' and 'significant global entity' to frame a proposed reform. This lack of clarity on application and scope has made it challenging to assess the proportionality of the proposals.

With the exception of the proposed licensing regime, we strongly recommend that these reforms are limited to the largest and most systemically important firms that have the capacity and resources to meet significant new regulatory requirements. Limiting new requirements to these very large firms would also be consistent with our understanding of the policy concerns the reforms are seeking to address and broader community focus on the conduct at multidisciplinary firms in particular.

While we do not have a firm view on the mechanism to distinguish between different sized firms in the sector, we consider the definition of a 'significant global entity' (**SGE**) (that is, an entity with at least $1 billion global turnover) could set an appropriate threshold and would capture Australia's largest partnerships and multidisciplinary firms.

Imposing significant new obligations on firms that do not have equivalent resources or the same risks as the largest multidisciplinary firms will likely reinforce market concentration amongst the largest providers. Importantly, we note that the UK Financial Reporting Council (**UK FRC**) has identified this experience for smaller and mid-market firms in the UK. That is, challenges for small and medium sized firms in meeting the cost of compliance and regulatory change, as well as barriers to entry into the 'public interest entity' (**PIE**) audit market.[2]

Reforms should therefore be targeted at addressing identified risks, while preserving a diverse and competitive audit profession that can continue to meet the needs of reporting entities of different sizes and complexity. Most critically, any reforms must ultimately work cohesively to strengthen audit quality and avoid creating risks to audit quality.

Reporting entities

The impact of these reforms on reporting entities should also be considered through a proportionality lens. A number of reform proposals would have significant downstream consequences for reporting entities, including through increased service costs, reduced access to specialist expertise and changes to the structure of the audit market. As we understand from the Options Paper many of the proposals would

[2] UK FRC, *Annual Review of Audit Quality*, (July 2025), p.21, available here.

apply to all 'reporting entities' a population that is considerable, including all public companies and large proprietary companies.

The capacity of these entities to implement the proposed requirements (e.g. a prohibition on engaging the auditor for non-audit services) will vary considerably. For example, an ASX 50 company will have a far greater capacity to implement these requirements than a privately owned business or NFP entity that is just above the large proprietary company threshold. The proposals run the real risk of not only imposing new significant compliance costs on these entities but also disproportionately impacting the quality of audit and non-audit services provided to these entities. For example, we do not consider there is a strong policy case in prohibiting a privately owned business from also obtaining non-audit assurance services (e.g. on cyber security, forensic accounting or climate reporting assurance) from its audit firm.

Our view is that these proposed new regulatory obligations (e.g. a prohibition on engaging the auditor for non-audit services, additional auditor tenure disclosure requirements and mandatory periodic tendering) should be calibrated to the nature, size and risk profile of the reporting entities. That is, where there is a clear case for additional safeguards to support confidence in financial reporting and audit quality, rather than applying uniform requirements across a highly diverse population of reporting entities.

We note that several overseas jurisdictions, including the UK, apply heightened audit, governance and reporting requirements to "public interest entities" that are of particular significance to investors, financial markets or the broader economy. A similar approach in Australia would assist in providing a more proportionate and risk-based framework, while limiting unnecessary compliance costs for smaller listed entities, private companies and not-for-profits that do not present the same level of public interest risk.

In our response below to the proposals we have used 'large reporting entities' as a proxy for a proportionate application to only entities that are large and where there is a strong public interest.

Ensuring accountability with the audit sector

1A: Require reporting entities to obtain audit services only from audit firms licensed by ASIC.

1B: Require Registered Company Auditors 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.

<u>Option 1A</u>

The AICD in-principle supports accountability for firm-level decisions relating to audit quality and ethical standards being extended to audit firms beyond individuals. We also support ASIC having clear powers to monitor, supervise and take enforcement action in relation to firm-level conduct.

We recognise there is an accountability gap at the firm-level under the current regulatory framework and that Australia is an outlier in this respect. We understand some comparable international jurisdictions (e.g. the United Kingdom) impose direct obligations on audit firms and can take enforcement action at the firm level.

Of the options presented, we consider an appropriately tailored licensing regime requiring audit firms to comply with ongoing obligations relating to quality management, ethical standards and governance is the most appropriate mechanism to provide clearer firm-level accountability.

We note the Options Paper refers to the Australian Financial Services Licence (**AFSL**) regime as an example legal framework that could be modelled in this context. Conceptually, we agree that there are elements of the AFSL regime that could be imported. For example, 'fit and proper person' assessments (discussed further below), breach reporting obligations as well as principles-based obligations under section 912A of the *Corporations Act 2001* (Cth) (**Corporations Act**) requiring licensees to act 'efficiently, honestly and fairly', manage and mitigate conflicts of interest and maintain risk management systems.

We would however caution against wholesale adoption of the AFSL regime and encourage Treasury to consult extensively with legal experts on a suitable legal framework. Of note, the Australian Law Reform Commission (**ALRC**), through its extensive review of Australia's corporate and financial services legislation, examined the costs associated with the legislative complexity of the AFSL regime and the challenges it creates for meaningful compliance.[3] We strongly urge consideration of this analysis as part of any regulatory design process for a licensing regime.

While the AICD in-principle supports Option 1A, we **recommend** the introduction of a licensing regime:

- **Avoids duplication with existing requirements** under the Australian Standard on Quality Management 1 (**ASQM 1**) or Corporations Act requirements. The introduction of a licensing regime provides an opportunity to streamline ASIC's oversight of the full spectrum of audit firm conduct relating to quality management, independence and ethical standards. Conversely, adding to an existing patchwork of legislative requirements and standards with duplicative licensing conditions will only increase complexity and compliance costs, and reduce the overall efficacy of the licensing regime; and

- **Be proportionate in its application** to avoid undue cost or complexity for small and mid-tier firms. For example, licensing requirements should apply on a tiered basis to reflect differences in firm scale, complexity and risk profile. It would be disproportionate for a small audit firm to face the same regulatory obligations as a large multidisciplinary firm.

Importantly, we note that directors have raised concerns with the capacity of ASIC to supervise and enforce a licensing regime effectively given its broad remit. The proposal for licensing conditions to include requirements relating to quality management, ethical standards and governance are extensive and would require greater resourcing for ASIC to monitor effectively and on an ongoing basis.

<u>Option 1B and 1C</u>

The AICD agrees conceptually with requirements for Registered Company Auditors (**RCAs**) to comply with professional conduct obligations as an ongoing obligation of registration and for all partners of multidisciplinary firms to meet 'fit and proper person' requirements. However, should a licensing regime under Option 1A be pursued, we would expect these requirements to form part of licensing conditions, similar to how these requirements are embedded within the AFSL regime. We therefore do not consider separate requirements that create a layering of obligations are warranted.

In respect of 'fit and proper person' requirements, we do not consider it appropriate that a firm be subject to deregistration where a single partner no longer meets a 'fit and proper person' test. This level of sanction is disproportionate in the context of a large multidisciplinary firm that services thousands of Australian reporting entities, including some of our largest publicly listed companies. The implications of a firm's deregistration for those entities would be significant and at a policy level, is at odds with proposals to incentivise market competition given Australia's market concentration. We do however agree that the

---

[3] ALRC, *Confronting Complexity: Reforming Corporations and Financial Services Legislation*, (ALRC Report 141), available <u>here</u>.

imposition of regulatory conditions where an individual fails to meet ‘fit and proper person’ requirements would be appropriate.

Extension of whistleblower laws

In discussing measures to strengthen accountability within the audit sector, directors highlighted that Australia’s whistleblowing regime should extend to large multidisciplinary firms structured as partnerships, with appropriate ASIC oversight.

The AICD’s recent submission to Treasury on the ‘*Review of tax and corporate whistleblowing in Australia’* provides support for whistleblower laws to apply consistently to organisations, regardless of their legal structure.[4] We consider that amendments or regulations to bring partnerships within the definition of a ‘regulated entity’ in Part 9.4AAA of the Corporations Act would be an appropriate measure.

Managing structural conflicts of interest in multidisciplinary firms

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

2B: Achieve operational separation within existing structures.

2C: Mandate structural separation.

2D: Broader reform.

Option 2A

The AICD in-principle supports a prohibition on large reporting entities engaging their auditor for non-audit services, provided the prohibition applies above a certain materiality threshold and that there are clear exceptions (discussed further below).

As Treasury’s Options Paper notes, threats to auditor independence are already managed through a number of requirements in the Corporations Act and the APES 110 *Code of Ethics for Professional Accountants* (**APES 110**).

Many of these requirements were introduced by the *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004 (**CLERP 9**)* and informed by Professor Ian Ramsay’s review of the *Independence of Australian Company Auditors* (**Ramsay Review**). While a blanket prohibition on auditors providing non-audit services to their clients was a measure considered at the time, the Ramsay Review concluded it was not necessary or appropriate.[5] Professor Ramsay’s assessment was:[6]

> *More fundamentally, the review has not uncovered any evidence to suggest there are systemic failures within the accounting profession in complying with the ethical rules for providing non-audit services to audit clients.*

In feedback to the AICD, directors have shared this same perspective regarding auditor independence arrangements today.

We note that public companies have existing requirements under the Corporations Act to disclose the procurement of non-audit services from their auditor in their directors’ report. In addition, large reporting

[4] AICD submission on the review of tax and corporate whistleblowing in Australia (August 2026), available here.
[5] Professor Ian Ramsay, *Independence of Australian Company Auditors – Review of Current Australian Requirements and Proposals for Reform,* Report to the Minister for Financial Services and Regulation, (2001), available here.
[6] As above, at [5.89].

entities often have in place internal safeguards to meet their statutory auditor independence requirements. These include:

- detailed lists of prohibited non-audit services;
- caps on non-audit fees and engagements by auditors; and
- pre-approval of non-audit engagements by Audit Committees and/or boards;

Directors view these measures as promoting robust auditor independence, without necessitating the introduction of new regulatory requirements.

As an alternative to introducing a blanket prohibition on large reporting entities engaging their auditor for non-audit services, we consider principles-based measures to increase transparency and consistency in public company disclosures about non-audit service engagements would be more appropriate (for example, via standards or a code). Disclosure could include details of a reporting entity's internal control measures to safeguard auditor independence, noting some public companies are already making these disclosures.

The importance of a flexible exceptions framework

If nonetheless Government decides to proceed with a prohibition on large reporting entities engaging their auditor for non-audit services, the AICD strongly recommends that it be subject to carefully calibrated exceptions.

Directors have highlighted the importance of preserving access to specialist expertise that is closely connected to the audit function. Equally, we have heard there are often circumstances where the incumbent auditor may be best placed to provide assurance-related services given their knowledge of the entity. For example, Audit Committee chairs of APRA-regulated entities noted that for certain regulatory compliance audits, the auditor is often the most appropriate provider. Similarly, sustainability and climate assurance engagements are no longer purely voluntary consulting services. For reporting entities subject to Australia's mandatory climate reporting regime, assurance over Australian Accounting Standards Board (**AASB**) S2 disclosures is now a statutory requirement.

In the absence of targeted exceptions, there is a risk that a blanket prohibition could lead to a significant increase in costs for reporting entities, reduce the quality of assurance advice and services to reporting entities, as well as limit access to specialised capability. It may ultimately weaken the underlying quality of audit services and broader assurance services provided to the entity with resulting detrimental impact on board oversight and risk management.

The AICD **recommends** that any prohibition be accompanied by clear exceptions for 'audit-related services' that are required either:

- **as part of the audit process** (for example, tax compliance, valuation services and actuarial services); or
- **for assurance purposes which the auditor is best placed to undertake due to their knowledge of the entity** (for example, assurance of regulatory compliance and reporting, annual reporting materials including sustainability reports, modern slavery reports, APRA-regulated entity prudential requirements and pending obligations for critical infrastructure entities amongst others).

We also **recommend** that any prohibition be subject to a materiality threshold that permits immaterial non-audit engagements in addition to allowed exceptions. The auditor could provide non-audit services provided the fees do not exceed a prescribed percentage of the statutory audit fee in a financial year. We recommend detailed consultation with reporting entities on the drafting of materiality thresholds and exceptions categories, noting the range of existing practice with internally approved fee caps and non-audit services that the auditor can be engaged for.

Additionally, consistent member feedback has called for clear definitions for what constitutes 'audit-related services' and 'non-audit services', noting that current definitions are unclear and that classifications can vary between audit firms and reporting entities.

Options 2B and 2C

The AICD does not support proposals for either operational or structural separation of multidisciplinary firms. These proposals would be an excessive and disproportionate response to the policy problems the proposed reforms are seeking to address. Targeted and risk calibrated proposals, such as licensing, represent a far more measured response that will not result in the potential significant unintended consequences that would result from operational or structural separation.

Operational separation

In the case of operational separation, directors consider that the proposal is unlikely to deliver a clear or proportionate improvement in audit quality or auditor independence when weighed against its significant costs and complexity.

Implementing operational separation would require duplicative governance structures, management functions and supporting corporate services that would increase a firm's operating costs and ultimately be passed through to reporting entities. In feedback to the AICD, directors have noted that creating artificial organisational barriers between service lines could impede collaboration between the audit services arm and specialist providers of audit-related services where necessary (as noted above). This would reduce efficiencies in the multidisciplinary model and ultimately increase transaction costs for reporting entities.

While the UK FRC reported improvements in audit quality since the UK Big Four implemented operational separation within their firms, it has also acknowledged that these improvements occurred alongside broader regulatory reforms.[7] It therefore remains difficult to isolate the specific impact of operational separation on audit quality or auditor independence.

The UK's experience highlights the cost implications of large-scale audit reforms. Since the introduction of the broad package of regulatory measures, audit fees have increased significantly across the market.[8] Again, while it is difficult to isolate the contribution of any individual reform measure, anecdotal feedback suggests that operational separation has resulted in substantially higher transaction costs for reporting entities procuring both audit and non-audit services from the Big Four firms.

Structural separation

Structural separation would represent an unprecedented Government intervention in an industry in Australia. In our view, there is a real risk that this option could reduce audit quality as well as competition in the audit market, particularly if firms choose to exit or scale back audit services as a consequence. This would further constrain choice for reporting entities and increase audit costs at a time when concerns already exist regarding market concentration. We are also concerned with the broader economic

[7] UK FRC, *Big Four audit firms conclude transition period of operational separation*, (October 2024), available here.
[8] Audit fees increased by 75% over five years between 2017/2018 and 2022/2023. See Quoted Companies Alliance, *It Doesn't Add Up: The Crisis of Unaffordable Audits*, (2024), available here.

ramifications of removing multidisciplinary firms from the audit sector and the likely dampening effect on productivity given the extent to which they service Australian reporting entities across all sectors.

As discussed above, directors consider that a key benefit of the multidisciplinary model is the access it provides to specialist expertise in areas which can support an efficient audit process and enhance audit quality. This is a particularly acute concern for some of our largest ASX listed companies with global operations. Their audit process inevitably relies on a firm's international network of expertise to support auditing and assurance requirements with foreign financial reporting agencies and regulators.

Removing the multidisciplinary model from within Australia's professional services sector altogether would make Australia an outlier compared to our international peers.

Overall, the AICD considers that proposals for both operational or structural separation are a disproportionate response to the identified problems that risks significant unintended consequences for audit quality, market competition and the cost of professional services.

In our view, strengthening integrity and governance obligations within multidisciplinary firms could be achieved more effectively through targeted measures, such as introducing firm level licensing requirements, instituting stronger governance arrangements (discussed below), and enhancing regulatory oversight.

Internal governance of audit partnerships

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

3B: Reduce partnership limit for accounting firms (currently 1,000).

3C: Require reporting entities to obtain audit services only from an Authorised Audit Company.

Option 3A

The AICD strongly supports the application of new minimum governance standards for large audit firms (i.e. multidisciplinary firms).

We support requirements for an independent chair and a meaningful minimum number of independent directors. Independent directors on an audit firm board provide an important counterbalance to commercial pressures, strengthen the focus on audit quality and the public interest, as well as assist firms in identifying and managing conflicts of interest. Independent directors can also bring greater objectivity to conduct and culture than what might be achieved from within the audit firm.

For the sake of clarity, we do not support a majority independent board requirement for large audit firms. Unlike listed companies, where independent directors oversee management on behalf of external shareholders, partnership structures are owned by partners who bear the firm's risks and responsibilities. Independent directors should therefore make up a meaningful minority of the board to provide robust independent challenge, while still preserving the essential character of the partnership model.

While the precise design of these arrangements warrants further consultation, we consider that governance requirements could either be a licensing condition for large audit firms (determined by a revenue threshold) under Option 1A or prescribed in an audit firm governance code - similar to the approach adopted in the UK.[9] Each of these approaches would provide flexibility while establishing clear and consistent expectations across the market.

Importantly, member feedback has highlighted that governance bodies without meaningful decision-making authority is unlikely to achieve the policy objectives of the reform. Where firms operate within global network structures, directors have emphasised the need for the Australian board to possess genuine authority to influence local audit quality, conduct and culture, risk management, strategy and remuneration settings. We consider there is an opportunity under Option 3A to clarify these expectations.

The AICD also supports in-principle the introduction of enforceable duties for key personnel within large audit firms. We consider it is appropriate that individuals responsible for the governance and management of large audit firms be subject to clear obligations relating to the exercise of due care and diligence, good faith, oversight of risk and audit quality. Such measures would strengthen accountability and reinforce the public interest responsibilities associated with the provision of audit services.

Given the partnership structure, applying traditional Corporations Act directors' duties to key personnel would involve significant legal complexity. Partnerships differ fundamentally from companies in their ownership, governance and legal architecture, making the application of corporate law concepts inappropriate and unnecessarily complex.

We consider that the licensing regime proposed in Option 1A and enforced by ASIC, or a UK-style audit firm governance code, could be appropriate mechanisms to apply duties to key personnel.

Overall, we also consider Option 3A to be a more targeted and proportionate response to identified governance concerns than proposals requiring changes to partnership structures or mandatory incorporation (discussed below). Enhanced governance requirements, combined with a licensing regime under Option 1A, could substantively improve oversight and accountability within large audit firms. These options would also preserve key benefits of the multidisciplinary model, including access to the expertise that supports audit quality.

<u>Option 3B</u>

Partnership limits

The AICD does not support reducing partnership limits for accounting firms. From a policy perspective, it is not clear how an arbitrary reduction in partnership size would strengthen accountability, audit quality or auditor independence.

The proposal also raises concerns regarding market capacity and capability. Large audit engagements often require access to specialist expertise across multiple disciplines, jurisdictions and industries. The largest firms have developed partnership and network structures that enable them to deploy these capabilities at scale. For example, Audit Committee chairs of large ASX listed companies have noted that it is common for twenty or more partners to be assigned to an audit. We are concerned that reducing partnership sizes of the largest audit firms would put Australian companies at a significant disadvantage compared to their international counterparts in terms of the depth of expertise that can be accessed for services. No other comparable jurisdiction imposes a regulatory cap on the number of partners within audit firms.

We are further concerned that mandating changes to partnership structures would impose significant restructuring costs that will flow through to the cost of audit services for reporting entities. Reducing the

[9] UK Audit Firm Governance Code, available here.

partnership size of firms could also create substantial challenges for attracting and retaining senior professionals within the sector.

Professional registrations

We do not consider there is a strong policy case for the other proposed element of Option 3B which would require a prescribed proportion of partners to hold particular professional registrations. Professional registration is already an important feature of the existing regulatory framework for those performing regulated audit functions. We also consider the proposed licensing regime under Option 1A would achieve the same objectives, including compliance with ongoing ethical obligations and 'fit and proper person' requirements.

<u>Option 3C</u>

The AICD does not support a requirement for reporting entities to obtain audit services only from an authorised audit company (**AAC**). The proposal represents a significant structural intervention and it is unclear how it would deliver improvements in audit quality or auditor independence.

Requiring firms to transition to a company structure would involve significant legal and restructuring costs. These costs would ultimately be absorbed by reporting entities through increased service fees. Given the broad application of this proposal, we also consider there would be a disproportionate impact on medium and potentially smaller audit firms being required to restructure.

Importantly, we note that Treasury's analysis acknowledges that a corporate structure may alter incentives by introducing limited liability protections that are not available in traditional partnership models. The potential benefits of clearer governance arrangements under Option 3A discussed above should be weighed carefully against these broader implications.

Overall, member feedback has indicated that the partnership structure remains an appropriate and well-established vehicle for the delivery of audit services. In our view, reforms should focus on strengthening governance, oversight and accountability that can be implemented within existing partnership structures - rather than mandating a particular organisational or corporate structure.

Improving audit surveillance

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

The AICD supports measures to mandate a minimum level of ASIC audit surveillance activity and increase audit file reviews. We also support the selection of audit file reviews on a randomised and risk basis and publication requirements.

This proposal would bring Australia more closely into line with comparable overseas jurisdictions, where legislated inspection cycles and ongoing surveillance are established features of audit regulation.

The AICD has long supported ASIC's audit inspection and surveillance program. We have consistently encouraged an inspection approach that combines both risk-based and random file selection. While risk-based reviews appropriately target areas of concern, random selection can provide broader market coverage and a more representative view of performance across firms. We therefore consider that any mandate for audit file review frequency require files to be selected on both a randomised and risk basis – consistent with ASIC's more recent practice.

We also support the timely publication of audit surveillance findings, including firm-level observations. Directors have noted that ASIC's audit surveillance findings can assist boards in engaging with their auditors on audit outcomes, identified problems and remediation activities.

It is critical that any increased ASIC surveillance activity be accompanied by appropriate funding and specialist resourcing. Directors have consistently highlighted the importance of ASIC having experienced personnel to undertake high-quality reviews – particularly for large ASX listed companies. Without adequate resourcing, there is a risk that reviews could focus on volume rather than quality.

Enhancing disciplinary processes and sanctions

5A: Introduce civil penalties for contraventions.

5B: Enhance administrative powers of ASIC.

5C: Improve CADB disciplinary capability.

Option 5A

The AICD in-principle supports the introduction of civil penalties for contraventions of auditor requirements, including a new tier of penalty for a 'significant global entity' (**SGE**).

We acknowledge there is a gap in the current penalty framework whereby only lead auditors are liable for criminal penalties in the event of a contravention of auditor requirements. We consider it is appropriate that ASIC can pursue civil penalties at the firm level, regardless of legal structure, consistent with our support of a licencing regime under Option 1A. The introduction of civil penalties would mean that serious breaches attract appropriate consequences and incentivise firm-wide compliance.

The penalty framework should be proportionate relative to the nature and seriousness of the contravention, as well as the scale and complexity of the firm involved. The penalty framework should be a component of the proposed licensing regime rather than being a distinct or standalone enforcement framework.

There is also an opportunity to streamline elements of licensing enforcement to minimise legal and regulatory complexity. A key recommendation of the ALRC's review of corporations and financial services legislation was for the consolidation and simplification of existing offence and penalty provisions under the Corporations Act, so that legal obligations and the consequences of non-compliance are easier for regulated entities to identify and understand.[10] We encourage consideration of this analysis should Treasury pursue Options 1A and 5A.

Options 5B and 5C

The AICD supports measures to enhance the administrative and remedial powers of ASIC and improving the Companies Auditors Disciplinary Board (**CADB**) disciplinary capability.

It is appropriate in our view that ASIC has the ability to address administrative contraventions of auditor requirements, including registration requirements and deficient audit work. We also consider that CADB should have the jurisdiction to deal with historical auditor misconduct, make banning orders and consider conduct related matters at the firm level if a licensing regime under Option 1A is pursued.

[10] ALRC, *Confronting Complexity: Reforming Corporations and Financial Services Legislation*, (ALRC Report 141), available here.

Enhancing audit market dynamism for reporting entities

6A: Additional reporting obligations regarding auditor tenure.
6B: Mandatory periodic tendering for audit services every 10 years.
6C: Mandatory audit firm rotation every 20 years.

Option 6A

The AICD supports additional reporting obligations for large reporting entities regarding auditor tenure.

Directors have expressed broad support for the proposal to require disclosure of additional information, including audit firm and lead auditor tenure, current lead auditor commencement, and the most recent auditor tender date. As noted by directors, many ASX listed entities are already in the practice of disclosing some or all of these details as a matter of good governance.

We recommend Treasury consider this proposal in light of the current consultation on the draft 5th edition ASX Corporate Governance Principles and Recommendations, which is proposing that listed entities disclose when the auditor was first appointed and when the engagement of the auditor was last comprehensively reviewed. [11] Care should be taken to avoid any overlap or duplication of reporting obligations.

Option 6B

The AICD supports requirements for periodic tendering of audit services every 10 years.

While acknowledging there are associated costs, on balance AICD members view the audit tender process as an important discipline to benchmark the auditor's performance, expertise and fees against alternative providers, reduce familiarity risks and invite fresh thinking and perspectives. Directors also noted the tendering process can be a useful mechanism to reinvigorate the audit approach even where the existing audit firm is retained.

Overall, we consider mandatory periodic tendering to have a stronger and more direct causal link to improved audit quality than mandatory audit firm rotation (discussed below). Importantly, a tendering requirement allows boards to test the market, while preserving the flexibility to maintain continuity where the existing auditor remains the best provider to deliver a high-quality audit.

However, we recommend flexibility with any new periodic tendering requirement and that scope is provided for exceptions (for example, with regulator approval) where the specific circumstances of a reporting entity make a public tender impractical at a designated time. In feedback to the AICD, directors noted that there may be good reason for a company to not pursue a tender process at the 10-year mark. For example, if it is undergoing a significant corporate transaction or recent changes to lead auditor or internal auditor arrangements. Any decision to defer would be disclosed and accompanied by a clear explanation for why undertaking a tender would not be in the best interests of the company or could adversely affect audit quality.

As an alternative to a regulatory requirement, we also encourage consideration of a 'comply or explain' disclosure or shareholder approval mechanism to provide flexibility for boards and Audit Committees to defer a tender in limited circumstances.

[11] ASX, Annexure A: 5th Edition Consultation Draft (Recommendation 4.3. Page 18), (July 2026), available here.

Option 6C

The AICD does not support requirements for mandatory audit firm rotation every 20 years.

Directors have outlined strong concern that a mandatory firm rotation requirement, in addition to a mandatory tendering requirement, is likely to create substantial costs and operational disruption. Directors strongly considered this is a blunt and highly costly policy response to the identified problems that will not result in improvements in audit quality. In some instances, the disruption associated with a mandatory transition to a new auditor may undermine audit quality - particularly for large and complex entities where significant time is required for an incoming audit team to develop a detailed understanding of the business.

As noted in Treasury's Options Paper, the 2019 PJC Inquiry did not recommend mandatory firm rotation given the costs arising from organisational disruptions to the audit client and audit firm. We noted that in Canada, Singapore and Spain that there has been a reversal of policies requiring audit firm rotation for these same reasons, and that the US has prohibited mandatory firm rotation.[12]

While the UK and EU have in place a 10-year tendering and 20-year firm rotation requirement, directors have emphasised the differences in market depth and complexity as compared to Australia. The UK and EU audit markets are considerably deeper with significantly more large listed companies and a broader pool of firms capable of servicing large and complex audit engagements. Australia has a comparatively smaller market as measured by audit fees and large companies. One analysis provided to the AICD estimated that the UK market is four times larger based on fees.

Australia also has a more limited number of firms with the scale, sector expertise and geographic reach required to audit many large reporting entities, particularly those with global operations. We therefore strongly caution against viewing these overseas regimes as a template for significant reforms in Australia given the considerable market differences.

In the AICD's view, boards are best placed to determine the timing for an audit firm rotation, taking into account the specific circumstances of the entity. There may for example be sound reasons why a rotation is not feasible during a certain period. This might include:

- A major corporate transaction, such as a merger, acquisition, demerger, IPO, takeover or asset sale. In these circumstances, the existing auditor may have deep knowledge of the transaction and changing auditors at the same time could introduce audit quality risks;
- Financial distress, restructuring or recapitalisation where a change in auditor would divert management and board attention and resources;
- A recent change in lead audit partner or comprehensive audit review. Given the existing 5 year audit partner rotation requirements, a board may determine that the benefits of obtaining fresh thinking have already been achieved through a partner transition and that a firm tender can be reasonably deferred;
- A recent change in internal auditor or provider of non-audit services. Given market concentration constraints, these on-foot retainers could mean certain providers are precluded from participating in an audit tender process; and

[12] 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. 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.

- The board has determined that the appointed audit firm continues to provide high quality audit services at a competitive fee rate

In these circumstances, it is appropriate that boards have the flexibility to maintain auditor continuity in the interests of audit quality. Directors have further noted that for listed companies there is also scrutiny of audit firm decisions via annual general meetings and engagement with significant investors and proxy firms.

Overall, we consider a periodic tendering requirement to be a more balanced and effective measure than mandatory audit firm rotation – particularly when combined with existing requirements for lead partner rotation every 5 years.

Comprehensive review

We also highlight the AICD's joint guidance with the Auditing and Assurance Standards Board (**AUASB**) also recommends that Audit Committees undertake a comprehensive review of audit arrangements at least every five years, building on annual audit assessments.[13] The guidance recommends that:

- The review should cover independence, audit quality issues and any ASIC inspection and Professional Accounting Body (**PAB**) review findings (for more detail, see Annexure A of the AICD/AUASB guidance);
- The results should be communicated to the board, along with recommendations on how to address any areas of concern; and
- If serious concerns have arisen (or for other reasons the Audit Committee wishes to test the market) the Audit Committee may recommend to the board that the audit be put out for tender.

Australian market constraints

Directors have shared concerns that a mandatory audit firm rotation requirement will not adequately account for the realities of the Australian audit market.

For many ASX listed companies, large financial institutions and companies operating across multiple jurisdictions, there are only a small number of firms with the scale, specialist expertise and international network required to undertake the audit. Mid-tier firms are not currently a feasible alternative for the largest or more complex reporting entities due to the breadth of their operations, regulatory obligations and global footprint. At the same time, independence requirements and existing non-audit engagements can further narrow the pool of eligible audit firms.

In practical terms, for Australia's largest entities considering a rotation of their existing auditor, the market choice can come down to one or two alternative providers.

Interaction with a tendering requirement

As noted in Treasury's Options Paper, if Option 6C is pursued together with Option 6B, a reporting entity would be required to tender every 10 years and rotate their audit firm every 20 years. We are concerned that this this would distort market behaviour given the unique Australian market constraints, and could undermine the intended policy objective of Option 6B.

As discussed above, a key benefit of a tender process is that it requires boards to critically assess the existing auditor's performance against alternative providers and make a selection in the interests of

[13] AICD-AUASB, 2022 Periodic Comprehensive Review of the External Auditor – Guide for Audit Committees, available here.

improved audit quality. However, where the market knows that an audit firm must be replaced after a prescribed period, there is a risk that tender processes conducted in the lead up to a mandatory rotation will be seen as lacking genuine commercial purpose. In these circumstances, tendering could become a procedural exercise rather than a meaningful assessment of audit quality and value for money. Equally, audit firms may be less willing to invest significant resources in a competitive tender where a future mandatory rotation requirement limits the duration of any prospective appointment. This risk becomes even more pronounced when factoring in the provision of non-audit services by an alternative provider (given independence requirements) in an already limited pool of eligible firms.

As discussed above, for Australia's largest reporting entities, the choice in provider can be limited to one or two of the multidisciplinary Big Four firms where mid-tier firms cannot currently meet the range of complex and integrated audit requirements.

We note that the interaction of Option 6B and 6C, combined with the existing lead auditor rotation requirement every 5 years, may also lead to more frequent auditor changes than are necessary to support audit quality outcomes.

Overall, we support a periodic tendering requirement as a mechanism to incentivise firms to enhance audit quality and market dynamism. However, our view is that an additional requirement for mandatory firm rotation risks diluting the effectiveness of the tender process, while at the same time increasing costs and complexity for reporting entities.