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

11 August 2026

Dear Mr Williamson,

Subject: Regulation of accounting, auditing and consulting firms in Australia: Options paper

The International Corporate Governance Network (ICGN) appreciates the opportunity to comment on the Australian Treasury's options paper on the regulation of accounting, auditing and consulting firms.

Led by investors responsible for assets under management of >US$100 trillion, ICGN is an authority on global standards of corporate governance and investor stewardship. Headquartered in London, our membership is based in more than 40 countries.

We welcome the Government's recognition of the vital role that audit plays in supporting the integrity and proper functioning of capital markets. Investors rely on audited financial statements to assess companies, allocate capital and hold boards and management accountable. High quality, independent audit therefore supports investor confidence, market integrity and the efficient allocation of capital.

We also agree that audit quality should be the central lens through which the options in this paper are assessed. The objective of reform should be to strengthen the conditions that support consistently high quality audits, including auditor independence, professional scepticism, appropriate expertise and resources, effective quality management and a firm culture that prioritises the public interest. This is consistent with the audit quality outcomes identified by Treasury.

We do not comment in detail on every option in the paper. Our comments instead focus on the principles that we believe should inform the development of the regulatory framework.

Independent and effective audit regulation
ICGN generally supports independent public oversight of the audit profession by a properly resourced regulator with proportionate but robust supervisory, investigative, enforcement and remedial powers. While regulation should be proportionate to the size and public interest significance of the firms concerned, the regulator must be able to act effectively where conduct or firm-wide systems threaten audit quality.

We agree that internationally aligned auditing, quality management and ethical standards are generally in the best interests of investors. Global investors benefit from comparable requirements and consistent audit quality across the markets in which they invest. Unnecessary divergence can create fragmentation and reduce the comparability and reliability of audit and assurance. This is of particular relevance to Australia, where a significant proportion of listed equity is held by international investors who assess Australian companies alongside holdings in other markets. International consistency should therefore remain the goal, although local adaptations may be appropriate where they are necessary to reflect Australia's legal framework or respond to clearly identified jurisdiction-specific risks.

ICGN supports enforceable firm-level obligations relating to quality management, ethics and auditor independence. These should remain closely aligned with the relevant international standards developed by the IAASB and IESBA, while permitting clearly justified adaptations to reflect Australia's legal and regulatory framework. ICGN is supportive of the adoption of ISQM1 where appropriate.

Similarly, safeguards around the provision of non-audit services by the statutory auditor are central to independence in fact and in appearance, particularly within multidisciplinary firms where audit sits alongside larger advisory practices. Clear disclosure of audit and non-audit fees paid to the statutory auditor, and of the audit committee's policy on the award of non-audit work, allows investors to assess whether those safeguards are operating.

Investors also support a supervisory approach that examines firms' systems of quality management. Firm-wide reviews can help regulators identify weaknesses in governance, culture, resourcing and internal controls that may affect multiple engagements. These reviews should, however, complement rather than replace sufficiently frequent reviews of individual audit files. File reviews provide a test of whether firm-wide policies and controls are being applied effectively in practice and whether engagement teams have obtained sufficient appropriate audit evidence.

There is also scope to improve the transparency and usefulness of the regulator's reporting. More timely, sufficiently detailed and appropriately contextualised reporting of inspection findings can help audit committees and investors assess audit quality and engage more effectively with audit firms. Where firm-level findings are published, reporting should be fair, consistent and sufficiently nuanced to distinguish between the nature and severity of deficiencies.

Finally, the regulatory framework should provide for timely, credible and proportionate sanctions. The regulator should have an appropriate range of civil, administrative and remedial tools so that its response can reflect the seriousness of the conduct concerned. This should include the ability to require deficiencies to be remediated promptly, protect the market from continuing harm and impose meaningful sanctions on firms as well as individuals where responsibility rests at the firm level. These powers should operate with appropriate procedural safeguards but should not be undermined by avoidable delays or penalties that are insufficient to deter misconduct.

Audit firm governance and transparency

Regulation of audit firms operates alongside oversight at company level, and the two together determine the conditions for audit quality. In Australia's established governance framework, the audit committee appoints, evaluates and where necessary replaces the external auditor, sets the policy on non-audit services and assesses the auditor's independence and professional scepticism. Reforms directed at audit firms will be more effective where audit committees are independent, appropriately skilled and willing to exercise challenge, and investors assess the quality of that oversight as part of their broader assessment of the board.

Audit firms perform an important public interest function, and the firms should have governance arrangements that support independence, professional scepticism and the consistent delivery of high quality audits. ICGN therefore supports the direction of proposals to strengthen the governance of large audit firms, including clearer oversight responsibilities and an appropriate degree of independent challenge.

The UK Audit Firm Governance Code provides one model that the Government may wish to consider when evaluating the appropriate framework for Australia. Within multidisciplinary firms, governance arrangements should give the audit practice sufficient operational independence for audit quality and the public interest to take primacy over wider commercial considerations, including appropriate autonomy over its own governance, decision-making, resource allocation and, where relevant, the remuneration of audit partners and staff.

Investors and other users of audited financial statements are the ultimate beneficiaries of statutory audit. Audit firm governance should therefore promote accountability to those users, rather than a culture of treating the audited company’s management as the client.

Improved transparency reporting could complement stronger governance requirements. Such reporting should provide meaningful information about how governance, culture, independence, resourcing, remuneration and quality management support audit quality. Any prescribed indicators should have a clear connection to audit quality outcomes and should enable investors, audit committees and regulators to assess trends and compare firms. Where a small number of firms audit most large listed companies, comparable firm-level reporting is one of the few means by which audit committees and investors can distinguish between firms on governance and quality management rather than on price and relationships alone. Indicators covering firm culture, staff retention and attrition, the experience and continuity of audit teams, capacity and workload, the use of specialists, and the extent to which partner and staff incentives are linked to audit quality are among those that investors have found decision-useful, and are more informative where accompanied by narrative explanation of significant trends and of the firm's response to identified weaknesses. Reporting requirements should avoid encouraging lengthy boilerplate disclosures or an excessive focus on inputs that have no demonstrated relationship with audit quality.

Auditor tenure, tendering and rotation

Investors take differing approaches to auditor tenure, reflecting variations in national market practices, regulatory frameworks and company circumstances. Nevertheless, very long auditor tenure can give rise to concerns about actual or perceived independence, familiarity with management and the maintenance of professional scepticism. Many, although not all, investors therefore consider auditor tenure when assessing the effectiveness of the audit committee and the company's broader governance arrangements.

ICGN is broadly supportive of the appropriate periodic refreshment and testing of external auditor appointments. The objective is not necessarily adherence to a particular number of years, but a periodic and evidenced test of the auditor's independence, professional scepticism and audit quality. A competitive tender is one means by which an audit committee can demonstrate to shareholders that the continuing appointment of the incumbent remains in their best interests. We therefore do not take a definitive position on the precise period that should apply to mandatory tendering or rotation in Australia. However, the approach used in the UK and European Union, involving tendering after ten years and a maximum tenure of 20 years in relevant circumstances, is an established international reference point that has received support from many investors.

The proposed enhancement of company reporting on auditor tenure would be useful for investors. Disclosure of the tenure of the audit firm and lead auditor, the date of the most recent tender and the board's approach to reviewing the appointment would provide useful information for investors. Where tenure is particularly long, the audit committee should explain why it considers the continuing appointment to be in the best interests of shareholders and how it has assessed the auditor's independence, professional scepticism and audit quality. Treasury's proposed disclosures would provide investors with a more informed basis for evaluating the board's oversight of the external audit.

Conclusion

ICGN supports the Government's objective of strengthening trust, accountability and audit quality in Australia. In our view, the most effective framework will combine independent and properly resourced regulation, enforceable firm-level quality management and ethical obligations, effective inspection and sanctions, stronger audit firm governance and decision-useful transparency, supported by effective audit committee oversight at company level.

We would welcome the opportunity to share further international investor perspectives as the Government develops its proposals. If you would like to follow up with questions or comments, please contact our Senior Policy Executive, Ayan Tewari (policy@icgn.org).

Yours faithfully,

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