



Australian Government
The Treasury

Ministerial Submission
MS24-001338



FOR ACTION - Outcomes of consultation – Response to PwC – Regulation of accounting, auditing and consulting firms in Australia

TO: Assistant Treasurer and Minister for Financial Services - The Hon Stephen Jones MP
CC: Treasurer - The Hon Jim Chalmers MP

TIMING

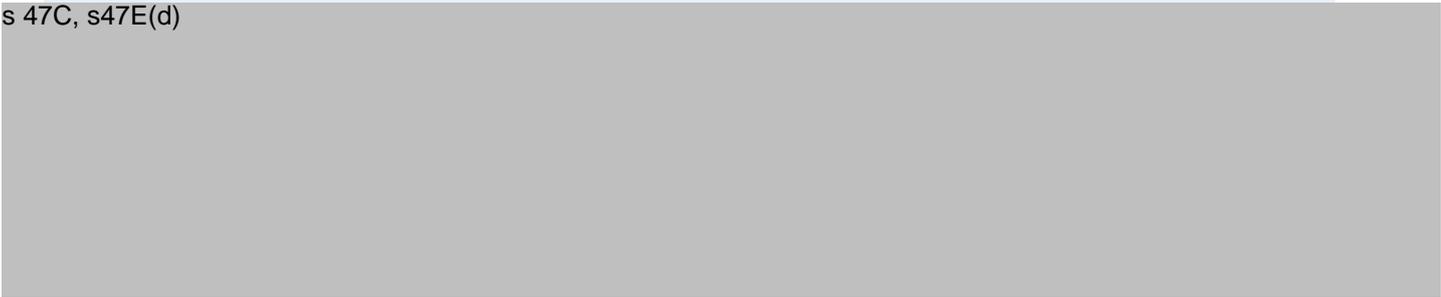
Prior to the release of a Treasury options paper addressing the issues examined during this consultation.

Recommendations

- That you **agree** for Treasury to publish, contemporaneously with release of the options paper, all non-confidential submissions to the Consultation Paper “Response to PwC – regulation of accounting, auditing and consulting firms in Australia”.

Agreed / Not agreed

s 47C, s47E(d)



Signature	Date: / /2024
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KEY POINTS

- On 3 May 2024, Treasury released a Consultation Paper on the regulation of accounting, auditing and consulting firms in Australia in response to the PricewaterhouseCoopers (PwC) matter. Consultation closed on 28 June 2024.
 - Treasury received 36 written submissions, 35 of which were non-confidential (**Attachment A** refers). The submissions have been sent to your office.
 - : Some stakeholders have made their submissions public.
 - Treasury held 16 roundtable and bilateral sessions with large accounting and consulting firms, mid-tier and small organisations, professional bodies, business groups, civil societies, standard setters, and regulators.
 - Treasury engaged with states and territories in the development of the paper and during consultation. Our engagement to date has been positive and recognises the shared roles in considering changes to the regulatory framework applying to accounting, auditing and consulting partnerships.
- Treasury seeks your agreement to publish all non-confidential submissions to the Consultation Paper contemporaneously with the release of our subsequent paper seeking feedback on specific policy options.

Consultation feedback

- During consultation, we tested key policy issues facing the sectors and asked targeted questions to understand stakeholder experiences and views. Broadly, stakeholders were of the view that:
 - The Paper had accurately captured the prevailing set of policy issues and agreed with our premise that audit quality and independence foster confidence in the integrity of Australia's capital markets.
 - There is a regulatory gap in which professional standards, regulations & laws apply only at the individual registered auditor level – i.e. while the management of audit partnerships make decisions affecting audit quality, relating to independence and audit resourcing, it is difficult (for regulators) to take action against an audit partnership for misconduct, either relating to an individual's conduct or partnership conduct.
 - : It was noted that large multidisciplinary firms that are structured as partnerships are not regulated by ASIC, despite the work conducted by these partnerships (such as audit) being worthy of regulatory attention.
 - There is ambiguity and uncertainty among stakeholders as to the various roles, responsibilities and remits of organisations within the shared regulatory framework governing audit, including standard setting bodies, professional associations and ASIC.

: The professional bodies do not see themselves as a 'front line' defence, or a 'quasi-regulator', but as supplementary to the existing regulatory framework.

- Current regulatory oversight regarding audit quality in Australia is not adequate. ASIC's current surveillance and enforcement activity is not seen as a strong deterrent against poor conduct – especially in relation to overseas counterparts, particularly the US.

- **Attachment B** synthesises stakeholder feedback on each issue (as presented in the Consultation Paper), by cohort.

Media commentary

- Much of the media commentary to date has focused on the regulation, or lack thereof, of the 'big four' consulting firms and the appropriateness of the large partnership limits which apply to them.
 - It has been frequently reported throughout the consultation process that any reforms should consider impacts across the entire profession, not just the 'big four', and that any increase in 'red tape' may exacerbate existing competition challenges for smaller firms.

Next Steps: Options Development

- Treasury is currently developing an options paper – which was flagged in the Consultation Paper. s 47C, s 47E(d)

s 47C, s47E(d)

Clearance Officer

s 22

A/g Director

Corporations Branch

6 August 2024

Contact Officer

s 22

Assistant Director

s 22

ATTACHMENTS

A: List of submissions

B: Key messages from stakeholder cohorts

ATTACHMENT A – LIST OF SUBMISSIONS

The Accounting Professional & Ethical Standards Board (APESB)
Australian Restructuring Insolvency & Turnaround Association (ARITA)
Australian Small Business and Family Enterprise Ombudsman (ASBFEO)
Australian Securities & Investments Commission (ASIC)
Australian Institute of Company Directors (AICD)
Australian Small Business and Family Enterprise Ombudsman
Business Council of Australia
Chartered Accountants Australia and New Zealand (CA ANZ)
Consult Australia
CPA Australia
David Hardidge – Queensland Audit Office
Deloitte
Dr Jeff Coulton, Dr Sarowar Hossain & Dr Jenny Jing Wang, University of New South Wales & University of Wollongong
EY
Forvis Mazars
Governance Institute of Australia
Guerdon Associates
Human Rights Law Centre, Transparency International Australia & Griffith University's Centre for Governance and Public Policy
Institute of Public Accountants
KPMG
Melbourne and Monash University
Moore Australia
New Zealand Financial Markets Authority
Peakstone Global
Pitcher Partners

PKF Australia
Professional Standards Councils
Professor Allan Fels AO – Professor of Law, and Economics and Business at the University of Melbourne and Monash University
Professor Matthew Pinnuck – Professor of Financial Accounting, University of Melbourne
Professor Peter Carey and Professor George Tanewski
PwC
SMSF Association
Syamantak Saha – Unknown background
Tax Justice Network
WLF Accounting & Advisory

Attachment B - Key messages from stakeholder cohorts – Regulation of accounting, auditing and consulting firms in Australia

Key	Support additional regulation or government intervention
	Considers the status quo to be appropriate
	No views presented or agnostic to the issue
	Inconsistent views from stakeholders in the group

Stakeholder Cohort							
	'Big Four' Firms	Professional Accounting Bodies	Small and mid-tier firms	Regulators/Standard Setters	Civil Societies/Think Tanks/Business Groups	Academics/Individuals	
Issues raised in Consultation Paper	Governance	Support minimum governance standards / expectations to apply to firms which provide services that are considered of public interest.	Any proposals should ensure national consistency and simplicity in the regulatory design to ensure high levels of compliance and efficient and effective oversight.	Concerns about additional regulatory burden. The governance framework currently in place is sufficient. Joint and several liability' is a strong incentive for appropriate governance structures.	Support the potential implementation of registration or licensing regimes. Acknowledge the need for firm level regulatory action.	Self-regulation is not working. Self-regulation could be improved. No further regulation is required. Directors are confident that existing regulatory requirements and governance practices safeguard auditor independence.	Structural separation from audit and non-audit services should be mandated immediately. Do not support structural separation.
	Professional standards, regulations and laws	Existing legal, regulatory, professional and firm-based frameworks effectively mitigate and limit exposure to risks; including the management of conflicts of interest with regard to the provision of audit and non-audit services.	Critical to clarify and strengthen ASIC's jurisdiction to regulate audit firms, including quality management standards that set out relevant firmwide responsibilities. Refute the assertion that "self-regulation" via professional bodies may not be fully effective".	Compliance and quality management standards are costly and mid-tier firms are priced out of smaller audits. Existing regulations are comprehensive and appropriate.	The current system's penalties – that focus on individuals - fails to incentivise firm-wide compliance effectively.	Clarify the definitions in the reporting of audit and non-audit fees as part of Australian Accounting Standards. Firms should be prohibited from providing audit and advisory services (non-audit services) to the same client.	Self-regulation is not working.
	Transparency, public information and reporting	Appreciate the need for greater transparency and support minimum public information disclosure standards to promote trust in the sector.	Proportionality and scale will be critical to setting effective and appropriate reporting requirements. Support digital reporting.	Transparency is important for audit and accounting firms and is in the public interest.	Support digital reporting.	Large firms should be subject to enhanced transparency reporting beyond current mandates – perhaps in line with large proprietary company requirements.	Strong advocates for the implementation of digital reporting.
	Enforcement and standard setting	ASIC as a regulator could and should be doing more.	Urgent need for government to clarify the intended roles of government and professional regulation of audit in Australia.	The regulator tends to focus on large firms with significant ASX clients – allowing poor practices to persist among smaller firms leading to lower overall audit quality.	The effectiveness and independence of the existing professional bodies' quality review programs could be enhanced by placing oversight with a new regulator.	Policy making (including, standard setting) should be separate from regulatory oversight and enforcement.	Enhanced enforcement and standard setting are the only way to enhance and achieve a high standard of audit quality.
	Protection of whistleblowers	Broad support for whistleblowing laws to apply consistently across partnerships and the professional services sector - noting strong existing internal policies.	Support strengthening whistleblower protections.	Support strengthening whistleblower protections.	Support strengthening whistleblower protections.	Australia's whistleblower regime should apply to large partnerships such that it does not distinguish based on the structure of a firm.	Support strengthening whistleblower protections.
	Competition / resilience of the audit sector	Multidisciplinary firms are essential to enable high-quality audits. The Australian audit market is competitive. Do not support mandatory joint or shared audits.	Competition issues manifest differently across the spectrum of firms and client size.	Market concentration and competition issues exist for mid-tier firms. There is an incorrect assumption that national network firms do not have the capacity to service ASX200 companies.	Regulators did not make specific comments or suggestions regarding competition in the audit sector.	No proven link between an increase in audit quality and compulsory audit firm rotation.	No evidence to support concerns that the audit market is less competitive due to its concentration.

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	Considers the status quo to be appropriate
	No views presented or agnostic to the issue
	Inconsistent views from stakeholders in the group