

5 July 2024

Deepti Paton
Director, Corporate Conduct and Analysis Unit
Market Conduct and Digital Division
The Treasury
Langton Crescent
PARKES ACT 2600
Australia

By Email: ccaau@treasury.gov.au

Dear Deepti

CPA Australia submission on the Regulation of Accounting, Auditing and Consulting Firms in Australia – Consultation Paper

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of more than 173,000 members working in over 100 jurisdictions and regions around the world. CPA Australia has over 30,000 members in public practice in Australia, serving our communities as trusted advisers who provide business advisory, tax, financial planning, reporting, auditing/assurance and insolvency-related services. Our members primarily support the small and medium sized market, and their structures and regulatory requirements are generally similar to those of the larger firms.

We recognise the significance of the issues raised in the Treasury's Consultation Paper *Regulation of accounting, auditing and consulting firms in Australia – May 2024* ("the Consultation Paper"), the Parliamentary Joint Committee (PJC) and Senate Inquiries¹, currently proposed reforms² and impending legislative changes³. Against the backdrop of the broader regulatory reforms that are currently under way and the recommendations arising from the 2019 Inquiry⁴ into the Regulation of auditing in Australia, it has been challenging to clearly establish the role of this Consultation Paper and the problems it seeks to address. We would like to reinforce the positions we have put forth to the multiple relevant Inquiries and consultations and remain committed to engaging with Treasury and government on the proposed reforms. In this context, we make the following high-level observations:

- Much of the discussion focuses on the largest accounting firms, however the professional accounting services industry is much broader and deeper. The potential impacts of reforms should be considered holistically across the profession, especially its impact on small to medium-sized practitioners, to ensure that regulation is proportionate, effective and efficient. Similarly, while the Consultation Paper focuses on the audit of corporate entities, we recommend that broader consideration is given to the range of statutory and non-statutory audits, including the audit of self-managed superannuation funds (SMSFs) and not-for-profit audits. Any regulatory changes that impact audit should be cognisant of the much broader audit market and the potential impact of such changes on not just corporate audits, but other statutory and non-statutory audits as well.
- Equity and competition in professional services should be maintained and being a professional accountant should not be a barrier to a career nor an excessive cost for practitioners. We are currently observing a significant decline in entrants to the

¹ PJC Inquiry into ethics and professional accountability: structural challenges in the audit, assurance and consultancy Industry 2023 and Senate Inquiry into management and assurance of Integrity by consulting services 2023.

² Joint media release A-G and Treasury 6 August 2023 of a package of reforms to strengthen the integrity of the tax system; increase the powers of our regulators and strengthen regulatory arrangements to ensure they are fit for purpose

³ Treasury Laws Amendment (2023 Measures No. 1) Act 2023 and Treasury Laws Amendment (Tax Accountability and Fairness) Bill 2023

⁴ Parliamentary Joint Committee on Corporations and Financial Services Inquiry Into the Regulation of Auditing in Australia, 2019

profession and any regulatory reform arising from this or other associated Inquiries should take care not to further exacerbate this situation.

- The framework for evaluating regulatory intervention should take care to minimise cost and maximise effectiveness.
- We note that in Australia, not all audit and assurance professionals have to be professional accountants holding a qualification with one of the three Australian Professional Accounting Bodies (PABs), and that consultancy services are offered by an even more diverse range of professions and skills. Consideration must also be given to the regulation of those who are not members of PABs.
- We refute the assertion that “self-regulation via professional bodies may not be fully effective” and the questioning of the role of PABs within the Australian regulatory framework. In the context of audit regulation, the current regulatory model places primary statutory responsibility with the Australian Securities and Investments Commission (ASIC) and the PABs perform a supplementary role in maintaining the professional standards of our members. The 2010 Treasury paper “Audit Quality in Australia – A Strategic Review” notes that, “The quality review programs of the three professional accounting bodies perform a significant and valuable role within Australia’s overall audit regulation framework in promoting audit quality and ethical conduct within the auditing profession. The self-regulatory function undertaken by the professional accounting bodies plays an important role in supplementing ASIC’s statutory responsibilities as the key audit oversight regulator”. As we have presented to the Senate and Parliamentary Joint Committees, our commitment to professional standards, the transparency of our professional conduct and review functions and our collaboration with statutory regulators supports the integrity of the professional services provided by our members. We also draw attention to the lack of any additional oversight or regulation for those who are not members of a PAB and that the presence of PABs in the regulatory environment reduces the cost to taxpayers for oversight and scrutiny and that incoming enhancements to information exchange and other enabling mechanisms will improve the ability of PABs to support system integrity.

Consideration of accounting firms of all sizes needed in the context of audit services

The service offerings of accounting firms have expanded over time, reflecting the evolution of business and finance over the last two decades and the increasing global and local regulatory obligations required of businesses in general.

The individual growth and mergers of firms has resulted in very large multi-national and mid-sized firms that are often part of a global network. While these firms unquestioningly provide a broad range of accounting services, as well as services adjacent to but outside the traditional or modern understanding of accounting, smaller firms also frequently offer a range of services to meet the diverse needs of their client-base. That is, even very small firms offer traditional accounting services such as book-keeping services together with taxation, insolvency and financial planning/advisory services which are highly regulated by statutory regulators. Any regulatory changes that seek to divest audit and assurance services from multi-disciplinary firms will therefore have far reaching impacts that will affect accounting firms of all sizes.

Consideration of services provided by the accounting profession and beyond

The term ‘accountant’ is not a protected term and there is no requirement for accountants to be a member of a PAB. Therefore, there is no requirement for an ‘accountant’ be subject to professional obligations in order to provide professional services to the public. In addition, many employees of accounting firms are not members of PABs. Consideration should be given to whether accountants should be defined as a profession in a similar way to doctors, lawyers, architects and engineers so that the public has confidence that their accountant is subject to statutory requirements and standards.

Similarly, the term ‘consultant’ is not a protected term and many consulting professionals are not accountants, but rather come from a wide range of backgrounds. As such, the governance obligations for professionals and their firms can vary significantly depending on whether they offer regulated services such as audit or are members of PABs, but this is not necessarily driven by the structure of the firm.

A defined range of accounting services offered by our members are monitored by us and in many cases regulated by statutory bodies. We agree that confidence in the audit profession and quality of audit services underpins the effectiveness of the financial reporting framework and capital and financial markets in Australia. This is consistent with the public interest imperative that is a foundation of the accounting profession.

When considering the regulatory arrangements for professional services, it is imperative that Treasury is cognisant of the difference between legally mandated services (e.g., audit) and those services that are sought out by the public in order to

ensure their compliance with the law (e.g., tax) rather than necessarily aggregating all services under a single regulatory approach.

We look forward to further discussion on these issues ahead of potential options being tabled for public consultation.

Attachment A sets out CPA Australia's response to the consultation questions. If you have any queries please contact Ram Subramanian, Interim Head of Policy and Advocacy on 0401 716 035 or ram.subramanian@cpaaustralia.com.au.

Yours sincerely

Ram Subramanian
Interim Head of Policy and Advocacy

Attachment A: Consultation Questions

Governance

1. *Are there adequate incentives to have appropriate governance practices in partnership structures?*

We note the term "economically significant partnerships" referred to in Potential issue #1 is undefined, and we seek clarity on its scope and the relevant industry participants that are meant to be included in such scope.

Incentives to have appropriate governance practices in partnership structures can arise from a combination of statutory requirements set in law and professional standards and other obligations.

Statutory requirements

We note that laws that regulate partnerships in Australia are complex and largely state/territory based. Whilst we are open to different business structures that could include a federated model for accounting and professional services, we would not support increased regulatory burden and complexity through an additional Commonwealth overlay on top of existing state/territory-based partnership laws. Any proposals should ensure national consistency and simplicity in the regulatory design to ensure high levels of compliance and efficient and effective oversight.

Professional standards and other obligations

Professional standards are in place to provide incentives for appropriate governance practices regardless of firm structure, with scope for improvement in some cases as noted below.

CPA Australia acknowledges the governance, transparency, and regulatory requirements of corporates, governed by the *Corporations Act 2001*, are not necessarily paralleled in partnership law in Australia. However, for partners in an accounting profession partnership, there is a complex framework of overlapping obligations from regulatory and other sources, including professional standards and codes, in particular [APES 110 Code of Ethics for Professional Accountants](#) (the Code), by which all of our members are bound.

The Auditing and Assurance Standards Board (AUASB) firm quality management standards (AUASB QMSs)⁵ on audit and assurance provides a comprehensive framework designed to enhance the robustness of firms' quality management systems. However, we note that the AUASB QMSs cannot be enforced by ASIC under the Corporations Act⁶ or equivalent statute as the AUASB QMS requirements are imposed at the firm level while statutory obligations are applicable to individual auditors. We are open to considering proposals to amend legislation to provide a legal basis for the application and enforcement of the AUASB QMSs at either the firm or auditor level as appropriate.

The claim in Potential issue #1 of the Consultation Paper that economically significant partnerships have inadequate internal governance that fails to protect stakeholders is questionable. The Professional Standards Scheme, which caps liability, does not weaken partners' fiduciary obligations to each other. To obtain and maintain the Scheme, each PAB must apply and report on quality review programs, professional conduct regimes, root cause analysis and risk mitigation support for their members participating in the Scheme. Liability caps relate to each and every claim and are based on the member's firm risk profile and turnover. CPA Australia also requires members to have professional indemnity insurance with automatic reinstatement after a claim.

It is important to acknowledge that many of our members are sole practitioners, or practitioners within small firms with very simple partnership structures. Such members are already subject to significant oversight as part of our quality review programs. Many are also regulated by statutory bodies, depending upon the services they provide. There is a risk that a statutory response to concerns arising from the misconduct of practitioners in very large firms may create unnecessarily complex, expensive and time-consuming obligations for these smaller practitioners.

⁵ ASQM 1 Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements, ASQM 2 Engagement Quality Reviews, ASA 220 Quality Management for an Audit of a Financial Report and Other Historical Financial Information

⁶ AUASB Submission to the Parliamentary Joint Committee on Corporations and Financial Services (PJC) Inquiry into Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry.

Any additional regulatory obligations placed on partners or partnerships should take such existing obligations into account.

2. *How should governance mechanisms operate in large accounting partnerships? Does this reflect how governance is managed in practice?*

CPA Australia supports enhanced transparency requirements for accounting partnerships to the extent such requirements would align with those of similarly sized corporations. We support the introduction of scalable reporting and disclosure requirements for accounting firms, other than small firms with simple partnerships structures. In our view, the primary concerns related to partnership structures may be ameliorated with additional and enhanced reporting and disclosure requirements once governance issues (real or perceived) are refined.

Specifically, CPA Australia reiterates its position set out in its submission to the PJC Inquiry into the Regulation of Auditing in Australia, 2019, supporting greater transparency regarding audit and non-assurance services fees. Such enhanced transparency would provide additional comfort to a much broader range of stakeholders, than at present.

3. *Are there any key issues that are not captured above in relation to the governance mechanisms of large partnerships? Are there additional examples of benefits for non-stakeholders of good governance?*

Alternative partnership structures such as limited liability partnerships could be considered as an alternative legal structure that provides more rigour to governance through statute. Models of professional services firms structured as limited liability partnerships could be drawn upon from jurisdictions overseas such the United Kingdom (UK). Limited liability partnerships (LLPs) in the UK are subject to greater regulation than general law partnerships, more akin to that of a company.

4. *Are the current partnership limits fit for purpose for accounting firms? If not, what factors should guide decisions on an appropriate partnership limit and how should the limit be applied?*

Partnerships are a legitimate and well-established business structure across many industries. We caution against placing constraints on business structures without due consideration of the impacts on consumers and the market particularly if limits on partnership size will not necessarily address governance concerns which may be addressed in other ways. As noted above, given partnership laws in Australia are governed by state and territory legislation there may be difficulty in imposing at a federal level additional restrictions and/or requirements on structures governed at a state and territory level.

We await the Government's response to Recommendation 9 of the Senate Inquiry report⁷ suggests the government commissions the Australian Law Reform Commission, or other appropriate body, to undertake a review of the legislative frameworks and structures of partnership in Australia with particular focus on partnerships in excess of 100 partners.

Professional standards, regulations and laws

5. *Are conflicts of interest managed appropriately by auditing and accounting practitioners? If not, what could be done to improve the management of conflicts of interest?*

Yes. We are of the view that the conflicts of interest are effectively managed by the auditing and accounting profession as a whole.

Many professions deal with the management of conflicts of interests. This is often achieved through a combination of self-regulation by professionals through membership of organisations with obligations like CPA Australia and regulatory or statutory obligations placed upon defined professions and/or services. Whilst the Consultation Paper appears to suggest the concept of self-regulation is unique to the accountancy profession, other professions such as the legal and medical professions also require self-regulation by individuals within their professions through professional associations. Such self-regulation is typically achieved through requirements related to appropriate education, training and competencies, accompanied by ongoing monitoring, as is the case with the accounting profession.

⁷ Management and assurance of Integrity by consulting services

Under the heading “Ethical standards originate from self-regulation” the Consultation Paper appears to suggest that the ethical standards set by the Accounting Professional and Ethical Standards Board (APESB) are a product of self-regulation. We refute this assertion on two counts:

- The APESB adopts in full, the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). This is an internationally accepted code that is adopted in over 130 jurisdictions around the world. Whilst the PABs including CPA Australia provide feedback on amendments and improvements to the IESBA Code of Ethics, we do not believe this would constitute self-regulation by Australian PABs.
- The APESB is a body independent from the PABs that has been set up to issue the Code and other professional standards. Please refer to the APESB [governance documents](#) to better understand the role and nature of the APESB.

The Consultation Paper highlights many of the standards, regulations and laws that are in place to better manage conflicts of interests. As noted above, we welcome the opportunity to provide feedback on proposed improvements to this framework.

Accountants who are not members of PABs and others who provide services within the scope of the Consultation Paper may not be regulated at all, and any management of conflicts of interest may be limited to that of their own professional body or employer. For example, not all audit and assurance professionals are professional accountants, and consultancy services are offered by a diverse range of professions and skills. Consideration should be given to this unregulated portion of the profession. As noted previously, there are no limitations on the use of the term ‘accountant’ nor any requirement for membership of a professional association to be registered as a tax agent, auditor, liquidator or financial planner. Any regulatory reform that is expected to apply on the basis of services provided should take into account the role of PABs such as CPA Australia with their own self-regulation and should not create a disincentive to be a member due to the comparatively higher level of requirements arising from self-imposed professional and ethical standards, constitutional and by-law requirements and monitoring and review.

6. How effective are existing policies and regulations in separating the provision of audit and non-audit services in multi-disciplinary firms, particularly in the context of managing conflicts of interest to maintain auditor independence and objectivity? If they are not effective, how could they be improved?

We believe the current laws, regulations, professional and ethics standards and other requirements provide a comprehensive framework for managing conflicts of interest and maintaining auditor independence and objectivity.

Whilst we welcome proposals to establish a firm-wide regulatory approach to managing conflicts of interest and auditor independence and objectivity we observe:

- Individual responsibility for managing conflicts of interest and determining independence and objectivity is important and is not different to the approach taken in other professions. Any approach to firm-wide considerations for managing conflicts of interest and maintaining auditor independence and objectivity should not diminish the responsibilities currently placed upon individual lead auditors in this regard. Managing conflicts of interest, independence and objectivity and other ethical considerations are currently required of individual lead auditors in the context of each audit they undertake. This is an important measure in maintaining audit quality.
- The Consultation Paper is narrow in its scope as it only considers audits undertaken under the Corporations Act 2001. The audit profession and the provision of audit services in Australia is much broader and deeper and includes the audit of SMSFs, not-for-profits, trust account audits and client money audits. A regulatory reform approach based on such a narrow scope runs the risk of potential unintended and adverse consequences for the broader Australian audit industry, and economy.
- Existing professional, ethics and auditing standards already cater to firm-wide considerations in this regard as noted below.

Accounting firms establish and operate internal policies for the separation of the provision of audit and non-audit services, guided by the requirements of the Code of Ethics and the Auditing Standard ASQM 1 *Quality Management for Firms that Perform Audits or Review of Financial Reports and Other Financial Information, or Other Assurance or Related Services or Engagements (ASQM 1)*. In addition, firms that do not provide audit or assurance services are required to comply with APES 320 *Quality Management for Firms that provide Non-Assurance Services* (APES 320). These standards require firms to establish and maintain systems of quality management that include policies and procedures that address:

- governance and leadership
- professional standards
- acceptance and continuance of client relationships and specific engagements
- resources
- engagement performance
- information and communication, and
- monitoring and remediation.

As part of our commitment to overseeing and supporting our members in public practice to maintain the highest levels of professional and ethical compliance, we conduct cyclical assessments of members through CPA Australia's practice review program. These assessments consider our members and their firm's policies and procedures for independence and conflict management processes. We assess firm-level policies and procedures and their application through an assessment of engagement files, including consideration of acceptance and continuance, conflicts of interest, and independence.

We refute the claim as detailed in Potential issue #3 of this Consultation Paper that auditor independence relies mostly on individual auditors' views. This contradicts the various mechanisms that reflect the 'mix of self-regulation and government regulation' as set out on pages 16-18 of the Consultation Paper through the Corporations Act and APES 110 to manage conflicts of interest and threats to independence. These mechanisms include:

- Directors' annual report obligations on auditor independence (s300 of the Corporations Act 2001)
- Auditors being appointed by shareholder resolution at the AGM
- Disclosure of non-audit services in financial statements (s300 (11B) of the Corporations Act 2001)

Additionally, adherence to quality management systems (ASQM 1 and APES 320) and independence requirements (APES 110) is assessed by CPA Australia (as discussed above). Members are also subject to our discipline processes in event they do not meet the standards, adding an extra layer of regulation beyond the individual auditor's control.

We do not support separating the provision of audit and non-audit services by multi-disciplinary firms, noting that such multi-disciplinary firms range from the largest accounting firms to small to medium-sized practices (SMPs) and sole practitioners. In addition to the auditor independence requirements set out in the Corporations Act, the professional and ethics standards referred to in the previous paragraph provide a framework that ensures audit services are adequately ring-fenced from other services to maintain appropriate levels of independence and objectivity. The nature of audit requires support from other disciplines (e.g., valuation, tax, legal), especially as this is expanded to embrace assurance over the newer climate and other sustainability reporting practices.

The issue of separation is particularly complex for the larger accounting firms. Several countries have attempted to enhance auditor independence and audit quality by separating audit practices from non-audit practices. However, few have managed to fully implement these changes successfully. The United Kingdom (UK) Financial Reporting Council (FRC) has mandated operational separation which is unique to the UK, for the Big Four accounting firms to separate their audit and consulting practices by 2024⁸, though critics argue this won't address core issues like corporate collapses. In contrast, the European Union (EU) Audit Reforms introduced stricter regulations for Public Interest Entity (PIE) audit clients, mandating auditor rotation, limitations on non-audit services and capping non-audit services and fees.⁹

The Corporations Act has extensive provisions to address conflicts of interest for auditors arising from relationships and requires audit partner rotation for listed companies. The Code, which word-for-word complies with the International Code of Ethics issued by the International Ethical Standards Board for Accountants (IESBA), applies a threats and safeguards approach to independence, covering self-interest threat arising from financial interests, self-review threats from auditing the auditor's own work and familiarity threats from a close relationship with the client. The Code also contains prohibitions on the provision of certain non-audit services (NAS) by auditors of public interest entities (PIEs) to their audit clients, and certain material NAS for all audits. The Code limits the receipt of audit fees from any one PIE and its related entities, to 15% of the firm's total audit fees over a two-year period. The Code also includes auditor rotation requirements.

Auditor rotation is required for listed entities, Australian Prudential Regulation Authority (APRA) regulated entities and other PIEs under the Code of Ethics, the Corporations Act and APRA Prudential Standards, with time "on" the audit ranging from 5 to 7 years and time "off" from 2 to 5 years depending on the type of entity and the auditor role. Mandatory audit firm rotation has

⁸ [UK's FRC - Principles for operational separation of the audit practices of the 'Big 4' firms](#)

⁹ [Reform of the EU Statutory Audit Market](#)

been introduced in some countries, including under the EU Directive⁴ which has a maximum 10-year mandatory firm rotation extending to a maximum of 20 years if a public tender is conducted, however it has been discontinued in other jurisdictions (e.g., in certain circumstances in South Korea, Singapore, and Brazil) or considered and rejected in others (e.g., USA). It is argued that while audit firm rotation may improve stakeholders' perception of independence, it undermines the role of independence safeguards and controls.

Mandated auditor rotation may negatively impact audit quality during the initial phase when the auditor is gaining an understanding of the client. Academic research on the topic is mixed, but generally it shows that audit firm rotation may not be effective in enhancing perceptions of independence or audit quality. In fact, much of that research finds that longer tenure is associated with quality and the early years of tenure with relatively lower audit quality. In Australia, being a relatively small capital market with companies geographically widely spread, mandatory firm rotation could result in difficulties in some companies finding a suitable auditor with the appropriate specialisations in required locations.

While concerns about auditor independence and potential conflicts of interest should be given due consideration, evidence suggests that the multidisciplinary model can enhance audit quality and efficiency. Regulatory frameworks and professional guidelines play a crucial role in managing these risks, and any changes to the current system should be carefully considered to avoid unintended consequences.

7. How effective is the existing self-regulatory framework in ensuring the integrity and quality of services provided by professionals in the audit and accounting industries? If it is not effective, how could it be improved?

The self-regulatory framework for the accounting profession in Australia has a long history, with PABs such as CPA Australia playing significant roles in protecting the integrity of the profession and promoting and enhancing the quality of professional services. The PABs have contributed to the development of the International Code of Ethics that is adopted in Australia and Professional Standards to which their members must adhere, ensuring high levels of integrity and quality in the services provided.

All members of CPA Australia are bound by CPA Australia's Constitution and By-laws and the Accounting Professional and Ethical Standards (APES), including the Code of Ethics, in addition to all other regulations and standards that underpin the regulated services in the broader accounting profession.

A core obligation of CPA Australia as a PAB is to educate members and to support them with guidance, direction, oversight, and materials to ensure that they have the best opportunity to provide the highest quality professional services, while at the same time complying with the myriad of complex federal, state and local government regulations and requirements. A second significant function of the PABs is to advocate for better, more effective, and more efficient policies and regulations that are in the public interest.

To maintain standards in the profession, CPA Australia has an ongoing practice review program "CPA Australia Best Practice Program"¹⁰, and a complaints and disciplinary process to address reported instances of member misconduct. In addition, CPA Australia regularly engages with regulators and standard setters to share insights and improve collaboration. Professional accountants in practice are highly regulated and personally liable for significant amounts with liability capped at high levels under the [CPA Australia Professional Standards Scheme](#). CPA Australia is committed to ensuring and enforcing compliance with professional standards within its remit. Members are assessed against standards set by the Australian standard setters: The Australian Accounting Standards Board (AASB), the Auditing and Assurance Standards Board (AUASB) and APESB as well as legislation such as the *Corporations Act 2001* and the *Superannuation Industry Supervision Act*. In practice, Australia is a standards-taker rather than a standard setter. All standards issued by the AASB and AUASB, as well as APES 110 Code of Ethics as noted previously, are Australian versions of international standards, promulgated by international standard setting boards.

As noted in the 2010 Treasury report "Audit Quality in Australia – A Strategic Review" (Key finding 10), "The quality review programs conducted by each of the three professional accounting bodies perform a valuable role in promoting audit quality and ethical conduct within the audit profession as an important component of the co-regulatory framework in Australia". We do not believe any significant deterioration has occurred in the intervening period that brings into question the observation made by Treasury in 2010.

¹⁰ [CPA Australia Best Practice Program](#)

CPA Australia's member conduct and discipline processes¹¹ are underpinned by the Constitution, By-Laws, Code of Professional Conduct and/or Applicable Regulations. As a PAB, CPA Australia has oversight of various disciplines that fall under our remit, such as tax, audit and liquidation services. However, such oversight is undertaken through member obligations enshrined in our Constitution and By-Laws. We do not have statutory powers, which limit our ability to obtain evidence or compel responses in the same way as a government regulator. CPA Australia manages the conflict that may arise between our public interest objective and our member interest in several ways. This is achieved through:

- the independence of our professional conduct and disciplinary arrangements and the external independent oversight of this process
- transparent public disclosure of our quality review processes
- transparent integrated reporting
- internal staff codes of conduct and the recruitment of highly qualified staff
- prohibiting staff from becoming directors of the APESB.

Our continuing professional development (CPD) offerings support our members throughout their career to ensure they develop and maintain the necessary capabilities to lead the profession. To support the ongoing ethical conduct of accounting and finance professionals, our CPD requirements include a mandated ethics component.

8. Are there any key issues that are not captured above in relation to the adequacy of standards, regulations and laws?

Legislating the use of the term "accountant"

Yes. As addressed in our cover letter, the term "accountant" is not a protected term and there is no requirement for accountants to be a member of a PAB. Therefore, there is no requirement for an "accountant" who is not a member of one of the PABs to be subject to professional obligations in order to provide professional services to the public. In addition, many employees of accounting firms are not members of PABs.

Regulating specific services such as auditing, taxation and financial advisory services provides comfort to the public around higher-risk services, supplemented by the oversight provided by the PABs over their members. However, as set out above, there are no laws or regulations preventing a member of the public from calling themselves an 'accountant' and offering unregulated services to the public. Such individuals are able to offer unregulated services in any structure, including one which may be co-owned with a member of a PAB who provides regulated and/or unregulated services.

Consideration could be given to legislating the use of the term "accountant".

Improvement to disclosures of audit and non-audit service fees

The Australian Financial Reporting framework, established by the AASB, requires entities to disclose fees paid to their auditor or reviewer, including any network firms, separately for:

- a) the audit or review of the financial statements, and
- b) all other services performed during the reporting period.¹²

In comparison, other jurisdictions have enhanced fee disclosures in financial statement notes to provide greater transparency than the AASB disclosures, particularly regarding fees that may create conflicts of interest. For example:

- In New Zealand, the External Reporting Board (XRB) has recently strengthened the requirements for disclosing fees for audit firms' services by revising FRS-44 *New Zealand Additional Disclosures*.¹³ This revision mandates entities to disclose each type of service performed by their audit or review firm during the reporting period, using the following categories:
 - a) audit or review related services
 - b) other assurance services and other agreed-upon procedures engagements
 - c) taxation services
 - d) other services

¹¹ See [Member conduct and discipline | CPA Australia](#) for CPA Australia process

¹² [AASB 1054 Australian Additional Disclosures](#), paragraphs 10 and 11

¹³ [FRS-44 New Zealand Additional Disclosures](#), paragraphs 8.1 to 8.36

- In the UK, *The Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008*¹⁴ set out the legal requirements for directors of audited entities to disclose, at a minimum, the total remuneration receivable by the auditor for the following types of services, if that remuneration is not disclosed in a note to the company's annual accounts:
 - a) assurance services other than the auditing of the company's accounts;
 - b) tax advisory services;
 - c) other services.

The list of categories for analysing 'other' services was amended to align with the revised Ethical Standard¹⁵ published by the Auditing Practices Board of the Financial Reporting Council (UK-FRC).

- The US Securities and Exchange Commission (SEC) requires companies to disclose fees paid to the principal auditor in four categories: "audit," "audit-related" (fees reasonably related to the performance of the audit or review of the registrant's financial statements), "tax," and "all other" (including a narrative description of those other fees) for the two most recent years.

We suggest that as part of these proposals the AASB could look to improve the disclosure of fees paid to auditors by categorising them into useful categories, mirroring those required in other jurisdictions as noted above.

Better use of technology - Mandate electronic lodgement of financial reports

Currently, financial reports are lodged as PDFs to ASIC. Consequently, analysing or comparing these reports requires manual extraction of information. This process hinders transparency and makes it difficult to easily obtain information about auditors and audit fees.

Standard Business Reporting (SBR) in XBRL (eXtensible Business Reporting Language) or Inline XBRL (iXBRL) format enables the electronic submission of financial information. However, its use has not been mandated in Australia, and companies have not adopted it voluntarily. In contrast, the US SEC issued a rule¹⁶ in 2018 requiring registrants to use the iXBRL format for submitting operating company financial statement information and fund risk/return summary information.

Corporate data held in the ASIC registry is only accessible for a fee, which inhibits the timely free flow of information needed to promote transparency and facilitate the comparison and analysis of data across companies, industries, and markets. For example, more readily available access to audit and non-audit service fees information for public listed companies would support more relevant research and debate.

Therefore, we recommend mandating the electronic lodgement of digital financial reports with ASIC. Additionally, removing ASIC registry fees for accessing corporate information would enhance transparency, comparability, and enable more timely analysis. This would alleviate the need for laborious and costly manual analysis processes.

Consider enhanced transparency around the auditor tenure review process

We note that the ASX Corporate Governance Council has released a consultation draft for a proposed fifth edition¹⁷ of the *Corporate Governance Council Principles and Recommendations*. This consultation draft includes a new recommendation, 4.3, aimed at enhancing transparency in auditor tenure review processes. Proposed recommendation 4.3 is for listed entities to disclose:

- a) The tenure of the audit firm and audit engagement partner as at the end of the reporting period; and
- b) When the appointment of the external auditor was last comprehensively reviewed, and the outcomes from that review.

A similar disclosure approach could be considered on a mandated basis for broader population of corporate entities.

¹⁴ [The Companies \(Disclosure of Auditor Remuneration and Liability Limitation Agreements\) Regulations 2008](#)

¹⁵ [UK-FRC Revised Ethical Standard 2019](#)

¹⁶ US Security and Exchange Commission (US SEC) Rule - [Inline XBRL Filing of Tagged Data](#)

¹⁷ [Consultation on the fifth edition](#) of the *Corporate Governance Council Principles and Recommendations*

Transparency, public information and reporting

9. Recognising that companies are subject to reporting requirements that focus on protecting investors, should firms providing audit services to these companies be subject to enhanced transparency reporting beyond what is already mandated? If so, what additional information should be included in transparency reports? Should the information be verified?

A meaningful response to this question requires clarification around some factors including:

- What is meant by the term “firms” in this context. If this term is restricted to accounting firms and not other firms providing services within the scope of this consultation paper, this should be clarified
- Accounting firms adopt different legal structures, including partnerships, that are a focus of this consultation paper. A mechanism that can effectively mandate transparency requirements for a defined population of firms will need to be explored.
- The services provided by firms can vary and it is not clear from the Consultation Paper whether the transparency requirements should be driven by a certain type of firm, e.g., an accounting firm, or based on the services a firm provides. For example, as noted previously, not all auditors have to be members of one of the three PABs.

Subject to clarification of the above and any other points that may be relevant to this matter, we would not be opposed to a reporting regime that is similar to that applicable to corporates under the Corporations Act 2001.

We understand that the transparency reports currently produced by accounting firms have very low user uptake. We suggest a review of the usage of transparency reports currently published to better understand how these could be improved to ensure more wider consumption.

It will also be necessary to determine the “users” of transparency and other reports prepared by accounting firms as these proposals are further developed.

10. Should audit firms be required to disclose any further specific information or key performance indicators to enhance confidence in the implementation of audit regulation? What costs would be involved?

As noted in our response to Question 9 we understand transparency reports currently produced by accounting firms have very lower user uptake and we suggest a review of such usage to better understand these could be improved.

Also as noted in our response to question 1, accounting firms (including audit firms) could be subject to a disclosure regime similar to corporate entities.

Statutory bodies involved in the oversight of audit already publicly disclose enforcement and disciplinary actions adequately.

Enforcement and standard setting

11. Does the preceding section capture the regulatory overlaps/gaps that should be addressed in audit, tax and insolvency? How could gaps or overlaps be addressed?

Whilst the preceding section captures the regulatory framework as it applies in the corporate context, this does not capture the broader regulatory framework that is also relevant. For example, there is no consideration of the regulatory framework as it applies to SMSF audits (which are regulated by ASIC and monitored by the ATO), not-for profit and charities regulation and state/territory-based regulations. The section also does not consider the significant regulatory functions undertaken by APRA in a prudential context.

The Consultation Paper notes the current project to merge the FRC, AASB and AUASB. No further details on this project have been made publicly available at this stage and any options to address regulatory overlaps/gaps will need to include proposals relating this project.

Our members often raise their frustrations around the need to hold multiple registrations/licenses and dealing with multiple regulatory regimes, regulators and administrative approaches. A professional accountant in a smaller practice will often provide services that include tax, financial planning, SMSF audit and consulting/business advice. The practitioner and/or their practice will hold multiple statutory registrations and be subject to different codes of conduct and compliance requirements enforced by different government agencies. Finally, as a member of a PAB, the practitioner is expected to abide by the APESs including

quality management and independence. As noted above, however, regulatory gaps will always remain to the extent that any service can be provided by unregulated professionals.

Accordingly, for most practitioners, the issue is not one of under-regulation or lack of governance but instead over-lapping and misaligned regulation that creates uncertainty for practitioners trying to do the right thing and the higher compliance costs which are passed on to the public.

A consolidated regulatory approach based on an approach similar to that adopted through the TPB may be worth considering further. Such an approach could better streamline some of the regulatory overlaps that currently exist (e.g., between financial advice, tax practitioner, SMSF audit). However, we are of the view that the regulation of audit/provision of mandated auditing services should remain separate, primarily residing with ASIC. As noted previously, audit services arise from a legislative mandate and the auditor is a principal when undertaking such services whilst most other services are a choice made by the affected party where the practitioner is an agent acting on behalf of their client.

12. Are the powers and resources dedicated to regulatory oversight sufficient?

Regulatory authorities such as the TPB and ASIC hold statutory powers to monitor and engage with registered professionals. These regulators are responsible for compliance and enforcement of both PAB members and non-members as no registration regime in Australia includes a requirement to be a PAB member. Further, CPA Australia has reporting obligations to key regulators – Financial Reporting Council (Aus), TPB and NZ Financial Markets Authority. However, as discussed in depth above, unregulated services persist and in the absence of ‘accountant’ being a protected term there will continue to be participants in the accounting industry who remain unregulated.

In respect of powers dedicated to regulatory oversight, please refer to our response to question 11 above.

As part of the regulatory reforms, ASIC should be sufficiently resourced to undertake its regulatory oversight of financial reporting and audit. In addition to sufficient resourcing of its direct functions of oversight, mechanisms that enable international representation and engagement with Australian stakeholders should be facilitated. ASIC’s previous representation on international forums such as IOSCO and IFIAAR greatly benefited its regulatory approach in Australia through the sharing of overseas experiences, and in influencing the global regulatory landscape and standard-setting. To be an effective regulator, a two-way engagement with Australian stakeholders is essential, for ASIC to better understand the needs of the market and regulated populations.

13. Are there any factors limiting the capacity of professional bodies to effectively carry out their self-regulation function?

CPA Australia disagrees with the phrasing of potential issue #13. The “regulation” of members is through our members adhering to the requirements in our Constitution and By-laws which is essentially a contractual rather than statutory oversight function.

While we regulate our members, we do not regulate or self-regulate the profession or industry as a whole. As discussed above our regulation of our members is carried out supplementary to government regulation. As discussed previously any lack of effectiveness of the regulation of the profession or industry needs to address the below gaps:

- members of the profession being unregulated by a PAB due to the term ‘accountant’ not being restricted to membership of the three PABs
- some services remain unregulated, this is particular concern where the providers of such services are not regulated by a PAB
- PABs lack statutory powers

Since its inception and long before government regulation, CPA Australia has overseen and monitored its members to uphold the integrity of the profession and has supplemented the role of statutory regulators, which it continues to do so. We welcome the opportunity to engage on proposals to enhance and strengthen our role within the regulatory framework.

We have a [Memorandum of Understanding](#) with the TPB to facilitate communication, however current legal constraints limit the timeliness, detail and effectiveness of information exchange. We will look to engage on new reforms such as the prescribed disciplinary bodies regime currently before Parliament. The development of mechanisms to enable the disclosure of further actionable information to professional associations will enable more effective responses and improve our ability to support statutory agencies in maintaining standards.

This approach could also be considered in relation to members providing services regulated by other agencies such as ASIC, the ATO and the Clean Energy Regulator.

Our member-conduct and discipline processes¹⁸ are underpinned by the Constitution, By-Laws, Code of Professional Conduct and/or applicable regulations. As a professional association, CPA Australia does not have statutory powers and is therefore limited in its ability to obtain evidence or compel responses.

A range of regulatory frameworks exist across the globe. Examples include the accredited bodies approach taken by the New Zealand [Financial Markets Authority](#) which [accredits](#) professional associations¹⁹ to license auditors and register audit firms or the UK [Financial Reporting Council](#) which [recognises](#) professional associations for the purpose of statutory audit. CPA Australia is open to considering proposals that may give rise to some statutory powers being vested in the PABs, similar to other jurisdictions such as New Zealand and the UK.

It is unclear what is meant by “shared responsibility for formulation and application of system-wide standards” (Potential issue #12). The quality management standards are developed by the International Auditing and Assurance Standards Board (IAASB) and adopted for use in Australia by a government agency, the Auditing and Assurance Standards Board. The ethical standards are developed by the International Ethics Standards Board for Accountants and adopted, word-for-word, by the APESB for adoption in Australia.

We refute the assertion arising from the FRC *Oversight of Audit Quality Report* under potential issue 13 that “PABs may be conflicted in that the majority of their revenue comes from their members, and a significant function of the PABs is to further interests of their members”. PABs, like any other organisation including the FRC, standard-setters and others, will face conflicts and will need to establish a framework to manage such conflicts. We believe the governance, transparency, oversight and disciplinary frameworks established by the PABs including CPA Australia, adequately address and mitigate conflicts that may arise between our public interest objective and our member interest.

As stated by Treasury in its report on *Audit Quality in Australia* (2010):

*The quality review programs of the three professional accounting bodies perform a significant and valuable role within Australia’s overall audit regulation framework in promoting audit quality and ethical conduct within the auditing profession. The self-regulatory function undertaken by the professional accounting bodies plays an important role in supplementing ASIC’s statutory responsibilities as the key audit oversight regulator.*²⁰

14. Are the sanctions imposed for rule violations proportionate and effective in deterring future misconduct?

CPA Australia is of the view that our own oversight and disciplinary processes are adequate and appropriate and provide a valuable contribution as part of the broader regulatory framework. All CPA Australia members are subject to our investigation and disciplinary process, including professional conduct. As a voluntary membership body, our oversight, investigations and disciplinary processes are limited to matters within our jurisdiction, such as reported breaches by our members, the Code, our Constitution and By-Laws or other applicable laws and regulations, standards or rules that govern our members.

Similarly, outcomes of our disciplinary processes are limited to the commitments made by our members as part of their membership with CPA Australia. Potential sanctions include forfeiture or suspension of membership; lowering of the member’s allocated membership status; a reprimand or admonishment; a fine; the suspension or cancellation of a member’s certificate, privilege, right or benefit issued or granted, such as the member’s Public Practice Certificate; or, an order to undertake specified professional development, and/or participate in CPA Australia’s practice review program.

In addition to incorporating the statutory obligations our members are subject to as part of our oversight and enforcement functions, CPA Australia develops its practice review program policy and procedures in line with IFAC’s [Statement of Member Obligations](#) 1 (SMO1). This includes ensuring members in practice to have a system of quality management in accordance with mandatory quality management standards, controls and assurance review systems. These obligations are structure-agnostic and are instead focused on ensuring strong standards that are sufficiently flexible to practically apply to the wide range of services and structures across the accounting profession.

¹⁸ See [Member conduct and discipline | CPA Australia](#) for CPA Australia process

¹⁹ CPA Australia has been granted accreditation by the FMA.

²⁰ 4.14 Strategic Review: Audit Quality in Australia undertaken by the Treasury in 2010

Whilst we believe the current broader sanctions regime is proportionate and effective as a whole, we note proposals are being developed to further strengthen the regime. We welcome the opportunity to participate in the development of these proposals.

15. What are the costs and benefits of digital financial reporting

Australia has been exploring digital financial reporting for over a decade. CPA Australia strongly supports a proportionate mandated digital reporting regime²¹ due to its benefits as highlighted in CPA Australia's research report²². In addition to our response to Question 8 on *Better use of Technology*, CPA Australia believes that enhanced reporting and disclosure can address concerns about partnership structures once governance issues (real or perceived) are refined. Accounting firms of similar size or significance to corporations should have the same financial reporting and transparency requirements. However, we prefer to wait for more concrete proposals before commenting further.

16. What mechanisms are in place for whistleblowers to report corruption, rule-breaking, or other unethical conduct in your organisation or industry? Do these mechanisms provide sufficient protection?

There are several mechanisms in place for our members to report corruption, rule-breaking or other unethical conduct.

Since 2018, the Code has included a framework for all members on how best to act, in the public interest, in response to the non-compliance or suspected non-compliance of laws and regulations by clients or employers (NOCLAR). The requirements differ for members depending upon whether they provide audit or non-audit services, whether they are in practice or in business and their level of seniority. The Code provides a framework to assist a member to determine how to act in the event of non-compliance or suspected non-compliance. This framework includes various actions such as disclosing the matter to superiors, those charged with governance and in exceptional circumstances to disclose the matter to appropriate authorities and consultation with a regulatory or professional body. CPA Australia supplements this obligation by providing a mechanism for members with ethical concerns to seek advice from independent counsellors, Ethical Call, which is provided by the Ethics Centre.

Further, auditors also have [mandatory reporting requirements](#) in relation to contraventions and suspected contraventions of the *Corporations Act*, including conflict of interest situations. Whistleblower provisions may also [require](#) auditors to report matters disclosed to them. For example, ASIC provides mechanisms to receive whistle-blowing reports of misconduct in respect of the laws ASIC administers, notably the *Corporations Act 2001*.

CPA Australia has previously stated its support for establishing improved statutory whistleblower requirements and whistleblower agency to support such requirements. A more holistic approach to whistleblower requirements is likely to address the existing limitations including:

- tax whistleblower protections are still limited to certain relationships
- PABs are currently not covered by statutory whistleblower protections as PABs are not eligible recipients.

17. Is there sufficient protection for employees and partners in accounting, auditing and consulting partnerships who want to report misconduct? If not, what gaps exist that may need to be addressed and how should they be addressed?

Sufficient protection will depend upon the partnership and the policies and procedures they have implemented. Any regulatory reforms that arise out of a review of Australia's laws around partnerships may also contribute to this topic.

Most large professional services firms have established robust whistle-blower policies and procedures that provide protection and support for employees and partners who make whistle-blowing disclosures about the firm. These policies are generally aligned with the whistle-blower protection framework set out in the *Corporations Act*. However, professional services firms that operate under a partnership structure have implemented such policies and procedures on a voluntary basis as the whistle-blower protection regime under the *Corporations Act* does not apply to partnerships. The whistle-blower regime does however apply to some corporate entities associated with the partnership.

Application of the whistle-blower protection regime should not be dependent on the legal structure of an organisation. Please see our responses to question 16 above for a suitable way forward.

²¹ [Make digital financial reporting mandatory, accountants urge](#)

²² [Digital Corporate Reporting: Global experiences from the G20 and Implications for policy formulation.](#)

Competition / resilience of the audit sector

18. Is there sufficient competition to provide clients with choice in selecting accounting and audit services in the Australian market? If not, what factors prevent or impede such competition?

19. What are the barriers to entry into the market for auditing top 200 ASX-listed companies for 'mid-tier' firms?

20. What prevents top 200 ASX-listed companies switching to a 'mid-tier' firm as their company auditor?

21. Do the top 200 ASX-listed companies have any policies or practices that have the effect of excluding 'mid-tier' firms as company auditors?

22. Are there specific barriers to entry or challenges to competition in the accounting and audit sectors?

23. How does competition influence firms' compliance with regulatory requirements and industry standards?

24. Noting the competition issues raised in the audit sector, including the dominance of the largest accounting firms in the ASX 200 market, are there similar competition issues in other services provided by the accounting firms, including tax and consulting services?

Since some of the questions in this section are best answered by the firms who make up Australia's audit market we have provided our collective responses to questions 19-24 below.

Recent research²³ commissioned by CPA Australia and Chartered Accountants Australia and New Zealand provides some evidence-based insights relevant to the above questions. From 2019 to 2022, there was a notable shift in market share dynamics within the Australian audit market. Both the Big Four and smaller audit firms saw a decline in their market share, while large and medium-sized non-Big Four audit firms experienced gains.²⁴

The research indicates that the Australian audit market is fragmented, with varying levels of competition across different market segments. The market for very large audits remains highly concentrated and is dominated by the Big Four audit firms (Deloitte, EY, KPMG, and PwC). In contrast, the market for large clients is classified as moderately concentrated. The medium and small client market segments, however, have maintained a competitive landscape.²⁵ The research notes that market share of the Big Four firms has been declining in recent years, with large and medium non-Big Four firms gaining more clients.²⁶

Specifically, the market share of the Big Four audit firms, measured by the number of listed company clients, decreased from 42.49% in 2019 to 37.85% in 2022. Similarly, their share of total audit fees declined from 86.15% to 83.07% over the same period. Notably, medium-sized non-Big Four audit firms (excluding the Big 6 firms) have captured significant market shares in the medium and small client segments. For example, Big Four firms audited over one-third of the medium-sized clients, but their market share in this category experienced a decline from 37.33% in 2019 to 31.36% in 2022.²⁷

While the Big Four firms still dominate the large-listed company segment, smaller firms tend to audit smaller and medium-sized listed companies. For example, for the smallest clients, the Big Four auditors were engaged in auditing less than 10% of these clients and their market share within this market segment decreased from 10% in 2019 to 6.20% in 2022.²⁸ This suggests that there is some level of competition and choice for clients, especially in the small-to-medium listed company market segment.

The Big Four audit firms dominate the largest and most complex clients, auditing approximately 96% of the top 200 ASX-listed companies in 2022 and capturing a significant portion (99%) of the total audit fees.²⁹

It should be noted that the research does not consider the reasons behind any changes in market concentration. Anecdotally however, it can be observed that the dominance of the Big Four audit firms can be attributed to their global reach with global consistency, extensive resources, reputation, and expertise in handling complex audits for large corporations.

²³ [Audit Market Structure, Concentration, and Competition In Australia 2019-2022](#)

²⁴ [Audit Market Structure and Competition in Australia 2019-2022](#), page 4

²⁵ Hossain and Monroe, [Audit Market Structure and Competition in Australia 2019-2022](#), extended the study by Professor Carson covering 2012-18, CPA/CAANZ, page 6.

²⁶ [Audit Market Structure and Competition in Australia 2019-2022](#), page 3.

²⁷ [Audit Market Structure and Competition in Australia 2019-2022](#), pages 11, 15, 18

²⁸ [Audit Market Structure and Competition in Australia 2019-2022](#), page 3, 4, 15

²⁹ [Audit Market Structure and Competition in Australia 2019-2022](#), page 3

Another significant challenge to competition in the accounting and audit sectors is attracting and retaining talent. The Big Four firms have a distinct advantage in this area due to their brand recognition, extensive resources, and robust alumni networks. These factors enable them to attract and retain top talent, including the best graduates and experienced partners. Consequently, mid-tier firms often find it difficult to build teams with similar levels of expertise and experience.