PITCHER PARTNERS

Level 13, 664 Collins Street
Docklands, VIC 3008

Postal address
GPO Box 5193
Melbourne, VIC 3001

+61 3 8610 5000

pitcher.com.au

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12 August 2026

Dear Chair,

CONSULTATION PAPER – REGULATION OF ACCOUNTING, AUDITING AND CONSULTING FIRMS IN AUSTRALIA – OPTIONS PAPER JULY 2026

We appreciate the opportunity to provide comment on the consultation paper – Regulation of Accounting, Auditing and Consulting Firms in Australia – Options Paper July 2026.

Pitcher Partners is an association of independent firms operating from all major cities in Australia. Firms in the Pitcher Partners National Association offer a wide range of services to our clients, and we are committed to high ethical standards across all areas of our practice. We focus primarily on the middle market, a distinct and differentiated component of the market from that primarily serviced by the "Big 4". Our clients come from a wide range of industries and include listed and non-listed disclosing entities, large private businesses, family groups, government entities and small to medium-sized enterprises.

We acknowledge and thank Treasury for facilitating consultation on the future regulation of the profession. Recent events have affected public confidence in parts of the accounting, auditing and consulting sectors and exposed gaps in firm accountability, governance, conflict management, regulatory coordination and regulatory powers. We support practical, enforceable reform that strengthens trust without weakening audit market capacity, competition or the attractiveness of the profession. However, reform should be targeted and proportionate without imposing unnecessary cost on firms that are already subject to extensive professional and statutory obligations.

It is important that the reform process is framed accurately. The options paper does not appear to be a response to systemic audit quality failures across the profession. Rather, it appears to respond to an identified regulatory gap concerning firm-level accountability and governance, together with isolated integrity lapses that have understandably affected public confidence. That distinction matters because the policy response should address the specific gaps and conduct concerns identified, without implying that the audit and assurance profession as a whole is failing.

The Australian audit and assurance profession is fundamentally high quality and grounded in high standards of integrity, independence, technical competence and public service. Audit practitioners are subject to extensive professional, ethical and statutory obligations, and the vast majority approach their responsibilities with care, professional scepticism and a strong commitment to the public interest. Reform should build on those strengths, support continuous improvement and reinforce confidence in the profession, rather than risk diminishing the standing of a profession that remains essential to market trust and economic confidence.

The options paper addresses reporting entities, which is a broader population than public interest entities ('PIE') or listed companies. This distinction must be made clear before any reform is made. In the middle market, more often than not, the businesses are dynamic and entrepreneurial in nature, often led by their founders, and funded largely by their owners. The degree of separation between ownership and management is very different to that of PIEs or listed companies, and commonly the professional resource they seek is assistance in becoming a better or stronger business. Robust financial reporting, systems, processes and controls are important and essential elements, but their governance frameworks are often less formal, and they have many other needs for professional assistance that simply cannot be satisfied from internal resources. These services may be appropriately provided by one firm where independence and conflict requirements are met. Reform should therefore recognise the distinctive public interest role of PIE audits while avoiding a one-size-fits-all model for accounting, tax and advisory work that is already subject to professional, tax and financial services regulation.

We do not consider partnership structure, of itself, to be the root cause of the issues identified in the options paper. Many assurance providers in Australia operate through partnership structures, but that does not mean the structure causes audit quality or conduct failures. Effective reform should focus on the systems and behaviours that affect audit quality and public trust. These include effective regulatory oversight, governance, independence, culture, resourcing, technical capability, client acceptance, conflict management, remediation and individual accountability. Structural change alone will not change the conduct of individuals who do not act ethically or with appropriate professional care.

In addition to responding to the proposed options, we have outlined how the profession can advance more broadly. Our central submission is that Australia should place clearer obligations on audit firms for quality, ethics, independence and governance, rather than relying mainly on individual-practitioner regulation. Those obligations should apply most strongly to firms undertaking PIE audits and other assurance work involving significant public reliance, regardless of whether the provider is a sole practitioner, partnership or corporate entity. They should not treat all accounting, tax, advisory and consulting activity as though it carries the same risk as services provided where there is a public interest.

Professional bodies, particularly CA ANZ and CPA Australia, should continue to contribute through education, ethical standards, continuing professional development, quality review, professional discipline and maintaining the standing of the profession. Their role should complement, not replace, statutory oversight by ASIC and other regulators where public interest audits, market integrity, government confidentiality or serious misconduct are involved. Lasting improvement in audit depends on regulators, professional bodies, audit firms, directors, management and audit committees each playing their part. Reform should also help sustain audit and assurance as attractive careers, because quality ultimately depends on capable people choosing to build long-term careers in the profession.

We would welcome the opportunity to engage in any further discussion of this topic with other interested parties.

Please contact either me, Tim Nesbitt, Director – Audit & Accounting Technical (03 8612 9596 or tim.nesbitt@pitcher.com.au), or Ronnie Vogt, Director – Audit & Accounting Technical (03 8610 5118 or ronnie.vogt@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours faithfully,

K L BYRNE	T NESBITT	R VOGT
Partner	Director, Audit & Accounting Technical	Director, Audit & Accounting Technical

Submission on the Regulation of Accounting, Auditing and Consulting Firms in Australia Options Paper July 2026

1. Executive summary

Australia has an opportunity to modernise the regulation of accounting, auditing and consulting firms in a way that further enhances trust while also preserving the strengths of the profession. The best path is not blunt structural intervention. An effective framework would recognise the public reliance placed on audit, address conflicts in multidisciplinary firms, strengthen governance and give regulators the tools to act where firm systems fail. It should also recognise that better audits depend on the broader reporting ecosystem: capable finance teams, accountable directors and audit committees that support independence and challenge management. Done well, these reforms will improve confidence, support ethical conduct and maintain a competitive and resilient audit and related professional services market in Australia.

Reform should recognise the differing segments within the Australian economy being the Corporate Market, middle market and small (and micro) businesses. We believe each of these segments require very different approaches to regulation. The Corporate Market often includes listed or public interest entities who are accountable to a broad cross-section of stakeholders. There is typically separation of ownership and management, and audit plays a crucial role in ensuring good governance. In the middle market, more often than not, the businesses are dynamic and entrepreneurial in nature, and they have many other needs for professional assistance that simply cannot be satisfied from internal resources. Reform must also acknowledge the clear distinction of the “firm” and the engagement. A firm may be engaged for a small number of PIE audits and therefore regulation on a whole firm may be disproportionate for smaller firms. This would also serve to further decrease market competition. We acknowledge and agree that reform is required but that it should target firms with substantial numbers of PIE engagements as a whole as these engagements have the greatest public interest.

Accounting, tax and investment advisory practices should continue to be regulated according to their own risk profile and existing professional, tax and financial services frameworks. The better approach is targeted uplift, stronger coordination and clear consequences for serious misconduct, rather than broad regulation that duplicates existing obligations and makes ordinary client advisory work more costly or less accessible. Below we outline our suggestions for a holistic approach.

2. Suggestions for a holistic approach

The sections that follow expand on these suggestions and explain how they can be reflected in a practical and enforceable reform package.

- **Introduce firm-level obligations for audit firms** that ASIC can enforce, focused on the systems that drive audit quality, including independence, resourcing, technical capability, culture, governance, quality management and remediation.
- **Embed continuous audit quality improvement as a shared obligation** of regulators, professional bodies, audit firms, directors and audit committees.
- **Strengthen conflicts of interest guidance** for large multidisciplinary firms, especially where government work, private client advice or non-audit services may affect auditor independence.
- **Require governance standards for large audit firms** based on public interest audit responsibilities, scale and risk.
- **Avoid mandatory structural separation of audit and consulting** unless targeted conflict, governance, independence and transparency reforms prove insufficient.
- **Do not reduce partnership size caps as a proxy for accountability** without first assessing the impact on capacity, capital, resilience, regional coverage, succession, specialist capability and competition.
- **Improve audit surveillance** through timely, risk-based ASIC inspections, clearer reporting and stronger coordination between ASIC, the Financial Reporting Council and professional bodies.
- **Recognise the role of CA ANZ and CPA Australia** in education, CPD, ethics, quality review, practice support and member discipline, while keeping statutory regulators responsible for public interest matters.
- **Strengthen the client-side audit ecosystem** by improving the responsibilities and capability of directors, management and audit committees.
- **Protect the attractiveness of the profession** by ensuring reforms support a viable audit market and sustainable career pathways.

- **Australian reforms should be market appropriate** and informed by overseas experience, without copying models that may not suit Australia's market structure or audit capacity.
- **Recognise the different risk profile of non-audit accounting, tax and advisory practices** and avoid applying audit-style regulation where existing professional, tax and financial services frameworks already address the risk.

3. Principles for targeted, proportionate and risk-based reform

An appropriate reform package should focus on the areas of greatest public reliance and risk. The following principles should guide the design of any new obligations:

- Regulation should focus on public interest areas where market confidence depends on independence and integrity, particularly PIE audits.
- Regulatory obligations should attach to the right level of responsibility, recognising that audit quality is shared by individuals, firms, regulators, professional bodies, directors and audit committees.
- Requirements should be risk-based and scalable, with the strongest obligations applying where public reliance and market impact are greatest.
- Existing professional, tax and financial services regulation should be recognised and not duplicated unless there is a clear public interest gap.
- Audit market capacity, competition and profession attractiveness should be protected when designing new obligations.
- Regulators and professional bodies should coordinate clearly so oversight is effective, timely and not duplicative.
- Australian reforms should be internationally coherent where possible and market appropriate.

The highest obligations should apply to firms undertaking a substantial number of PIE audits and other work involving significant public reliance. Those engagements affect investors, creditors, employees, regulators and market confidence, and are materially different from other audit, accounting, tax, advisory or consulting work. These obligations must be proportionate to the size of the firm and targeted at the engagement level and not the firm level in order to ensure smaller firms are not disadvantaged.

A modern framework should also recognise where decisions are made in practice. Individual auditors remain accountable for professional judgement and audit evidence, but firms control many of the systems that shape audit quality, including methodology, resourcing, independence, technical consultation, client acceptance, partner incentives, technology investment and culture.

4. Firm-level accountability in audit

Treasury is right to identify a potential gap between individual auditor obligations and the firm systems that influence audit outcomes. Quality is affected by governance, methodology, independence controls, resourcing, specialist access, training, technology, partner incentives, client acceptance and culture. These matters should be open to regulatory scrutiny and enforcement at firm level, particularly for firms undertaking a significant number of PIE audits or other work involving significant public reliance.

Firm accountability also needs to address culture and partner incentives. A sales culture may be appropriate for some advisory work, but not in public interest audit engagements. Audit partner remuneration, promotion and recognition should reward for example, independence, professional scepticism, technical consultation, escalation of difficult issues and willingness to challenge management, not revenue growth, cross-selling or client pleasing.

Australia should introduce an audit firm registration or eligibility regime for firms undertaking a substantial number of PIE audits. Eligibility should require effective quality management, independence, governance, transparency, remediation and appropriate technical capability. ASIC should be able to inspect assurance firms, whether they are partnerships or corporate entities, require remediation, impose enforceable undertakings, restrict acceptance of certain audits and take proportionate enforcement action where firm failures contribute to audit deficiencies.

The regime should be tiered so that eligibility requirements increase with the public interest, complexity and risk of the audits performed. Minimum criteria should include client acceptance and continuance, adequate staffing and supervision, access to technical and industry specialists, internal monitoring, root cause analysis, remediation, professional indemnity arrangements and careful use of audit quality indicators that inform judgement rather than operate as mechanical scorecards.

5. Conflicts of interest and structural separation in multidisciplinary firms

Multidisciplinary firms provide real benefits by bringing together audit, tax, technology, risk, governance, sustainability, restructuring and consulting expertise. That breadth can assist clients and strengthen audit quality where specialists are appropriately deployed. The policy issue is not multidisciplinary practice itself, but unmanaged conflicts, commercial incentives that may undermine independence, and the risk that confidential information or public sector access is used, or perceived to be used inappropriately.

We support clearer conflict obligations for multidisciplinary firms, particularly for government consulting and PIE audit clients. These should include mandatory conflict assessments, information barriers where appropriate, restrictions on using confidential government information, senior accountability for conflict approvals, documentation of key decisions and periodic compliance review. Existing restrictions on non-audit services to PIE audit clients should be maintained and clarified where necessary. Mandatory structural separation should remain a last resort because it may reduce specialist access, weaken audit economics, create transition risks and make the profession less attractive without necessarily improving culture or conduct.

Conflict management should recognise that information barriers are useful but not always sufficient. Firms should document why a barrier is adequate and identify circumstances where the conflict is fundamental and one engagement should be declined. Large multidisciplinary firms undertaking PIE audits should also provide meaningful transparency about conflict governance, independence breaches, remediation and oversight, while protecting confidential client information.

6. Governance standards for large audit firms

Large audit firms are not clearly defined in the options paper. For regulatory purposes, the concept should be linked to substantial public interest audit responsibilities, scale and risk, rather than legal form alone. Firms undertaking a substantial number of PIE audits should demonstrate governance arrangements that are appropriate to their public interest role, scale and risk profile.

For firms above a defined threshold, requirements could include independent oversight, a dedicated audit quality committee, documented public interest responsibilities, reporting on quality indicators and disciplinary outcomes, and annual certification by firm leadership that governance, independence and quality systems are operating effectively. The strongest obligations should apply to firms that audit a substantial number of listed entities, financial institutions and other PIEs.

Governance standards should also require firms to show how audit partner remuneration and promotion support audit quality, independence, technical consultation, regulatory responsiveness and willingness to challenge management. Revenue and growth may remain relevant to practice sustainability, but they should not dominate audit partner assessment or create incentives inconsistent with the public interest role of audit.

7. Partnership size limits and audit market capacity

We do not support reducing partnership size limits as a primary accountability mechanism. Size can add complexity, but it is not a proxy for poor governance, ethics or accountability. Lower caps may fragment firms, reduce investment capacity, weaken national and regional coverage, complicate succession and reduce audit market resilience. Any proposal to revisit partnership limits should first be supported by a detailed impact assessment covering capital, network arrangements, professional indemnity insurance, audit capacity, competition and transition costs, as well as evidence that it will impact the issues at hand.

8. Audit surveillance, enforcement and professional body coordination

Audit surveillance and enforcement should improve behaviour, support remediation and maintain confidence, rather than simply increase punitive risk. ASIC should conduct timely, risk-based inspections and publish useful thematic findings on root causes, trends and better practice. Firm-specific reporting may be appropriate for large audit firms if it is accurate, contextual and linked to remediation. Enforcement should distinguish between isolated engagement-level error, systemic quality management failure, significant independence breaches (subject to clarification of what this would constitute), dishonesty and deliberate misuse of confidential information.

Surveillance and enforcement should also recognise the benefit of hindsight available to regulators after a problem has emerged. Audit necessarily involves professional judgement based on the evidence available at the time, including judgements about estimates, going concern, impairment, provisions and other matters affected by uncertainty. The fact that later events ultimately show that an audit judgement was wrong does not, of itself, mean that the auditor acted unreasonably, negligently or without appropriate professional scepticism when forming the audit opinion. Responsibility for high-quality financial reporting is shared, with client finance professionals, management, audit committees and directors often have the same, and in some respects greater, responsibility for the preparation of financial information, key judgements, internal controls and timely disclosure. A regulatory approach that arrives only after failure has occurred can be problematic if it over-relies on hindsight rather than fairly assessing the information, circumstances and responsibilities that existed at the time. Ongoing improvement in financial reporting quality should therefore be a joint focus for auditors, regulators, directors, audit committees and clients. Strengthening that whole reporting ecosystem will assist in improving audit quality and reducing audit and financial reporting failures.

Regulatory coordination is essential. ASIC, the Tax Practitioners Board, the Financial Reporting Council, AUASB, AASB, professional accounting bodies and international regulators should have clear protocols for information sharing, referrals, confidentiality and avoiding duplication, so misconduct is addressed by the body best placed to act.

CA ANZ and CPA Australia should remain part of this coordinated framework. Their education, CPD, ethics, quality review, public practice, professional standards and member discipline functions are valuable and should be recognised. However, professional body oversight should complement, not substitute for, statutory regulation where conduct affects public interest audits, market integrity, government confidentiality or serious misconduct.

Audit quality also depends on the client side of the audit relationship. Stronger audit committees, better financial reporting processes, clearer director accountability and more capable finance functions all interact with auditor independence, timely issue resolution and high-quality reporting. Reform should therefore consider both audit firm accountability and the broader reporting ecosystem.

Disciplinary processes should include clear escalation and reporting channels, effective whistleblower protections and fair procedures for firms and individuals. Sanctions should be graduated and should distinguish professional judgement differences, isolated error, negligence, recklessness and intentional misconduct. Public reporting should be reserved for significant outcomes and should explain the conduct, sanction, remediation and whether the issue was individual or systemic.

9. International experience and market-appropriate Australian reform

International experience supports stronger firm-level oversight, transparency and remediation, but does not point to a single model Australia should copy. The United States demonstrates the value of firm registration, inspection and enforcement through the PCAOB. The United Kingdom has focused on public interest entities, audit market resilience and governance of large firms through broader audit and corporate governance reform. Canada has increased transparency through inspection reporting and firm-level remediation, while international standard setters continue to emphasise quality management, ethics, independence, sustainability assurance and firm culture.

For Australia, the useful elements are firm oversight, transparency, governance and enforceable remediation. Blunt structural measures are less attractive if they reduce audit capacity and disproportionately increase cost. Reform should also be linked to the broader reporting ecosystem, including director accountability, audit committee responsibility and high-quality financial reporting by clients. The objective should be reform that improves trust without weakening competition, specialist capability or audit careers.

10. Proposed reform package and conclusion

1. Establish a registered audit firm regime for firms auditing substantial numbers of public interest entities. The regime should be tiered to consider firm size and public accountability.
2. Require registered audit firms to comply with enforceable firm-level quality management, independence, governance and transparency obligations.
3. Introduce governance requirements for large audit firms, which has yet to be defined, potentially including independent oversight and annual audit quality reporting, the nature of these has yet to be determined.
4. Require large audit firms to demonstrate that audit partner remuneration, promotion and performance assessment are aligned with audit quality, independence, professional scepticism and the public interest role of audit, rather than sales culture or cross-selling.
5. Strengthen conflict of interest obligations for multidisciplinary firms, with specific rules for government consulting, public interest engagements and confidential information.
6. Enhance ASIC audit surveillance and require timely remediation plans for significant inspection findings.
7. Review the effectiveness of the reforms after five years before considering more intrusive measures such as mandatory structural separation or lower partnership caps.
8. Expressly preserve the role of existing regulation for accounting, tax and investment advisory practices, including CA ANZ, CPA Australia, the Tax Practitioners Board and financial services licensing frameworks, and apply any additional statutory obligations only where there is a clear public interest risk or connection to audit independence, government confidentiality or regulated financial advice.
9. Support audit market dynamism by encouraging disciplined tender processes, meaningful auditor tenure disclosure, consideration of credible firms from engaging in a dynamic audit marketplace, noting there are a limited number of institutions in Australia which require very large firms to audit them either due to scale, complexity or technical expertise, targeted rather than universal firm rotation, and periodic review

of liability, professional indemnity insurance and commercial viability settings that affect the willingness of firms to undertake complex public interest audits.

In summary, Australia should modernise regulation through practical, enforceable measures that focus on public interest audit, firm accountability, better governance, conflict management, regulatory coordination and ASIC oversight. Reform also needs to recognise the different risk profiles of audit, accounting, tax and advisory work, while preserving audit market capacity, competition and the attractiveness of the profession.

11. Specific responses to Treasury reform options

This section provides our specific response to each of the Treasury reform options. The positions below should be read together with the broader submission above. In summary, we support targeted and proportionate firm-level accountability, stronger audit quality obligations, better governance, stronger ASIC surveillance and more transparent audit market information. We do not support blunt structural reforms where targeted measures would better address the risk. The options should also be framed around continuous improvement in an already strong audit system, with regulators, audit firms, directors and audit committees each playing their part in improving audit quality over time. Reform should also be targeted at public interest engagements where impact and trust are of upmost importance.

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

Position: Do not support

Reason: Without clarity on the proposed quality management and ethical obligations or the changes to the existing obligations we do not support this. We do, however, agree audit quality is produced by a firm-wide system, not only by the individual registered company auditor. Licensing audit firms i.e. authorised audit companies and partnerships could align regulation with the reality that firms control methodology, independence systems, technical consultation, staffing, training, specialist support, partner remuneration, client acceptance, monitoring and remediation. Ongoing conditions should include quality management, ethics, independence, governance, resourcing, client acceptance and timely remediation of inspection findings. The nature of the firm’s legal structure should not determine whether it can be licensed; ASIC should have powers to license all types of entities providing audit services. Licensing should apply most strongly to firms auditing a substantial number of public interest entities and should not impose the same burden on all audit firms regardless of size, public accountability or risk. If designed well, it will support investment in audit quality and create a level playing field; if designed poorly, it will become a costly approval process, reduce audit capacity and discourage dynamism in the audit marketplace. These risks can be managed through tiered obligations, transitional periods and clear ASIC guidance.

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

Position: Support, subject to understanding the details of the proposed obligations, particularly whether or how they would interact with the APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.

Reason: Registration should not be a static entitlement. Registered company auditors should be required to maintain professional competence, independence, ethical behaviour, continuing professional development and compliance with applicable auditing and assurance standards. This would reinforce individual accountability and complement firm-level obligations. The obligation should be clearly defined and administered proportionately, and should not create duplicative paperwork where CA ANZ, CPA Australia and other professional body requirements already exist. Duplication between ASIC, professional bodies and other regulators can be managed through mutual recognition where appropriate, information sharing and clear regulatory boundaries. Professional bodies should continue to support competence through CPD, ethics requirements and member discipline, while ASIC should retain responsibility for public interest audit oversight.

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

Position: Support in principle, subject to the details of the “fit and proper person” requirements

Reason: Partners in multidisciplinary firms can influence firm culture, governance, risk appetite and conflicts management, even where they do not personally sign audit reports. A fit and proper requirement may help ensure that firm leadership and ownership are consistent with the public interest role of audit. However, applying a detailed audit-style test to every partner in a large multidisciplinary firm may be disproportionate, particularly for partners with no involvement in audit, assurance, regulated services or firm governance. The test should focus on partners in firm leadership, audit leadership, regulated service leadership, governance roles, risk roles, or those who can materially influence audit quality or conflicts. Baseline integrity requirements could apply to all partners, with more detailed fit and proper requirements for partners with relevant influence over audit or public interest work.

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

Position: Do not support as a blanket prohibition.

Reason: A blanket prohibition is too blunt, particularly outside PIE audits. Some non-audit services create unacceptable independence threats and should be prohibited, particularly where they involve self-review, advocacy, management responsibility or significant non-audit fee dependence. Other services may be permissible where they are clearly unrelated to the audit judgement, approved by the board of directors or audit committee and subject to independence safeguards. The practical focus should be on prohibiting high-risk services, requiring director or audit committee approval of permissible services, monitoring fee ratios and ensuring audit partners are not rewarded for selling non-audit work. A blanket ban may reduce access to specialist expertise, increase costs for reporting entities and weaken audit firm economics without necessarily improving audit quality.

In the middle market, ownership, governance and decision-making are often concentrated with the same individuals, who are investing and managing their own capital. These owner-managed businesses typically seek practical, commercial advice from trusted advisers who understand their operations and growth objectives. Engaging multiple firms for different services is often costly and inefficient, particularly where a single adviser possesses the necessary expertise and longstanding knowledge of the business. While APES 110 requires auditor independence to be maintained, the restrictions are less prescriptive than those applied to public interest entities, reflecting the different governance and stakeholder environment of these organisations.

Option 2B: Achieve operational separation within existing structures

Position: Potentially, support for large audit firms undertaking a substantial number of public interest entity audits.

Reason: While highly intrusive, operational separation is a possible way to protect audit independence while preserving the benefits of multidisciplinary capability. It could include separate audit governance, separate audit quality leadership, clear independence controls, restrictions on audit partner incentives, separate performance metrics for audit partners, protected audit investment and clear protocols for use of specialists. It should also make clear that a consulting sales culture should not define the audit practice.

Operational governance separation is potentially more practical than pure structural separation because it can address conflicts and incentives without forcing firms to break apart. The risk is that it becomes cosmetic, which should be managed through enforceable requirements, independent oversight, ASIC review, reporting on audit partner remuneration principles and evidence that audit quality considerations prevail over commercial objectives where they conflict. Additionally, for firms which operate within a network in Australia, if they which do not wish to merge the individual firms, operational separation would likely have significant cost implications with separate management being required for each firm, potentially reducing the number of firms offering assurance services, as opposed to operational governance separation.

Option 2C: Mandate structural separation

Position: Do not support.

Reason: Structural separation is the most intrusive option and is likely have a detrimental impact on audit quality with a significant increase in audit costs. It may reduce some perceived conflicts, but it may also weaken audit quality by cutting audit teams off from tax, valuation, technology, cyber, actuarial, sustainability and industry specialists. It could reduce audit practice profitability and investment capacity, create transition risks and costs for both firms and clients, increase costs and make audit less attractive to talented professionals. Additionally, it is likely to reduce the number of registered company auditors. Also benefits of scale for investment and in technology and quality may be diminished as a result of smaller firms being created.

Option 2D: Broader reform

Position: Support broader reform in principle where it is targeted to the public interest risks identified in the options paper, particularly confidential information, government consulting, conflicts, incentives, culture and firm-level accountability.

Reason: Broader reform should address the real sources of public concern, which may be: misuse of confidential information, poor conflict management, weak governance, sales incentives and partner and senior team members performance metrics affecting public interest work and insufficient regulator visibility over firm systems. Broader reform should not become a general regulation of all consulting or advisory activity regardless of risk. The strongest obligations should apply where there is a clear public interest function or a clear risk to market confidence. Treasury should also clarify how broader reform would interact with the concept of "large audit firms" described in Option 3A.

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

Position: Cautiously support, with clear thresholds and proportionality.

Reason: The options paper does not define "large audit firm". Any threshold should be based on public interest audit responsibilities, scale and risk, and should avoid hard rules that unintentionally reduce audit capacity or further concentrate the assurance market. Governance requirements should cover independent oversight, audit quality committees, public interest responsibilities, audit quality indicators, conflict oversight, partner remuneration principles and remediation accountability. In many cases, firms providing assurance services to PIEs already have elements of these arrangements in place.

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

Position: Do not support

Reason: Partnership size is not a reliable proxy for governance quality, ethics or accountability, and we are unaware of any empirical evidence that this would credibly impact governance, quality, ethics or accountability. Reducing the partnership limit may fragment firms, reduce capital, weaken investment capacity and reduce national audit coverage. Where a firm provides regulated services, it is reasonable to expect sufficient registered and appropriately qualified partners to supervise and take responsibility for that work. However, mandating specific percentages may have unintended consequences, including reducing the number of assurance practitioners or discouraging firms from undertaking regulated work.

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

Position: Do not support as a mandatory universal requirement.

Reason: Requiring all reporting entities to use authorised audit companies would be a significant structural change and is unlikely to address the core problems of audit quality, incentives and governance. Partnerships can be well governed and accountable if firm-level licensing, quality management, governance and ASIC oversight are strengthened. The legal form of the audit firm should not be treated as a substitute for effective regulation. Consistent with Option 5B, targeted amendments to ASIC's powers would be a more effective way to address this issue than requiring all providers to adopt a corporate structure.

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

Position: Support provided reviews are risk-based, properly resourced, timely and reported in context.

Reason: Audit oversight must be credible. More frequent and better targeted ASIC reviews could improve regulatory visibility, identify recurring deficiencies, support root cause analysis and strengthen public confidence. Publishing findings can help audit committees, investors and firms understand quality risks and better practice. However, publication should include context, severity, root causes, remediation and trends. ASIC must be properly funded and technically resourced and always be wary of using hindsight based on actual outcomes to inappropriately to client or auditor performance in the preparation and audit of the financial report. Surveillance should drive improvement, not defensive auditing or simple error counting.

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

Position: Do not support

Reason: A broad introduction of civil penalties would increase litigation without necessarily improving audit quality; however, serious breaches of auditor requirements should have meaningful consequences. Civil penalties may be appropriate for egregious breaches such as deliberate independence breaches, misleading regulators, failure to remediate systemic deficiencies, serious audit quality failures and misuse of confidential information. Penalties should apply to firms as well as individuals where the failure is systemic. However, any changes should distinguish error, negligence, recklessness and intentional misconduct, and should recognise cooperation, self-reporting and timely remediation. Additionally, given the large differential in the size of firms, any penalty regime civil or otherwise if introduced should be proportionate to the firm, otherwise it risks being disproportionately punitive.

Option 5B: Enhance administrative powers of ASIC

Position: Support in principle subject to the details of any enhanced ASIC powers

Reason: ASIC should have practical tools to address audit quality concerns before they become enforcement matters. These could include requiring remediation plans, imposing conditions on audit licences (individual and if adopted firm level), requiring independent reviews, restricting acceptance of new PIE audits in serious cases, and obtaining information about firm-level quality systems and partner incentive frameworks. Any additional powers should incorporate clear guidance, procedural fairness, reasons for decisions, review rights and transparent criteria for when powers will be used. This is most effectively addressed through targeted amendments to ASIC's powers rather than by requiring changes to firm legal structures.

Option 5C: Improve CADB's disciplinary capability

Position: Support.

Reason: The Companies Auditors Disciplinary Board (CADB) should be able to manage and respond to relevant matters efficiently, fairly and with sufficient technical expertise. Audit disciplinary matters often involve complex evidence, professional judgement, quality management systems and independence requirements. CADB should have the capability, resources and processes to deal with those matters promptly.

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

Position: Support.

Reason: Auditor tenure is relevant to independence and market dynamism, but firm tenure alone does not prove poor quality or lack of independence, particularly where engagement partner rotation and other safeguards are operating effectively. PIEs should disclose auditor tenure, the last tender date, audit committee consideration of independence and the reasons for continuing with or changing the auditor. Other reporting entities should disclose auditor tenure.

Option 6B: Mandatory periodic tendering for audit services

Position: Cautious support for PIEs, with appropriate timing and consideration of exceptions. Do not support for non-public interest audits.

Reason: Periodic tendering may improve audit committee discipline, test independence, create opportunities for market dynamism and reduce complacency. However, it is costly for reporting entities and audit firms and can shift focus to price rather than quality if poorly designed. It is preferable to automatic rotation because it allows the audit committee to assess whether retaining the incumbent is in the best interests of audit quality and public accountability.

Option 6C: Mandatory audit firm rotation

Position: Do not support as a universal requirement.

Reason: Mandatory rotation may reduce familiarity threats, but it also creates transition risk and can potentially reduce audit quality in the early years of a new appointment. Complex audits require deep knowledge of systems, controls, management judgements and industry risks. Forced rotation can also increase costs and may not improve competition if only a small number of firms are capable of tendering. It should be considered only as a targeted measure for PIEs where tenure, independence risk or market circumstances justify it.