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Dr Caralee McLiesh PSM FCPA
Auditor-General
Australian National Audit Office

Online submission: <https://www.anao.gov.au/work/performance-audit/australian-securities-and-investments-commissions-regulation-of-registered-company-auditors>

Dear Caralee,

CPA Australia submission to Australia National Audit Office (ANAO) Performance Audit: ASIC's Regulation of Registered Company Auditors

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of more than 175,000 members working in over 100 jurisdictions and regions around the world. Our members represent a broad spectrum of the accounting and finance profession across diverse business and industry sectors, including public practice and registered company auditors (RCAs), which will be impacted by the effectiveness of Australian Securities and Investments Commission's (ASIC) regulation of RCAs.

CPA Australia is committed to upholding the public interest through highest standards of professional conduct. We strongly believe that auditors play a significant role in enhancing market integrity and investor confidence by ensuring the reliability of financial information and helping prevent systemic risks in the financial system. Hence directly reinforcing ASIC's objectives. Their work supports regulatory oversight, strengthens governance, and enhances investor trust, making them key players in ASIC's mission.

This submission is informed by extensive stakeholder consultation undertaken by CPA Australia, incorporating feedback from a broad cross-section of the audit profession. Our outreach included audit practitioners from small and medium-sized practices (SMPs) through to representatives of the six largest audit firms in Australia. In addition, we engaged with subject matter experts, industry stakeholders and members of our [Reporting and Assurance Centre of Excellence](#). The views presented reflect real-world insights and experiences across varying firm sizes, client bases and market segments, ensuring a balanced and representative perspective on the practical implications of the issues raised. We make this submission on behalf of our members, stakeholders and in the broader public interest.

The ANAO's performance audit and public consultation on ASIC's effectiveness in regulating RCAs is timely and critical as the government progresses with its reform agenda in this sector. In this performance audit, the ANAO proposes to examine the following:

- **Are ASIC's governance arrangements and the design of regulatory activities for registered company auditors fit for purpose?**
- **Has ASIC appropriately implemented regulatory activities for registered company auditors?**

We appreciate ASIC's ongoing efforts to enhance the quality of financial reporting and auditing in Australia. This submission outlines our response to ANAO's consultation on ASIC's effectiveness in regulating RCAs and we make the following observations and suggestions:

- *Registration and eligibility:* We recommend streamlining the RCA registration process and introducing a more proportionate auditor licensing framework—similar to New Zealand’s two-tier system—to reduce barriers for smaller firms while maintaining audit quality and oversight.
- *Resignation of auditors:* We recommend a comprehensive review of ASIC’s auditor resignation processes, which are currently overly complex, inflexible, and misaligned with practical audit firm operations.
- *Audit surveillance and inspection:* We recommend a fundamental redesign of ASIC’s audit surveillance program to address concerns around its limited scope, biased sampling, unclear reporting, and inefficient implementation. A more robust and representative approach, combining risk-based and random sampling, clearer objectives, and expanded reviews, is needed to ensure audit quality is accurately assessed. Improvements in inspection expertise, timeliness, and transparency, along with better public reporting and a clearer escalation process, will enhance confidence, reduce unnecessary burden, and align the program with international best practice.
- *Audit surveillance on compliance with auditor independence and conflicts of interest:* We support ASIC’s review of auditor independence but raise concerns about the scope, methods, and fairness of the process, particularly regarding excessive scrutiny of low-risk issues and inconsistent reviewer expertise. We recommend clearer assessment criteria, a proportional approach, fair treatment of self-reported breaches, staff are appropriately trained in audit and independence matters and ongoing engagement with the profession to ensure a more transparent, efficient, and effective review process.
- *Enforcing compliance and taking disciplinary action:* We call for better coordination across ASIC’s audit functions, improved information sharing with professional bodies, and a review of its capability and mandate. Inconsistencies in managing multi-licensed auditors (RCAs and SMSF auditors), limited transparency, and statutory gaps highlight the need for targeted reforms to strengthen oversight and support public confidence in audit regulation.

Additionally, we would like to share our insights and observations on the following issues. While these may not directly impact the ANAO’s performance audit, they could indirectly affect ASIC’s effectiveness as the regulator of RCAs.

- *Industry funding model:* We highlight concerns over the lack of transparency and accountability in ASIC’s industry funding model for regulatory activities, particularly regarding fluctuating fees and inadequate explanations for large variances between estimated and actual industry levies. For example, in FY2023/24, the [levy for auditors of disclosing entities](#) was 26% higher than estimated, following a 55% year-on-year increase—even though the number of audit file reviews remained steady at [15](#) in both years. Similarly, the [levy for registered company auditors](#) jumped 49% above estimates and more than doubled from the previous year despite no change in the volume of audit file reviews. We recommend linking fees more directly to regulatory activities, enhancing transparency in the allocation of resources, and potentially adopting a user-pays model in its reviews. Additionally, the ANAO should review the costing and resourcing aspects of ASIC’s program to ensure greater efficiency and clarity in the funding model.
- *Stakeholders’ engagement:* We stress the need for greater transparency, engagement, and collaboration between ASIC and the profession, similar to models in New Zealand. We emphasize the importance of sharing detailed findings with industry stakeholders, including standard-setting bodies, to improve audit quality. A more open, consultative approach would foster better regulatory outcomes and strengthen industry engagement.
- *Declining numbers of RCAs:* The number of RCAs in Australia has declined significantly over the past two decades, from over 7,000 to around 3,200 in 2025. While there are likely multiple factors behind this trend, ASIC’s current regulatory approach, including rising cost recovery levies and compliance demands, may be contributing to the declining pipeline. With the increasing importance of sustainability reporting and the emerging need for assurance in this space, there is an urgent need to support and grow the audit profession. A sustainable, well-supported audit workforce will be critical to meeting future assurance demands, and regulatory settings should help enable, not deter, participation in the profession.
- *ASIC’s role in issuing Information Sheets and Regulatory Guidance:* There are concerns about the timeliness and completeness of ASIC’s guidance. For example, [ASIC Information Sheet 284](#) was issued in July 2024, a year after the new requirements came into effect on 1 July 2023, while [ASIC Regulatory Guide 280](#), addressing sustainability reporting, was issued in March 2025, months after the Climate Reporting and Assurance regime began in January 2025. Furthermore, there is currently no specific guidance for auditors on the sustainability assurance regime under the *Corporations Act 2001*, leaving RCAs without crucial direction. Accelerating the issuance of guidance and proactively engaging with industry participants could help mitigate compliance risks.

Finally, CPA Australia acknowledges the critical role of ASIC in maintaining regulatory oversight of auditors and supports its position as the enforcement agency. However, we emphasise the need for meaningful improvements in both process, culture and capability within the organization. Addressing cultural challenges and enhancing the technical expertise of ASIC staff are essential for ensuring effective and efficient regulation.

Attachment A sets out CPA Australia's detailed response to the consultation questions. For any queries or to discuss specific cases, please contact Tiffany Tan, Audit and Assurance Lead on 03 9606 9715 or tiffany.tan@cpaaustralia.com.au.

Yours sincerely

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Chief of Policy, Standards & External Affairs

Attachment A: CPA Australia's response

ASIC plays a key regulatory role over registered company auditors (RCAs) in Australia. As part of ASIC's legislative responsibilities, the [ASIC Act](#) states that ASIC has the function of monitoring and promoting market integrity and consumer protection in relation to the Australian financial system and the payments system.

"It requires ASIC to strive to:

- maintain, facilitate and improve the performance of the financial system and entities within it in the interests of commercial certainty, reducing business costs, and the efficiency and development of the economy*
- promote confident and informed participation by investors and consumers in the financial system*
- administer the law effectively and with minimal procedural requirements*
- receive, process and store – efficiently and quickly – the information we receive*
- make information about companies and other bodies available to the public as soon as practicable*
- take whatever action we can, and which is necessary, to enforce and give effect to the law."*

In carrying out its role, ASIC's regulatory toolkit includes **supervision and surveillance, enforcement, financial capability work, industry engagement, guidance and input into law reform.**

Given the broad remit of ASIC's governance arrangements over RCAs, we have focused our comments on the areas that aim to ensure compliance with the Corporations Act and maintain high standards in auditing.

- Licencing, registration and resignation of auditors
- Surveillance and inspections
- Enforcing compliance and taking disciplinary action

Registration and Eligibility

ASIC registers RCAs and ensures they meet specific qualifications and fit-and-proper requirements. This includes demonstrating appropriate qualifications and skills, are capable, and are fit and proper as outlined in [ASIC's Regulatory Guide 180 Auditor registration \(RG 180\)](#). Once registered, RCAs must comply with ongoing statutory obligations and other conditions of registration, such as reporting obligations, maintaining auditor independence and professional development and ensuring audit quality by adhering to auditing standards.

We have heard the **application process for RCAs can be complex, time consuming and costly** due to the need to provide extensive documentation and meet stringent requirements. Often, members are faced with unclear instructions from ASIC and inconsistent advice given. Therefore, we recommend ASIC to streamline the application process in order to speed up the processing of the registration. We also recommend **greater transparency** in ASIC's application assessment process, including clearer guidelines and criteria for applicants, to address the lack of clarity and transparency.

In Australia, we currently have two broad categories of auditors that are being licenced by ASIC:

- the RCAs that are required for statutory audits under *Corporation Acts 2001* and
- the self-managed superannuation fund (SMSF) auditors

However, many qualified members of the professional bodies such as CPA Australia, also take on the auditor role in conducting non-statutory audits for local kindergartens, sporting clubs and associations and audits under Clean Energy Regulator schemes without the requirement to be registered with ASIC.

The current RCA's eligibility requirements are set at a high bar, which is needed to ensure an appropriate level of expertise and regulatory oversight for the audit of highly complex entities such as multi-international listed companies. Therefore, the registration requirements are often geared towards large audit firms, making it challenging for accountants and auditors from smaller firms to become an RCA. Considering the steady decline in the number of RCAs over the past decade, partly attributed to the stringent registration requirements and the challenges faced by smaller firms, we recommend ASIC to consider New

Zealand's framework to have an additional category of auditor. In New Zealand, licensed auditors are required for the audit of Financial Markets Conduct (FMC) reporting entities, which include listed companies, banks, and insurers. Whereas qualified auditors are needed for statutory assurance engagements other than FMC audits. This includes audits of companies and larger charities that are not FMC reporting entities. The creation of the new category of auditors, such as qualified auditors, could be a more proportional approach and help reduce the barrier to entry for new auditors.

Resignation of auditors - Streamlining and improving ASIC processes

We believe that the current design and approach to the resignation of auditors is **not fit for purpose**. Additionally, the implementation and processes surrounding auditor resignations are **inefficient**.

CPA Australia acknowledges the importance of maintaining accurate and up-to-date records of auditor appointments and resignations to support transparency and accountability in financial reporting. However, we are concerned that the current processes set out in [ASIC's Regulatory Guide 26 Resignation, removal and replacement of auditors \(RG 26\)](#) are unnecessarily complex, duplicative and resource-intensive, with little discernible benefit.

Inaccuracies in the ASIC register

The ASIC register of appointed auditors is populated based on [ASIC's Form 388 Copy of financial statements and reports](#), which is submitted by audit clients. Historically, auditors prepared this form, ensuring consistency and accuracy. In the current process, where clients control the submission, audit firms are often required to check the register to identify how their firm has been named, sometimes incorrectly and use that same name when resigning.

This approach results in confusion and discrepancies, particularly when audit practices undergo structural changes (e.g. mergers or name changes), and the resignation process must refer to outdated or incorrect firm names as recorded on the register. These discrepancies contribute to significant inaccuracies in ASIC's public records regarding which auditors are responsible for which entities, undermining transparency and regulatory oversight.

Burdensome requirements for auditor resignation

Under RG 26, where an audit firm undergoes structural changes (e.g. acquisition, transition from partnership to company), the resignation of the outgoing auditor and appointment of the incoming auditor must follow a detailed and inflexible process, requiring:

- a) *Notification to ASIC:* The auditor must notify ASIC of their intention to resign. This involves submitting a formal resignation notice.
- b) *Consent from ASIC:* The resignation is subject to ASIC's consent. The auditor must apply for this consent, providing reasons for the resignation and any relevant supporting information.
- c) *Company Notification:* The auditor must also notify the company's directors and audit committee of their intention to resign.
- d) *Replacement Auditor:* The company must appoint a new auditor to replace the resigning auditor. This appointment must be approved by the company's shareholders at a general meeting.
- e) *Documentation and Compliance:* All relevant documentation, including the resignation notice and ASIC's consent, must be properly filed and recorded to ensure compliance with regulatory requirements.

These requirements must be followed even when no audit relationship has changed in substance, such as when a firm merely updates its structure or trading name. This creates a disproportionate administrative burden for audit firms, company directors, and their legal advisers.

In addition to the burdensome requirements detailed above, a common frustration faced by public company auditors is the inability of audit clients to find a suitable replacement auditor who meets all regulatory requirements in a timely manner. This issue is beyond the control of the outgoing auditor. Consequently, in many cases, the existing auditor is compelled to conduct another audit cycle due to the client's inability to secure a replacement. Furthermore, auditors may face legal or professional repercussions if their resignation is perceived as an abandonment of their duties.

Need for Reform

We consider the current resignation and reappointment process to be unnecessarily complex and inefficient. The procedures under RG 26 are not fit-for-purpose and fail to reflect the practical realities of audit firm operations and structural changes. They divert time and resources from core audit activities without providing any clear benefit to the market, regulators or investors.

We recommend that ASIC undertake a comprehensive review of RG 26 with a view to:

- Simplifying the resignation and reappointment process, particularly in low-risk scenarios (e.g. firm name or structure changes).
- Allowing greater flexibility in documentation requirements, provided auditor independence and continuity are preserved.
- Improving the integrity of ASIC's auditor register through enhanced validation and consistency mechanisms.

Reforms in these areas will reduce compliance costs and improve the efficiency of regulatory oversight, while maintaining the integrity and transparency of auditor appointments.

Surveillance and inspections

ASIC conducts regular audit inspections and surveillances to ensure compliance with auditing standards and the *Corporations Act 2001*.

Designed and approach – Audit Surveillance

We do not believe the design and approach of the audit surveillance program fit for purpose. ASIC follows a **risk-based approach** to target financial reports for review. Based on the financial reports identified through complaints and other intelligence, it informs ASIC in its selection of audit files to be reviewed.

The above risk-based approach has its merit as it integrates the financial reporting ecosystem, as well as focusing ASIC's resources at the audit with the highest risk profile. However, this approach being the sole approach to audit files selection is problematic as it is highly biased and not representative of the population of audited financial reports under ASIC remit.

The findings using only the risk-based approach where audit file reviews are selected from the 'problem' and 'targeted' population of financial reporting reviews will likely result in a high correlation to negative findings in audit review therefore is a bias selection of sample size.

Additionally, the since [ASIC changes its approach in 2022](#), the scope of the financial reporting and audit surveillance program changed, reducing the audit file review from [45 audit files review](#) in the preceding years to [15 audit files review](#) in 2023, 2024 and 2025, representing the 300% reduction. In [ASIC's Report 799 - ASIC's oversight of financial reporting and audit 2023–24 \(REP 799\)](#), around 29,000 entities are required to lodge financial reports with ASIC. Based on REP 799, there are about 3,000 registered company auditors and 200 authorised audit companies registered in Australia.

Reviewing 15 audit files out of the population above raises some questions about the statistical robustness and representativeness of the sample. While a small, targeted review might be appropriate for a preliminary scoping exercise or a thematic review, it may not provide a reliable basis for drawing broad conclusions about audit quality or compliance across the profession. The **extremely small sample size**—approximately 0.05% of the total audit files population—may not adequately capture variability across firm sizes, industries, and risk profiles. Therefore, we recommended that ASIC:

- include a **random-based selection approach** to complement its existing risk-based approach in order to enhance the unpredictability of the surveillance program
- **expanding the sample size** in order to facilitate stratifying the sample to ensure representation across different types of firms (e.g., large vs small), sectors, and various key risk areas.

It will also be helpful to clarify the **objective of the audit surveillance**, whether it's intended to identify systemic issues, raise red flags, or test a specific hypothesis.

Implementation – Audit Surveillance

We do not believe the implementation of the audit surveillance program is efficient and effective. Stakeholders have raised the question of whether the audit inspections lead to better audit quality or just compliance costs, noting that the same risk areas are highlighted each year.

Consistency and capabilities

The audits selected for inspection by ASIC are typically the most complex and high-risk engagements conducted in Australia. These audits demand highly experienced RCAs with extensive experience, often developed over decades of professional practice. Similarly, to be effective, ASIC's inspection teams must possess a high level of technical proficiency and deep industry knowledge.

Concerns have been raised within the profession regarding inconsistencies and inadequate resourcing of the inspection function, particularly in relation to the availability of sufficiently qualified and experienced ASIC personnel for reviewing complex audits. In many cases, inspection teams do not have the same level of technical expertise or practical experience as RCAs whose work they are reviewing. This can lead to challenges in the inspection process, including a disproportionate focus on specific audit procedures or documentation without sufficient consideration of the auditor's risk assessment or the nature of the underlying transactions.

To enhance the effectiveness and efficiency of the inspection process, it is critical that ASIC ensures its staff possess the appropriate skills and experience to match the complexity of the engagements they are inspecting. We recommend the introduction of a more senior technical inspection role, below the level of senior executives, to bring deeper audit expertise and support consistency in inspection outcomes.

Inspection process

The audit inspection process is often protracted, with follow-up enquiries occurring long after the initial review has concluded, or through multiple rounds of follow-up without clear communication on the focus areas. This delays resolution and creates uncertainty for RCAs and firms. Such delays appear to contradict ASIC's stated commitment to "*receive, process and store – efficiently and quickly – the information we receive.*" The extended duration of inspections also contributes to increased regulatory burden and may undermine confidence in the inspection process.

Where there are disagreements with preliminary findings, the process is further prolonged. This may, in part, reflect challenges faced by ASIC inspection staff in exercising appropriate professional judgement on complex audit matters, an issue linked to the capability concerns outlined above.

When comparing ASIC's timeframe of audit inspection in the context of joint review with an international regulator, international regulators have consistently completed their detailed reviews in a significantly shorter time frame compared to ASIC.

While ASIC has made efforts in recent years to provide greater certainty around its inspection processes and timelines, further improvements are necessary. We recommend the introduction of clear Service Level Agreement (SLA) commitments to define expected timeframes for key stages of the inspection process, rather than relying on open-ended or unclear timelines. For example, ASIC could consider aligning its inspection timeframes with the 60-day period required for RCAs to sign off on a listed company audit. This alignment would reflect the practical constraints under which RCAs operate and provide important context for the timeliness of audit work. Introducing SLA commitments would enhance transparency, manage expectations, and minimise unnecessary disruption for firms and practitioners.

Escalation and review process for findings

While ASIC's engagement of an independent External Panel (Panel) to review selected audit surveillance findings is a positive step, there remain opportunities to strengthen the transparency, consistency, and effectiveness of this process. Notably, there is no formal escalation process for inspection findings, in part due to the lack of clarity surrounding the External Panel's Terms of Reference (ToR).

Our observations have identified the following key gaps and areas for improvement:

- *Limited transparency:* There is no publicly available information detailing the Panel's ToR, including its scope, decision-making authority, or operating procedures.

- *Unclear selection process:* The criteria and process for appointing Panel members have not been disclosed, nor is it clear whether appointments are time-limited, rotational, or ongoing.
- *Restricted scope of review:* The Panel currently reviews only a small sample of findings, which may limit the robustness and consistency of its oversight across the broader inspection program.
- *Lack of published outcomes:* There is no formal documentation of the Panel’s conclusions or any indication of how these reviews may influence final inspection outcomes.
- *Absence of a formal escalation and feedback mechanism:* There is no structured process for auditors or firms to escalate disputed findings or to receive feedback on how the Panel’s input has affected the inspection process.

To align with good regulatory practice and enhance confidence in the integrity of the audit inspection regime, we recommend that ASIC:

- *Publish the external panel’s Terms of Reference:* Make publicly available a clear description of the Panel’s role, scope, decision-making authority, and operational procedures.
- *Clarify the panel member appointment process:* Disclose the criteria and process for selecting Panel members, including their qualifications, independence requirements, and tenure arrangements.
- *Broaden the scope of review:* Expand the Panel’s remit to include a wider and more representative sample of inspection findings, especially in cases where there are disagreements or where findings involve complex professional judgments.
- *Establish a formal feedback and reporting process:* Introduce a mechanism for publishing anonymised summaries of Panel reviews and conclusions. Additionally, create a formal feedback loop for RCAs and firms to understand how their cases were considered.
- *Introduce a formal escalation framework:* Develop a structured and transparent escalation process that allows firms to seek an independent review of inspection findings, particularly where there are disputes or unresolved concerns.
- *Adopt international best practice models:* Consider practices from comparable jurisdictions, including:
 - [Singapore \(ACRA\)](#): Inspection findings are reviewed by the Practice Monitoring Sub-Committee (PMSC), comprising experienced public accountants and lay members. The PMSC then recommends outcomes and disciplinary actions, if any, to the Public Accountants Oversight Committee (PAOC) for final decisions.
 - [United Kingdom \(FRC\)](#): A two-stage review process is employed, involving an initial assessment by senior Audit Quality Review (AQR) staff, followed by an executive-level review by the Director of AQR. Independent review of evidence occurs at both stages, and the Director may seek advice from an Advisory Panel of external subject matter experts (SMEs).

Adopting similar governance, transparency, and oversight practices would reinforce the effectiveness of ASIC’s inspection regime and build greater confidence among stakeholders in its independence, fairness, and rigour.

Public reporting of audit findings

Public reporting of audit surveillance findings is a critical mechanism for improving audit quality, promoting accountability, and enhancing public confidence in the audit profession. While ASIC continues to publish an annual report on financial reporting and audit surveillance, we observe a noticeable decline in the clarity, consistency, and usefulness of these reports over time. For instance, the [2024 inspection findings report](#) lacked strong, clear messaging on improvements in audit quality and omitted the granular analysis that once made these reports valuable learning tools for firms and practitioners.

There is an opportunity for ASIC to enhance both the timeliness and quality of its public reporting to better support positive audit quality outcomes. By strengthening the transparency, consultation, and structure of its audit surveillance reporting, ASIC can play a more effective role in supporting continuous improvement in audit quality and reinforcing public trust in Australia’s financial reporting framework.

With respect to the efficiency and effectiveness of the public reporting of audit findings, we make the following observations:

- *Insufficient consultation and feedback mechanism:* While there have been improvements in recent years, such as providing firms with interim reports outlining findings related to their audit files, firms are not given adequate opportunity to review

or comment on the broader thematic content included in the final audit surveillance report. The embargoed version of the final report, which includes these broader and thematic findings, is typically shared only a day before publication with both firms and the media. This limited timeframe restricts firms' ability to clarify, contextualise, or respond to issues that may be presented publicly. Furthermore, there is little to no communication from ASIC regarding what specific content will be published. For example, the inclusion or exclusion of information such as Transparency Reports in the prior year was not communicated to stakeholders.

- *Absence of severity ratings or contextualisation of findings:* ASIC's current reporting model does not distinguish between the severity or materiality of findings. All issues are grouped as "findings" without differentiation between significant audit failures and minor observations or deficiencies. This lack of nuance reduces the usefulness of the report and may misrepresent the overall quality of an audit. For instance, a finding can be considered low risk even though it relates to a high-risk area and does not impact the audit opinion. Other nuances include a single audit file that may have one minor issue or multiple more significant issues. Again, this context is often not conveyed in the report. Although ASIC trialled a severity/rating-based approach in the past, it was discontinued. We recommend reconsidering this approach, using a tiered traffic light system to clearly differentiate between observations, moderate deficiencies, and significant audit issues.
- *Unrealistic expectations on the nature of audit work:* ASIC's surveillance sometimes gives the impression that every transaction or balance in the audited financial statements must be tested, which does not reflect how audits are planned and executed using risk-based approaches in practice. A more pragmatic tone and acknowledgement of the principles-based nature of auditing, such as the role of professional judgment, materiality, and audit sampling, would improve the report's credibility and educational value.

Therefore, to improve the effectiveness of its public reporting, we recommend that ASIC:

- *Improve transparency, consultation and communication:* ASIC should increase the transparency of its reporting process by clearly outlining the intended scope and focus of each surveillance report in advance. For example, whether topics such as transparency reporting will be included. A formal consultation mechanism should be introduced to allow firms adequate time to review and provide feedback on draft content relating to their audits before publication. Additionally, ASIC should communicate the basis for the inclusion of particular findings or themes to enhance fairness, accountability, and stakeholder confidence in the reporting process.
- *Enhance clarity, usefulness and context of findings:* The quality and interpretability of surveillance reports could be significantly improved by clearly distinguishing between the nature and severity of findings. We recommend ASIC reintroduce a tiered classification system (e.g. observation, deficiency, significant issue) to help stakeholders better understand the impact and risk associated with each finding. Reports should also include greater contextual analysis to reflect the practical significance of findings for audit quality and professional practice.
- *Strengthen timeliness and alignment with international good practice:* To ensure reports remain relevant and support continuous quality improvement, ASIC should commit to publishing surveillance findings in a more timely manner. In doing so, ASIC could consider aligning its public reporting practices with international counterparts such as the PCAOB (United States), ACRA (Singapore), and the FRC (United Kingdom), which offer clearer timelines, structured rating systems, and targeted recommendations that drive more effective outcomes.

Compliance with auditor independence and conflicts of interest

CPA Australia acknowledges the critical importance of auditor independence and the need to avoid conflicts of interest to maintain trust in the audit profession and the integrity of financial markets. We support ASIC's initiative to conduct a surveillance review in this area and believe that, with appropriate design and execution, it can positively contribute to audit quality and financial reporting in Australia.

While we support ASIC's initiative and acknowledge that this is the first year of its targeted review of auditor independence and conflict of interest obligations, we are concerned about the lack of a clearly stated objective and publicly available framework guiding the review. To ensure transparency, fairness and effectiveness, ASIC should clearly articulate the purpose, scope and expected outcomes of the review, and publish the framework under which it operates.

Specifically, there are growing concerns regarding the scope and methods used in ASIC's independence reviews. ASIC's oversight has, at times, extended beyond reasonable expectations. In some cases, ASIC's oversight appears to extend beyond reasonable expectations, such as the use of data scraping techniques and scrutiny of low-risk or immaterial matters, including social media

interactions. These methods may detract from more significant issues and have led to a disproportionate allocation of time and resources by audit firms.

Additionally, inconsistencies have been reported in the tone and line of questioning of ASIC reviewers, including variability in their technical understanding of independence requirements. This is particularly evident where reviews were conducted by the surveillance team with lack audit backgrounds and, therefore, may not fully appreciate how independence is maintained in accounting and audit practice.

To improve confidence in the process, ASIC should ensure its staff are appropriately trained in audit and independence matters, and that its methods remain proportionate and targeted to areas of material risk.

Stakeholders have also raised the fact that ASIC currently does not have enforcement powers in relation to [APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\) \(APES 110\)](#) under its existing legislative framework. The use of regulatory tools such as information requests in this context may exceed its statutory powers. Whilst CPA Australia does not support the codification of APES 110, we believe it has already been proposed to the Treasury. If such a pathway is pursued, we encourage further consultation on the scope and design of any legislative changes to ensure they are proportionate and appropriate.

To support a more effective and transparent surveillance framework, we offer the following recommendations:

- *Clarity and transparency of assessment criteria and timeline:* To ensure that auditors can understand and meet expectations, ASIC should provide clear and detailed guidance on the specific criteria and benchmarks used to assess compliance with independence and conflicts of interest obligations. ASIC should also be transparent about how these benchmarks align with applicable independence standards such as APES 110. Consistent with our comments above, ASIC should also provide clear Service Level Agreement (SLA) commitments to define expected timeframes for key stages of the independence inspection process. This will support consistent interpretation and enhance the preparedness of firms undergoing review.
- *Proportionality and fairness:* ASIC's surveillance should be conducted in a proportionate and balanced manner. Particular consideration should be given to reducing unnecessary regulatory burdens on smaller firms and practitioners. We recommend applying a risk-based approach that prioritises areas with a higher likelihood or impact of non-compliance.
- *Treatment of self-reported breaches:* We support ASIC's intent to encourage self-identification and self-reporting of independence breaches. However, ASIC should clarify how self-reported breaches, particularly minor, administrative, or unintentional ones, will be treated. Providing assurance that such disclosures will not result in punitive outcomes would foster a culture of transparency, learning, and continuous improvement.
- *Constructive engagement with the profession:* Ongoing engagement and collaboration with the profession are critical to the success of ASIC's independence review. We encourage regular consultation throughout the surveillance process, including opportunities for firms to provide input and respond to draft findings before finalisation.

Finally, a clearly defined framework is needed to guide ASIC's independent surveillance activities. This framework should outline focus areas, resourcing principles, enforcement boundaries, and mechanisms for consultation and feedback. Establishing such a structure will help ensure the review process is fit-for-purpose, resource-efficient, and focused on outcomes that genuinely support audit quality and public confidence.

Enforcing compliance and taking disciplinary action

Coordination Across Auditor Licences and Functions

There appears to be a disconnect in ASIC's regulatory functions over different auditor roles, specifically RCAs and approved SMSF auditors. For instance, we observed inconsistent treatment of individuals holding multiple licences. A former SMSF auditor, who received a life ban, remained listed as an RCA. Similarly, an individual disqualified by New Zealand's Financial Markets Authority (FMA) from undertaking FMC audits continued to hold RCA and SMSF auditor registrations in Australia.

These examples raise concerns about ASIC's risk assessment of individuals with multiple audit-related licences and its proactive review of all relevant registrations when issues arise. Enhanced cross-licence monitoring and coordination are needed to ensure consistent outcomes and better protect the public interest.

Improving transparency and information sharing with professional bodies

Currently, ASIC does not consistently disclose adverse findings to relevant Professional Accounting Bodies (PABs). Instead, a condition is often imposed on the auditor requiring them to self-report any disciplinary action. In our experience, this condition is not always complied with.

To identify members in breach, PABs like CPA Australia have to search ASIC media releases manually, identify named individuals, and cross-check their membership status independently. This approach is highly resource-intensive and increases the risk that critical matters are missed or delayed. To address this, we recommend legislative and procedural changes that support more effective information sharing between ASIC and professional bodies. For example, require auditors to disclose their PAB membership to ASIC as part of their registration, so that ASIC can notify the relevant PAB of any adverse finding, sanction, or condition imposed on an auditor. In cases where PABs identify a member who has been the subject of an ASIC finding, ASIC should make the relevant outcome letter available to support follow-up action. This would be consistent with information-sharing arrangements with the Tax Practitioners Board, under the *Tax Agent Services Act 2009*.

We acknowledge ASIC's efforts to improve its communication of adverse findings regarding RCAs and SMSF auditors with the PABs. While we are aware that ASIC is currently drafting a letter to be sent to the PABs, at the time of drafting this submission, we have not yet had the opportunity to review the contents of the upcoming letter.

These changes would significantly improve transparency, enhance collaboration between regulators and professional bodies, and support timely and appropriate action to protect public confidence in the audit profession.

ASIC's capacity and statutory limitations

We are also concerned about ASIC's capacity and capability to effectively regulate the audit profession, particularly in the registered company auditor space. Recent experience has highlighted two key challenges. One is the resourcing and capacity challenges, as discussed above. The other is ASIC's limitation in statutory remit. ASIC's current powers focus on the conduct of individual auditors rather than at the audit firm level. This limits its effectiveness in responding to systemic or firm-wide issues. Given the critical role audit plays in the capital markets, we believe a broader review is needed to assess whether ASIC's current mandate, structure and resourcing are adequate to meet expectations and deliver effective regulatory outcomes.