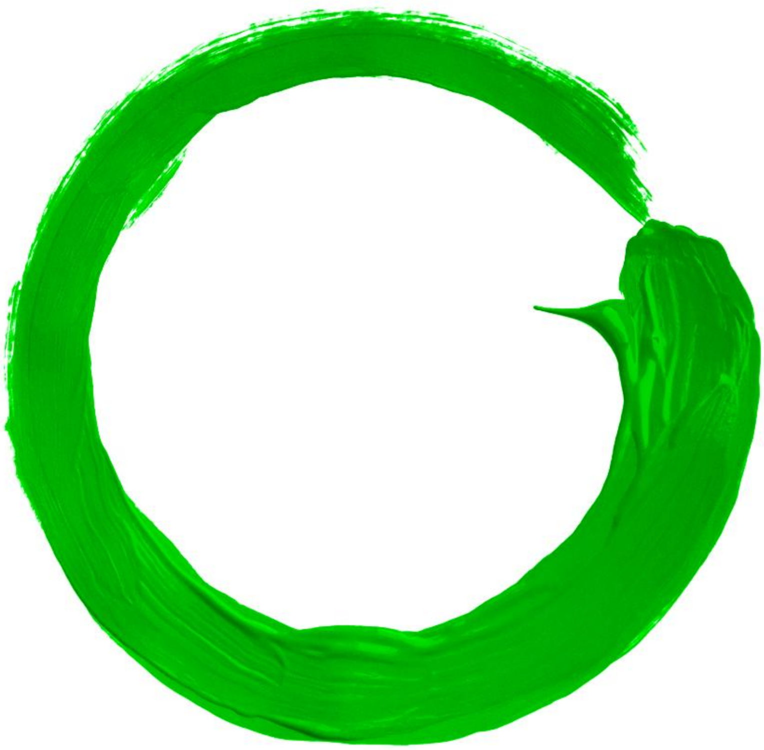

Treasury Options Paper: Regulation of accounting, auditing and consulting firms in Australia

Deloitte submission to Treasury

August 2026

Deloitte Touche Tohmatsu
A.B.N. 74 490 121 060

Quay Quarter Tower
50 Bridge Street
Sydney NSW 2000

Tel: +61 (0) 2 9322 7000
Fax: +61 (0) 2 9322 7001
www.deloitte.com.au

12 August 2026

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

c/o: DPCDConsultations@treasury.gov.au

Dear Director

Re: Treasury Options Paper – Regulation of accounting, auditing and consulting firms in Australia

Deloitte Australia appreciates the opportunity to provide this submission on the Treasury paper *"Regulation of accounting, auditing and consulting firms in Australia, Options Paper, July 2026"* (**Options Paper**).

Deloitte is supportive of Treasury's stated objective in the Options Paper, to '*enhance the regulation and trust in the system and to ensure that the audit sector is accountable and that the market can continue to rely on it*'. Maintaining integrity in the market and strengthening trust and confidence in the audit sector relies on appropriate regulatory settings in respect of independence and ethics, strong firm culture, values and governance, firm-wide processes and controls with effective monitoring and a clear prioritisation of audit quality across audit firms.

The range of options presented is aimed at achieving an effective audit regulatory framework. We note Treasury's assessment that some options address multiple objectives, some operate together and others are mutually exclusive. We agree with Treasury that options must be weighed against the overall objective of intended reforms, including the expected benefits, costs, practical limitations and any unanticipated consequences of each option.

In this submission, we have set out the following:

- Key information regarding the audit market including demand for audit, existing regulation and the availability of skilled practitioners to undertake audits (**Section 1 Introduction and market context**);
- A summary of Treasury's overall objective, the principles we have used to consider the options and our response to each of the options in sequence, providing, where possible, evidence to support our point of view and where relevant, additional options or factors for consideration (**Section 2 Summary of objectives and our response to each option**); and
- Our point of view on the combination of options most likely to achieve Treasury's objective (**Section 3 Our conclusions and recommendations**).

Whilst we have provided feedback on each option individually in Section 2, as set out in Section 3, Deloitte's position is that the combination of a number of the options set out in the Options Paper would best achieve Treasury's stated objective, rather than any individual option. In our view, a strong and trusted audit system requires a regulated licencing regime with clear standards, transparent regulatory supervision and proportionate consequences for non-compliance and minimum governance standards. We believe such a combination will enhance trust, improve the system of audit quality and better hold the audit sector accountable. They also set expectations and obligations for leaders in a chain of command and those charged with governance of large audit firms. Importantly, they do so without creating unnecessary disruption and cost for reporting entities.

We are appreciative of the work that Treasury has undertaken to date and would welcome the opportunity for further engagement on these options.

Yours faithfully

Joanne Gorton
Chief Executive Officer

John Greig
Chair

Deloitte.

Response to the Treasury Options Paper – Regulation of accounting, auditing and consulting firms in Australia

1. Introduction and market context

1.1 Introduction

Deloitte supports reforms that improve audit quality, strengthen market resilience and enhance trust and confidence in the system as a whole. In our view, reforms should be evidence-based, targeted to clearly identified regulatory gaps, and designed to improve accountability and oversight without creating unnecessary cost, complexity or unintended consequences for reporting entities or the broader market.

The integrity of capital markets relies on confidence and trust in a system that is fair and honest. Auditing plays an important role in the integrity of such markets, with reporting entities reliant on specialist skills and auditor capacity and capability to meet their demands. Such reliance is dependent on appropriate regulatory settings and the quality of audit work performed, to maintain accountability and deliver quality audit outcomes. Based on evidence from other jurisdictions a number of the options set out in Treasury's Options Paper, when operating together, are likely to meet or advance Treasury's stated objective. However, where there is no evidence that the stated objective is likely to be met or there are unreasonable costs or unanticipated consequences for reporting entities or the broader market, we believe alternative options should be pursued.

We have included at Section 3 of this paper, a combination of options which we believe would meet Treasury's objectives, and are able to be implemented in a cost-effective, timely and least disruptive manner to reporting entities and the market as a whole.

We have previously supported regulatory change in our prior submissions to Treasury and our position on the need for change remains the same. As such we have referenced our prior submissions where these are relevant to our responses to the Options Paper.

1.2 Australian audit market context

Auditing is vital to the proper functioning of capital markets and the Australian economy. With this in mind, all options should be considered with regard to the key elements of the market, in particular: the importance of audit to the market; the audit sector's compliance with existing regulatory frameworks; and to the skills required by audit firms to meet the requirements of reporting entities. How any change in regulation impacts these elements is an important consideration in the assessment of the options. We have expanded on these market elements below for context.

a) Auditing in the context of the overall market

Deloitte is committed to maintaining the trust and confidence of participants in the corporate reporting ecosystem, enabling the effective functioning of the capital markets. This means audit firms acting in the public interest and promoting a culture of quality founded on doing the right thing. Importantly, it is also means an audit firm being held accountable through regulation and enforcement for the conduct of its partners and people, maintaining its systems and controls, and delivering quality audits. These are dependent on an audit firm's culture and values, and leadership and governance promoting, monitoring and overseeing behaviours aligned to achieving the objectives of the market.

In recognising the importance of audit, Deloitte is committed to preserving and advancing the audit function. This requires auditors to achieve consistency in the application of global standards that deliver quality outcomes, investing in technical and specialised capabilities, and developing technology solutions to execute effective and efficient audit requirements. Reporting entities, particularly the largest ones, continue to globalise, develop new and innovative business models and increasingly utilise complex technologies. Auditing these entities requires scale to enable sizable and sustained investment in audit technology and tools, extensive geographical coverage and highly developed multidisciplinary skills and capabilities. Scale enables audit firms to meet the requirements of reporting entities operating in complex environments and multiple jurisdictions. Audit firms with scale have an increased capacity to invest in capability and technology and are able to deliver better quality outcomes.

In Australia, in 2024, 96.5% of reporting entities in the ASX 200 were audited by the four largest multidisciplinary audit firms and 37.9% of all listed companies.[1] The concentration in the ASX 200 in part reflects the scale and investment in capabilities and resources required to provide audit services to meet market demands in the largest reporting entities.

It also reflects that the contemporary environment is increasingly complex, and both governments and businesses are prioritising their response. There are significant technology changes across all sectors, climate change transitions, fast moving global geopolitical shifts, increasingly complex technology (including AI), re-engineering of supply chains, and changes to workforce and skills. These are disrupting traditional approaches to delivering products and services in the economy and require significant ongoing investment from audit firms, as well as the increasing use of specialists, to maintain audit quality in this context.

Competition is strong at all levels, and choice is available, particularly outside of the ASX 200. Competition is not created simply by increasing market churn, forcing more tenders or changing legal structures. Competition is driven by the availability of skilled people, access to specialist capability, investment in technology and quality systems, financial resilience, and a regulatory environment that encourages firms to build and sustain capability over the long term.

The consideration of the proposed options in respect of the size and structure of audit firms, should have regard to their impact on the scale of such firms, and consequently, their investment capacity to achieve Treasury's objective.

b) Existing regulation and system of quality management

In addition to audit firms' own policies and procedures regarding the accountability of audit partners and practitioners, there is already legislative and regulatory frameworks regarding compliance and enforcement. Lead auditors carry out their duties in accordance with the Corporations Act 2001 (Cth) (**Corporations Act**) and Australian Auditing Standards (**Auditing Standards**). This includes obligations in respect of independence, conflicts of interest and professional conduct. Additionally, these obligations are requirements of APES 110 *Code of Ethics for Professional Accountants* (**APES 110**) for members of relevant professional bodies, which sets out the fundamental principles of ethics, integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

ASQM1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* (**ASQM1**), issued by the Auditing and Assurance Standards Board also sets out responsibilities for audit firms in Australia to establish and maintain systems of quality management, which includes establishing quality objectives, policies and procedures that address the fulfillment of ethical requirements, including those related to independence.[2]

The implementation of the proposed options in respect of changes to regulatory authority and powers should be made in consideration of the existing regulation and penalty regime.

c) Market for audit skills

The auditing sector's ability to continue to provide services required by market participants relies on access to highly skilled capability and the sustained attractiveness of the audit profession. The proposed sector reform is against a backdrop of decades-long trend of falling numbers of registered company auditors (**RCAs**) in Australia (from 6,163 in 2005 to 3,073 in 2025), [3] whilst there is an increased demand for audit services, for example with the introduction of assurance of sustainability reporting, the increased regulatory reporting under APRA Prudential Standards, increasingly complex business models for technology platformed organisations, and emergence of assurance of AI. Deloitte's 2024 submission to Jobs and Skills Australia Core Skills Occupational List consultation highlighted that there is a growing need for qualified auditors in Australia, with specialist skills increasing as compliance demands

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[1] Treasury (May 2024), Regulation of accounting, audit and consulting firms Consultation Paper, pp 41.
[2] Auditing and Assurance Standards Board (AUASB) (March 2021), Auditing Standard 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, Par 29 (pp 18) and Par 34 (pp 21-22).
[3] Australian Securities and Investment Commission (ASIC) (November 2025), Licensing and professional registration activities: 2025 Update, Report 825, pp 20.

increase.[4] The increasing complexities of compliance and financial regulations is also driving growth in demand for auditors. The Deloitte Access Economics data shows a steadily growing need for qualified auditors with a compound annual growth rate of 1.7% in Australia.

Whilst demand for auditors increases, not only is there a decreasing number of RCAs, there is also a declining number of graduate applications along with an increased reliance on overseas hiring, highlighting a growing skills gap. Applications from qualified accountant graduates and vacationers declined from 3,500 in 2022 to 2,325 for the 2026 Deloitte programs. In 2025, Deloitte Australia recruited overseas skilled staff to fill 47% of vacant audit positions at all levels. Deloitte remains committed to continuing our program to access, employ and develop people with relevant capabilities, both locally and through our global network, to meet market demands for our services.

These workforce challenges are not unique to Australia. This trend is being experienced in other jurisdictions. Key factors include declining student enrolments in accounting (with fewer choosing audit as a speciality), competition for graduates from banking, finance and consulting, a rise in retirements from existing audit practitioners, mid-career attrition, greater technical complexity and demand for services such as sustainability reporting and assurance. For example, according to the Financial Reporting Council, accounting student numbers in the UK and Republic of Ireland continued to decline.[5] In the US, the Association of International Certified Professional Accountants (AICPA) reports that Bachelor's degree completions in accounting declined by 10.3% from 2021–2023 and 3.3% in 2023-24.[6]

The consideration of proposed options that have an impact on the employment, retention and access to audit and specialist capabilities should have regard to the market for such skills and its impact on the achievement of Treasury's objective.

[4] Deloitte Australia (May 2024), Submission - Response to Jobs and Skills Australia (JSA) Draft Core Skills Occupations List ('CSOL') for Consultation, pp 2.
[5] Financial Reporting Council (2025), Key Facts and Trends in the Accounting Profession.
[6] Association of International Certified Professional Accountants (AICPA) (2025), 2025 Trends A Report on Accounting Education, the CPA Exam, and Public Accounting Firms' Hiring of Recent Graduates, pp 5.

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2. Summary of objectives and our response to each option

2.1 Summary of objectives

The overall stated objective of Treasury is to *"enhance the regulation and trust in the system and to ensure that the audit sector is accountable and that the market can continue to rely on it."*[7] For the purposes of this submission, this objective is considered in three parts:

1. Enhancing trust in the system as a whole
2. Improving the overall audit system of quality management
3. Holding the audit sector accountable.

2.2 Principles we used to consider the options proposed by Treasury

In assessing the response to the options against Treasury's stated objective, our primary considerations have been:

- The achievement of the three parts of the stated objective set out above;
- The speed and efficiency of implementation of options for the market as a whole, evidence of how similar options have been implemented and operated in other jurisdictions, particularly relating to risk of implementation and timeframes to implement; and
- Consideration of the highest benefits and lowest costs including indirect and unanticipated consequences to reporting entities and the community, the integrity of capital markets, the impact on pools of talent needed for the system to operate efficiently and effectively, and the impact on market choice.

2.3 Our response to each option

In this section of our paper, we have set out our response to each of the options set out in the Options Paper.

In addressing each option, we have sought to provide a balanced assessment of both the potential benefits and the likely costs, practical limitations and unanticipated consequences. This includes considering whether each option would advance Treasury's stated objective, whether it may have broader impacts on reporting entities, audit market capacity, competition, cost or the resilience of the system as a whole.

Whilst we have provided feedback on each option individually, as set out in our conclusion in Section 3, Deloitte's position is that the combination of a number of the options set out in the Options Paper would best achieve Treasury's stated objective, rather than any individual option alone.

These options collectively introduce licencing for audit firms, set clearer standards for conduct, impose minimum governance expectations for audit firms, enhance ASIC's ability to extend its surveillance program and support proportionate consequences for breaches at a firm wide level. It also sets expectations and obligations for leaders in a chain of command and those charged with governance of the firms.

As such, our response to each option below should be read in that context.

[7] Treasury (July 2026), Regulation of accounting, auditing and consulting firms in Australia Options paper, pp 4.

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1. Ensuring accountability within the audit sector

The objective of the proposals in this section is to ensure there is appropriate levels of accountability in place to underpin the effective regulation of the audit sector. As noted in the Options Paper, there are currently perceived gaps in the accountability system that can undermine the confidence in the system of audit quality and the system as a whole. It is therefore appropriate to assess, understand and eliminate these gaps in the accountability system. We also note that there are overlaps in accountability as well as gaps, and would therefore welcome a strengthening of accountability alongside a streamlining of accountable authorities, as part of a more effective and efficient accountability regime.

Overall, we are supportive of the options to increase accountability within the audit sector, as set out below.

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

We are supportive of this option being further developed. The requirement of audit firms to be licenced by ASIC, with quality management and ethical obligations as firm-level conditions of holding their licence, would strengthen accountability and incentivise compliance with ongoing licence obligations. This could assign explicit accountability to the firms' leadership who have authority and influence over its system of quality management, their ethical obligations and the quality of services provided by firms to capital markets and the broader economy.

Our position is consistent with Deloitte's 2024 submission to Treasury Consultation Paper in which we stated:

"12.1 We believe there may be benefits in extending ASIC's remit to provide it with powers to register, monitor and regulate firms that perform regulated services, not just individual practitioners. We are therefore supportive of reforms to consider the regulation of firm-level accountability, such as exists in other overseas jurisdictions, with the strong recommendation that such reform should also involve consolidation into fewer, stronger regulators."[8]

Further relevant details set out in our prior submission on this topic were as follows;

- Reforms should consider the regulation of firm-wide level accountability, such as exists in other overseas jurisdictions (for example under the Public Company Accounting Oversight Board (PCAOB) in the US), with the strong recommendation that such reform should also involve consolidation into fewer, stronger regulators;
- Consideration could be given to an extension of ASIC's regulatory oversight powers to include:
    - The firm's system of quality management as it relates to the provision of audit and assurance services (which also increases public confidence in the management of conflicts of interest and auditor independence). In our submission to the 2019 Audit Inquiry, we stated our view that any enhancements to ASIC's inspection process should consider the opportunity to move from a system that inspects a small number of files to one that tests the System of Quality Control (as covered in Option 4).[9] This is consistent with the approach being adopted by the PCAOB in the US;
    - Compliance with any mandated minimum firm governance standards (as covered in Option 3A);
    - Compliance with any mandated reporting requirements that ASIC may seek to impose on partnerships of a certain size; and
    - ASIC having the power to publish the outcomes of its monitoring and enforcement of a firm's compliance with these requirements or, alternatively, require that the firm disclose such outcomes in an annual report (as covered in Option 4).

The requirement of an ASIC issued licence at the firm-level, in addition to the registration of individual audit partners (RCAs), would bring Australia into line with other jurisdictions (including the US where registration commenced in 2003, and the UK where it commenced in 1991). Once established, ASIC's authority would enable enforceability and consequences, including penalties, for non-compliance or breaches of licence conditions.

[8] Deloitte (June 2024), Submission to Treasury Consultation Paper: Regulation of accounting, auditing and consulting firms in Australia, pp 11.
[9] Deloitte (August 2019), Deloitte submission to the inquiry into the regulation of auditing in Australia, pp 21.

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Appropriate and proportionate enforcement options should also be considered as a condition of the licence, having regard to the severity of the licence breach. We would expect the suspension or cancellation of a licence would be a measure of last resort, noting the potential impact on competition and capital markets by limiting access to audit services for reporting entities. Our comments on penalties for breaches are included in our responses to each of Options 5A, 5B and 5C.

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
• Stronger firmwide accountability • Stronger regulatory oversight over the system of audit quality • Stronger governance requirements and incentives for firm-wide decisions impacting audit quality • ASIC's power to review and enforcement of firm-level systems of quality management	• Imposition of restrictions on licence conditions such as suspension or cancellation could restrict reporting entities from obtaining audits, reducing competition • Additional compliance costs which could increase costs to the market • Increased cost to, and additional resourcing for, ASIC to administer licensing regime

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

We are supportive of this option being further developed. The introduction of enforceable professional conduct obligations would enhance compliance with ethical standards by RCAs and assist with enforceability of agreed standards by way of regulatory action if ethical standards are breached.

We agree that there are benefits to both explicitly defining the ethical standards that are sought to apply to RCAs, and in harmonising of those ethical standards across regulators and professional bodies.

However, consideration would need to be given to how the framework would work in practice in respect to monitoring, reporting and consequences of any potential breaches. We have made additional comments in this regard in our responses to Option 1A and Option 5A.

Clarification of how the professional conduct obligations would apply to the firm as a whole, if it was treated in the same manner as an RCA, would also need to be carefully considered. A whole of firm consideration would include those in the chain of command for audit services and the system of quality management, as well as the individuals involved in the conduct of the audit.

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
• Consistent ethical conduct obligations would apply to all RCAs involved in an audit	• If applied as a standard, tailored to the Australian context, increased potential for country-by-country differences in ethical requirements that apply across global audit firm networks • Additional compliance costs which could increase costs to the market

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

We are supportive of this option being further developed, where it would provide the appropriate standards in respect of the conduct and integrity of partners in a multidisciplinary firm. In particular, extending 'fit and proper person' requirements to identified partners responsible for making decisions affecting audit quality at the firm-level, and therefore being held accountable for such decisions, would increase trust and confidence in audit firms.

Increased accountability could be achieved through enforcement where relevant partners do not continue to meet 'fit and proper person' requirements. Penalties to firms could include the imposition of fines, regulatory conditions for continued registration or deregistration. Individual partners could also be subject to fines or imposition of regulatory conditions for failing to meet the 'fit and proper person' test.

While there are benefits in extending a 'fit and proper person' framework, further consideration would be required in relation to:

- The proposed definition of 'fit and proper person';
- The categories of individuals within a partnership to whom the framework would apply;
- The proposed monitoring, compliance and reporting mechanisms;
- The intended interaction with the registration of firms providing audit services;
- The consequences of any failure to satisfy, or ongoing breach of, the requirements;
- Which body would administer the overall program; and
- How information would be shared amongst relevant professional bodies and/or regulatory authorities.

It is important that the potential indirect consequences of this option are carefully considered. Where 'fit and proper person' requirements apply to all partners of an audit firm (including partners not providing audits), the consequences of an individual partner failing to satisfy those requirements should be further assessed. In particular, the imposition of regulatory conditions or deregistration could affect reporting entities' ability to obtain audited financial reports until the relevant conditions are satisfied or the issue is otherwise remediated. Such outcomes may extend beyond the intent of the proposal and could create disproportionate consequences to market stakeholders, reporting entities, audit firms and practitioners.

Consideration would also be required in relation to consequences for a firm in which a partner is determined to not to satisfy the 'fit and proper person' requirements, particularly where the individual remains a partner. This includes consideration of the procedural fairness requirements that would apply to any decision-making.

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
• Increased trust and confidence in audit firms • The ability to hold individuals, as well as the partnership, accountable for failure to meet 'fit and proper person' requirements	• Regulatory cost to administer, monitor and manage the 'fit and proper person' regime, which could increase costs to the market • The potential unintended consequence of deterring talent from joining large professional services firms, as opposed to other consultancy-only firms which may not be covered by these requirements. This could reduce the availability of specialists needed to support the conduct of an audit • The potential consequences on reporting entities and the broader market of a firm being deregistered

2. Managing structural conflicts of interest in multidisciplinary firms

Confidence that the audit sector can discharge its role objectively, without bias or conflict is a fundamentally important concept that underpins the system as a whole.

In reflecting on some of the recent issues that have arisen in the professional services sector, it is important to consider whether these would have been best mitigated by stronger governance and regulatory measures, consequences for breaches including penalties or a structural solution. Given the issues occurred within a single division of the relevant firms, in our view there is greater benefit in the Options in relation to implementing consistent ethical standards, governance arrangements and regulation with enforcement powers to increase accountability, as opposed to structural change.

We therefore are supportive of some elements of the options to manage structural conflict of interest in multidisciplinary firms, to the extent that they achieve the stated objectives of the Options Paper but do not support options that adversely impact the system as a whole, the system of audit quality management or do not improve accountability in the sector.

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

While there is limited evidence that the provision of non-audit services to an audit client has resulted in conflicts of interest or negatively impacted audit quality, a clearer and more definitive regulatory position on non-audit services could assist in enhancing public confidence in the independence of the audit function. As such, we are supportive of reviewing and, where appropriate, redefining the scope of prohibited non-audit services to strengthen the independence of auditors and address public perception of potential conflicts in the Australian market. The narrowing of permissible services in this category, could improve perceptions of independence, decrease potential conflicts of interest and increase confidence in the audit profession.

However, we do not support a blanket prohibition on all non-audit services. Certain assurance services to a reporting entity can only be provided by the auditor (e.g. half year financial reviews). Prohibiting such services would increase costs to reporting entities and reduce flexibility. Such prohibition is also unlikely to enhance auditor independence.

We observe that non-audit fees represent a relatively small and declining proportion of overall audit firm revenue. In FY25, 3.9% of Deloitte Australia's total revenue came from the provision of non-audit services to entities that Deloitte Australia audits, a small decrease from 4% in FY24. This includes the provision of assurance related services such as controls assurance and sustainability assurance. This evidence would suggest that the scale of non-audit revenue from audited entities in and of itself is unlikely to compromise an auditor's independence or create conflicts of interest.

Importantly, in a multidisciplinary firm, audit practices are not 'loss leaders' used to sell non-audit services. Deloitte Australia's audit practice is profitable and not subsidised by other parts of the firm's activities. Audit partners' remuneration (their share of firm profits) is dependent on their performance evaluation in their role as audit partners. Such evaluation includes meeting relevant quality measures as base expectations of undertaking their responsibilities.

Consideration should be given to the categories of reporting entities to which the proposed change of the scope of non-audit services is applied. For example, this may be most appropriate for large listed entities, public interest entities and large private entities only, as this is where public interest considerations are more significant.

As noted in the Options Paper, there are occasions when non-audit services are required, most notably as part of the audit process itself.[10] Any reforms should therefore be carefully considered to preserve services that are integral to the effective and efficient conduct of an audit while maintaining the independence and objectivity of the auditor.

In Deloitte's Submission to Treasury Consultation Paper we noted that non-audit services include a number of services that are either required by law to be provided by the auditor or are most appropriately provided by the auditor given the close relationship to the work performed during the audit.[11] Requiring such services to be performed by another provider would likely increase costs, create duplication and inefficiencies and may not provide

[10] Treasury (July 2026), Regulation of accounting, auditing and consulting firms in Australia Options paper, pp 23.
[11] Deloitte (June 2024), Submission to Treasury Consultation Paper: Regulation of accounting, auditing and consulting firms in Australia, pp 5-7.

any corresponding improvement in auditor independence. This would place pressure on the quality of audit. Examples of such services include:

- Review of financial information, including half year financial reviews for reporting entities;
- Assurance of sustainability reports;
- Reporting on regulatory returns, such as in respect of APRA regulations;
- Reporting on internal financial controls; and
- Other third-party assurance reports.

Companies are currently required by Australian accounting standards to disclose fees paid or payable to their auditor for non-audit services, and in this context, non-audit services comprise all services other than the audit of the financial statements, including:

i) Reporting services required by law or regulation to be provided by an auditor;

ii) Other audit, assurance and related services, which are largely carried out by members of the audit engagement team because the work involved is closely related to the work performed during the audit, including:

- Reviews of interim financial information;
- Assurance of sustainability reports;
- Reporting on regulatory returns;
- Reporting to a regulator on client assets;
- Reporting on government grants;
- Reporting on internal financial controls when required by law or regulation;
- Other third-party assurance reports; and
- Extended audit work that is authorised by those charged with governance performed on financial information and/or financial controls where this work is integrated with the audit work and is performed on the same principal terms and conditions.

iii) Other non-assurance services, which are not carried out by members of the audit engagement team and where the work is not closely related to the work performed in the audit. For example, broader advice on non-financial reporting technology.

The first two categories of 'non-audit services' are broadly consistent with the role of an auditor and do not in our view pose a threat to independence or create conflicts of interest. Reducing the ability of the external auditor to provide these services will likely result in increased costs to the reporting entity as another audit firm will need to invest time in building knowledge of the business and its systems, processes and controls to deliver the work.

Furthermore, in relation to the first category, appropriate policy consideration has already been given to those services that are required by law or regulation to be performed by the auditor. There are also legitimate reasons why an entity may ask its auditor to provide the services in the second category including:

- Enhanced quality: Performing both audit and audit-related services can create synergies, leading to a more thorough understanding of the reporting entity's business and financial reporting processes;
- Cost to the reporting entity and the economy: Engaging the same firm for both audit and audit-related services can be more cost-effective than hiring multiple service providers, by leveraging an existing understanding of the business and financial reporting processes, thereby reducing duplication of effort and administrative costs; and
- Independence: Other assurance services (such as sustainability reporting assurance) also require independence requirements to be met, and the auditor is already independent, which other service providers may not be.

In relation to the third category of 'other non-assurance services', the independence standards in APES 110 already prohibit the provision of the types of services that create risks to auditor independence. The Options Paper

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succinctly summarises the role of the Corporations Act and APES 110 in maintaining auditor independence.[12] However, we believe the permitted non-audit services in this category could be reviewed and further refined. In doing this, consideration could be given to aligning prohibited services with the International Ethics Standards Board for Accountants (**IESBA**) and Securities Exchange Commission (**SEC**) rules to improve international consistency, which would amongst other things, aid the administrative burden on multinational reporting entities. Such prohibited services include loan staff arrangements (such as secondments) and legal services.

Our submission in respect of the 2024 Treasury Consultation Paper, also notes that:

- The Corporations Act already places duties on directors of reporting entities to assess and ensure the independence of the auditor, and to include the independence declaration provided by the auditor in the directors' report;
- The Corporations Act also places a legal requirement on directors to form their own conclusion, independent of the auditor's conclusion, on whether non-audit services would affect the auditor's independence;
- The ASX Corporate Governance Principles (**ASX CG Principles**) set out the responsibilities of listed company audit committees in regard to the appointment or removal of the external auditor, the fees payable to the auditor for audit and non-audit work, the rotation of the audit partner, the scope and adequacy of the external audit, the independence and performance of the external auditor, and the independence assessment of non-audit services; and
- APES 110 was revised in 2021 to require the auditor to ensure that the audit committee of a Public Interest Entity (**PIE**) has assessed and approved audit and non-audit services before such services are provided. This approach is broadly consistent with the pre-approval requirements that apply to services provided by external auditors to public companies listed on the US exchanges. The audit committee represents the shareholders' interests in ensuring the independence of the auditor and this new requirement represents a significant strengthening of the audit committee's oversight of the provision of non-audit services and provides an additional safeguard to ensure that any potential threats to auditor independence are identified, assessed and appropriately managed before services are provided.[13]

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
• Reduces both real and perceived conflicts of interest • Potentially improves international alignment of prohibited services, reducing the administration burden on multinational reporting entities	• Non-audit services may be defined too narrowly to unintentionally exclude services that are only able to, or best provided by a reporting entity's auditor, impacting audit quality • A blanket prohibition or too narrow definition of non-audit services may cause inefficiencies and costs to reporting entities engaging other providers to deliver non-audit services and create inconsistency for multinational entities

Option 2B: Achieve operational separation within existing structures

For the purposes of this paper, "operational separation" is considered to be changes to the operations of a multidisciplinary audit firm to achieve the stated objectives, while maintaining the current structures of the multidisciplinary audit firms.

Our view is that the best way of achieving the stated objective of the Options Paper is through a combination of options to strengthen all elements of the overall system, as set out in Section 3 of this paper. Operational separation, while a means to achieve some of the objectives, has several negative and indirect outcomes, and, in our view isn't the most effective mechanism for improving the system as a whole, or achieving Treasury's objective. As such, we support the elements of operational separation that relate to governance as set out in our response to Option 3A and below, however not those elements that would give rise to additional costs to reporting entities, regulators and the system, as a whole as set out below.

[12] Treasury (July 2026), Regulation of accounting, auditing and consulting firms in Australia Options paper, pp 19-20.
[13] Deloitte (June 2024), Submission to Treasury Consultation Paper: Regulation of accounting, auditing and consulting firms in Australia, pp 6.

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As noted above, the recent issues in the professional services sector in Australia have occurred within a single division of firms and arguably would not have been prevented by proposals to separate the operations of any one division. In addition, certain aspects of operational separation would result in challenges including:

- The attraction and retention of talent, impacting audit quality;
- Inhibiting the ease and cost of engaging specialists across the practice, impacting reporting entities;
- Little or no increased choice in the market; and
- Higher regulatory cost of compliance impacting reporting entities.

Diversity of career options within a multi-disciplinary firm is a key benefit in attracting high performing people to the audit practice. Operational separation may inhibit the ability of audit professionals to work in other parts of the firm, reducing the attractiveness of the audit profession, at a time when RCA and graduate numbers are already in decline (as set out in Section 1). A report by International Federation of Accountants (**IFAC**) shows "*the multidisciplinary model is one of the best mechanisms to develop the skills, expertise and consistency needed for quality audits*".[14]

Operational separation was introduced in the UK in 2020 and combined with other regulations, has not resulted in a significant change in choice of audit provider. Just prior to this, at least one UK firm, Grant Thornton, had ceased to bid for audit services to the largest reporting entities due to increasing participation costs (i.e. regulatory costs and costs of tendering), thereby reducing choice. Grant Thornton estimated in 2018, that each audit tender process cost the firm approximately £300,000.[15]

We also understand that the UK's operational separation involved a significant cost to implement, together with the regulatory requirements and cost to reporting entities. For example, we understand the UK regulations require specialists utilised from outside of the audit business to be contracted and charged to the audit practice on an arms-length basis. This adds complexity and costs to reporting entities and regulators.

We note that all of the UK's largest multi-disciplinary firms have adopted separate governance structures for their audit practices and this has been widely credited with supporting improvements in audit quality and professional conduct. Such a structure could be adopted as part of Option 3A, with outcomes consistent with Treasury's objective, and without requiring elements of operational separation which would result in additional costs to reporting entities, regulators and the system as a whole.

Such a governance model could:

- Create a separate, transparent, independent governance and management structure for the audit practice with an overriding responsibility to act, and be seen to act in the public interest, coupled with an overarching performance management structure aligned solely with the management of relevant processes and systems and the delivery of audit quality;
- Maintain the audit practice's ability to readily access specialists of requisite experience, to avoid jeopardising audit quality; and
- Underpin resilience, which would be challenged in an operational separation.

Based on the UK experience, such a governance change may consider moving direct oversight for the audit practice from the firm-wide Board, which undertakes these relevant activities, to a separate governance board including:

- An audit business with its own leadership structure, overseen by a new, separate governance board and Chair;
- Independent board member representation and clear terms of reference with the primary objective of maintaining a culture of audit quality within the audit practice;
- Monitoring regulatory compliance, system of quality of management effectiveness and any necessary remediation activities to achieve ongoing effective system of quality management;
- Clear reporting obligations to external stakeholders by the separate board overseeing audit governance;

[14] International Federation of Accountants (IFAC) in conjunction with the Association of Certified Chartered Accountants (ACCA) and Chartered Accountants Australia and New Zealand (CA ANZ) (September 2019), Audit quality in a multidisciplinary firm: What the evidence shows, pp 5.
[15] Sweet, P (March 2018), Business and Accountancy Daily, Grant Thornton pulls out of bidding for FTSE350 audits.

- Oversight and enforcement of clear, transparent policies that link audit partner and staff remuneration to audit quality, overseen by the separate board overseeing audit governance;
- Oversight of the prohibition of defined non-audit services for the audit practice that seek to prevent conflicts but also allow the skills of audit practitioners to be developed; and
- A firm-wide strategy and budget set at a firm-level, with the level of investment in audit agreed by the separate board overseeing audit governance, to ensure investment levels are consistent with its aims of safeguarding and further enhancing audit quality.

We note that APES 110 already explicitly prohibits evaluating or compensating an audit partner based on that partner's success in selling non-assurance services to audit clients. Audit firms must therefore ensure proper governance over their performance and remuneration frameworks to give effect to this requirement and ensure there are no risks to auditor independence.

Such a separate governance and performance management structure could be adopted as part of Option 3A in combination with the options we have supported, and as set out in Section 3. This would provide a mechanism to address the perceptions around firm culture and incentives and best achieve the outcomes set out in the Options Paper. This could be achieved without increased costs to the market and other consequences referred to above of operational separation.

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
• Separate governance of the audit practice to strengthen governance of audit quality and system of quality management • Reduced likelihood of real or perceived conflicts of interest	• The costs of transition and maintaining operational separation are likely to result in higher costs of audit services to reporting entities • The restriction of services to be provided by audit practices may be unintentionally too narrow resulting in a disruption of service to reporting entities or an increase in costs to the reporting entity in engaging other firms to provide these services • The potential negative impact on attracting and retaining talent in the audit practice • Operational separation alone, would not have prevented some of the recent market issues

Option 2C: Mandate structural separation

Structural separation would require multi-disciplinary professional services firms to separate and in doing so, create a separate audit firm that would be prohibited from providing non-audit services. We do not support this option, as we strongly believe that it will not achieve the Treasury's objectives set out in the Options Paper.

Structural separation would create insurmountable and significant practical, operational and market challenges. It would adversely impact the audit system of quality management, accountability of the audit sector and the system as a whole. For these reasons, we are not aware of any market in the world that has adopted this model.

Challenges related to structural separation include:

- Reliance on third-party specialists may introduce new independence, conflict and quality-control risks that do not exist within an integrated quality management framework;
- Reduced access to specialist expertise may adversely impact audit quality, particularly for large, complex and multinational entities;
- Restrictions on access to global specialist networks may impair the quality and efficiency of multinational audits and reduce the ability of Australian firms to service globally integrated reporting entities;

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- Reduced scale and investment capacity may limit investment in technology, methodologies and quality management systems, potentially affecting audit quality over time (for example the current firm wide technology developments that take place, such as AI);
- Structural separation may exacerbate existing workforce shortages if audit-only firms are less attractive to graduates and experienced professionals, reducing the long-term capacity of the audit market;
- A less resilient audit sector may reduce market choice and competition, particularly during periods of economic stress or following the failure or withdrawal of a major audit market participant; and
- Audit-only firms may become more economically dependent on a small number of large clients, creating concentration risks that run counter to Treasury's competition objectives.

Deloitte Australia currently has over 1,200 practitioners who are accredited to act as specialists on audits, but who do not sit within our audit practice. This compares to 1,157 audit practitioners who were part of the audit practice at the end of FY26. The conduct of audits requires access to technical specialist areas and disciplines including taxation, valuers, actuaries, economists, geologists, forensics, cybersecurity, systems engineers, information technology, and artificial intelligence. To meet the independence requirements of audit, these specialists are required to be independent. If structural separation were to be mandated, this would present significant challenges of either attracting such specialists to the audit-only firm or contracting these specialist services from the structurally separate non-audit firm, or any other relevant specialist organisation. The provision of audit services by specialists would be less seamless, more contractual and with the potential for the auditors and specialists to be less culturally aligned. This would likely reduce efficiency, increase costs, and adversely affect audit quality, impacting reporting entities and the market as a whole.

As businesses navigate existing and emerging challenges such as changing business models, technology advances and data security, the ability to leverage wider specialists' expertise to support audit teams in areas of higher risk and complexity will become even more important. Every one of the audits of ASX 200 companies conducted by Deloitte in FY25 utilised technical specialists employed by the firm outside of the audit division. It is the access to accredited specialists, know-how and learning, broader industry insights and sector knowledge, that are achieved by being a scaled multi-disciplinary firm. Audit quality is enhanced by these factors.

An analysis of Deloitte's audits of financial reports for ASX 200 listed companies with years ended 30 June or 31 December 2025 found that 63% of Key Audit Matters - the most significant audit risks - included in audit opinions for entities Deloitte Australia audits, required the use of specialists to perform audit procedures to appropriately respond to relevant significant audit risks.

The external sourcing of specialists would also create potentially significant independence and conflicts of interest challenges, as specialists employed by third-party entities would not, through their normal course of business, be required to meet independence requirements and remain conflict free. This would require appropriate responses by audit firms to enable audit services to be provided to the market without disruption. There would be reduced ability of the audit firm risk, independence and quality professionals to maintain visibility of conflicts and independence issues across the audit firm and providers of specialist services, increasing the risk of breaches.

A structural separation model would result in professionals in the audit practice being restricted to an audit-only career path and lose the ability to broaden their skills across areas such as technology, cyber, sustainability, tax, risk and market transactions. This is particularly relevant as contemporary audits increasingly depend on expertise in exactly those areas. Restricting movement between disciplines reduces the breadth of experience that auditors can bring to their audit work and limits the skills professional services firms can develop over time. At a time when businesses are becoming more complex and audits increasingly require expertise in specialist areas, structural separation would narrow, rather than expand, the capability of the audit profession. Given the declining number of RCAs and graduate applications, it would make the profession less attractive to graduates and experienced professionals by limiting career opportunities and professional development pathways.

Structural separation would also create significant challenges in a global context. Many audits, particularly of large listed and multinational entities, require input from specialists and audit teams across multiple jurisdictions. A structurally separated firm in Australia would need to be capable of operating consistently with global audit methodologies, network arrangements, independence requirements and cross-border service delivery. This would be highly complex and may create unintended disruption to firms and reporting entities.

Large audit firms develop audit technology platforms centrally for use globally (including AI tools), and deploy these across multiple jurisdictions, including Australia. A standalone Australian audit firm would not have the scale to invest in the development of technology with similar capacity, particularly given the development cost and accelerated rate of change brought on by AI. Indeed, Deloitte globally has "*been on a journey to transform and digitise our audits and have invested more than $1 billion on this journey over the past five years. This transformation is driven by a vision and strategy utilising advanced technology and data analytics; is grounded by our risk-based methodology and standardised workflows.*"[16]

There are also broader capital markets considerations. Australian audit practices benefit from being integrated into global audit networks that allow multinational organisations to access consistent methodologies, specialist expertise and undertake coordinated audit delivery across jurisdictions. Structural separation would make Australia a global outlier and create additional complexity for global organisations operating locally. Where reporting entities are required to take additional steps to obtain audit services in Australia because local audit firms are less integrated with their global networks, this potentially impedes the ease of doing business locally and could reduce the attractiveness of Australia as a destination for international investment.

Countries compete for global capital partly through the strength and credibility of their institutions, including the quality of corporate reporting and audit. If a structural split reduced audit quality by weakening firms' scale, specialist capabilities or international connectivity, Australia could become disadvantaged in this global system. This would make Australia less competitive than jurisdictions retaining deeper and more internationally integrated audit capabilities, potentially diminishing Australia's relative attractiveness as a destination for capital.

We note that the structural separation proposed has not been implemented anywhere globally. In June 2022, a Dutch government-commissioned study concluded that structural separation of audit and advisory was found to carry more disadvantages than benefits and pursued governance and supervision reforms instead.[17] Furthermore, a recent review of evidence by IFAC along with the Association of Certified Chartered Accountants and Chartered Accountants Australia and New Zealand, concluded that *"most existing peer reviewed research points towards an increase in audit quality in cases where a firm offers both audit and non-audit services because it allows for the sharing of expertise and systems."*[18]

Recent experience with the unsuccessful separation pursued by an audit market participant, illustrates the significant complexity, cost and execution risk associated with separating audit and non-audit businesses, particularly in circumstances where firms operate through global networks and multi-disciplinary service models.

Further, as noted in our Submission to the Parliamentary Joint Committee Inquiry, diversification is a common and sensible business strategy, and having a multi-disciplinary firm enables us to best serve the needs of reporting entities, minimises reliance on any particular part of the business, ensures a high degree of organisational resilience and stability for reporting entities we audit, our staff and the markets in which we operate, and allows us to continue to make investments in technology and other resources that support audit quality.[19]

Structural separation would ultimately leave smaller, less capable, less resilient firms behind, as their resilience and investment capacity become challenged. This together with the significant costs to the market and complexities of structural separation, both on transition and ongoing, and the benefits outlined above of a multi-disciplinary model, means we do not believe this option meets Treasury's objective. Rather, we believe a combination of other options would achieve Treasury's objectives and have included these in Section 3.

Finally, as noted above, the recent issues in the profession have occurred within a single division of a firm, and arguably would not have been prevented by proposals to separate the operations of any one division of a firm.

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[16] Deloitte US (2024), 2024 Audit Quality Report, pp 31.
[17] SEO (June 2022), Control and advice on audit firms: Research into the effects of an audit-only model for the Netherlands, pp 113.
[18] International Federation of Accountants (IFAC) in conjunction with the Association of Certified Chartered Accountants (ACCA) and Chartered Accountants Australia and New Zealand (CA ANZ), (September 2019), Audit quality in a multidisciplinary firm: What the evidence shows, pp 9.
[19] Deloitte (August 2023), Deloitte Submission to the Parliamentary Joint Committee Inquiry into Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry, (Submission 40), pp 2-3.

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Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
• Removal of perceived independence issues within multi-disciplinary firms	• Likely to result in challenges of audit-only firms accessing timely and relevant specialist capabilities required to undertake increasingly complex audit engagements potentially impacting audit quality • Third parties from which specialist capabilities are contracted by audit firms may not meet independence standards, including year on year, resulting in the potential to need to source different specialists each year, as well as making it more difficult to ensure accountability for quality issues • Limits access to capabilities required to undertake audit and assurance procedures in emerging areas including sustainability and climate change, and AI • Removal of opportunities for synergies, potentially impacting efficiency and capability, and ultimately costs to the market • Limits capacity for scaled investment in technology and innovation to meet market demands potentially impacting audit quality • Impacts on the ability of audit-only firms to attract and retain high calibre talent to provide quality audits to reporting entities, negatively impacting the attractiveness of the audit profession • May reduce competition in the audit market for large, listed reporting entities, with the withdrawal of certain firms from the provision of audit services • Would reduce resilience and investment capacity of separated firms potentially impacting audit quality • Likely to increase costs to reporting entities and the broader economy • May create uncertainty in relation to the Australian capital market relative to global peers

Option 2D: Broader reform

Treasury's objectives in the Options Paper is to '*enhance the regulation and trust in the system and to ensure that the audit sector is accountable and that the market can continue to rely on it*', whereas Option 2D relates to management of conflicts of interest in a broader sense, particularly when multi-disciplinary firms advise government on the design of policy and programs.

Our response to the Options Paper has focused on the stated objective rather than broader reforms, however, a number of Treasury's options would assist in the management and accountability of broader conflicts of interest that may arise in engagements undertaken in multi-disciplinary firms.

These options would support and provide accountability for enhancements already made in relation to procurement and the management of government work. Government have made a number of positive changes including the implementation of the Commonwealth Supplier Code of Conduct that sets out clear requirements for suppliers to have robust process for declaring and managing conflicts of interest in connection with their engagement by the Commonwealth. Additionally, the Commonwealth Procurement Rules (2025) in their procurement processes requires Government Departments to actively prevent actual, potential and perceived conflicts of interests with suppliers.

These changes coupled with enhanced professional conduct obligations (Option 1B), new 'fit and proper person' requirements (Option 1C), appropriate firm-wide licencing (Option 1A), together with improved accountability though enhanced regulation and appropriate sanctions for breaching conflict of interest rules (Options 4, 5A, 5B and 5C), would provide a robust framework to manage conflicts of interest and hold firms accountable for any breaches that may arise.

3. Internal governance of audit partnerships

We agree that governance plays a critical role in supporting the quality and independence of audit services and can influence how audit firms manage conflicts of interest, enforce quality standards, respond to risks and uphold ethical standards.

We also agree that there are differing governance arrangements in place in the professional services firms and oversight of these arrangements is fragmented. As such, we are supportive of standardising governance requirements and ensuring there is appropriate accountability in place to enforce these standards. However, the implementation of such accountability can be achieved through various mechanisms, and not just through the options set out in this section. For example, effective licensing of the audit firm (Option 1A), together with appropriate licence conditions and effective regulation could achieve similar outcomes to improved governance.

For this reason, we are supportive of some elements of the options set out in this section, however, others do not meet the overall objectives of enhancing trust in the system as a whole, improving the system of audit quality and holding the audit sector accountable.

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

We are supportive of this option being further developed.

A partnership's governance arrangements support partners in discharging their duties to each other and to the partnership. In addition, large multi-disciplinary audit firms also perform a significant public interest role and should have governance mechanisms that recognise the impact on investors, reporting entities, regulators and the broader market. Good governance is critical to supporting audit quality, maintaining trust and integrity, and protecting the social licence on which audit firms rely.

As outlined in Deloitte's 2024 Submission to Treasury Consultation Paper, several factors should be considered in respect of this option. In particular, the objectives of governance reforms need to be clearly identified and defined with reference to which stakeholders those governance practices are intended to serve and for what purpose.[20]

When considered against the backdrop of the critical role that regulated services play to the integrity of the broader financial ecosystem, we agree that a lack of consistency in governance arrangements does not support trust and confidence in the profession overall. In addition, without established minimum governance requirements or standards it may be difficult for non-owner stakeholders to have the necessary confidence in a firm's governance frameworks.

Accordingly, we believe there is benefit in introducing minimum governance standards for "applicable firms". Applicable firms could be defined by reference to objective criteria, such as legal structure, size, revenue threshold or the nature of the services provided.

[20] Deloitte (June 2024), Submission to Treasury Consultation Paper: Regulation of accounting, auditing and consulting firms in Australia, pp 3-4.

The objective of minimum governance standards should be to drive greater consistency in the governance practices of applicable firms and ensure those practices consider the interests of broader stakeholders including market confidence in the provision of regulated services.

In this regard, we note that a number of audit practices around the world have a governance arrangement that is separate and distinct to the governance arrangement for the firm as a whole. As noted in our response to Option 2B we are also supportive of exploring such governance models specifically for the audit practice.

When exploring appropriate governance arrangements, reference is often made to the ASX CG Principles, however, these are designed for listed entities and include certain recommendations that are not applicable to private organisations, such as recommendations for complying with continuous disclosure obligations or having investor relations programs. Therefore, in our view, a wholesale application of the ASX CG Principles to applicable firms would not be necessary or appropriate. Consideration should be given to those principles that are applicable to non-listed entities and could be applied to audit firms.

Minimum consistent governance standards (consistent with the primary purpose of the board) could include expectations around:

- Board composition, including independent board members, balancing that partners are the owners of the business with the broader public interest role and social licence;
- The establishment of relevant board committees;
- Roles, responsibilities and powers of the board, CEO and senior executives;
- Define the specific duties of board members akin to Director's duties as defined in the Corporations Act;
- Processes to periodically evaluate the board's and board committees' effectiveness;
- Consideration of a separate governance structure and charter for the audit practice, including independent members of such body (refer Option 2B);
- A structure and powers to endorse licensing conditions and meet relevant requirements (should Option 1A be adopted); and
- Appropriate reporting and disclosure requirements.

Many overseas jurisdictions have implemented governance arrangements (particularly for the audit and other regulated businesses) that could help inform the application of governance arrangements in Australia, including the UK, US and Japan. Overall, we support improved governance arrangements that will have a positive impact on an audit firms' system of quality management, specifically in respect of enforcement of quality standards, assessment and response to key risks, conflicts of interest, and conduct and ethical obligations.

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
Increased confidence by non-owner stakeholders in the firms' governance structures Discharge of public interest role in providing high quality services, an effective system of quality management and ensuring that firms do not compromise trust and integrity, to maintain their social licence to operate Improved accountability in decision-making Transparent, consistent and enforceable duties through governance structures	• ASX GC Principles are designed for listed entities, and as such certain requirements would not be relevant to professional services firms

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

We are not supportive of this option, as we believe reducing the partnership limit would have significant negative impacts that are detrimental to Treasury's stated objective of the Options Paper and as such should not be pursued.

Overall, there is no evidence globally, that restricting the size of accounting firms has a positive impact on Treasury's objectives to enhance the regulation and trust in the system and to ensure that the audit sector is accountable and that the market can continue to rely on it. Indeed, there are no such limits in the US, UK, Singapore, Japan, Canada and other comparable markets.

One of the benefits of the multi-disciplinary firm model is that it supports sustained investment in audit quality, technology and specialist capability, while also providing the financial resilience required to undertake large, complex and higher-risk audits. Limiting firm size may not only reduce investment capacity but may also reduce the willingness and ability of firms to compete for the most complex audits, which could ultimately reduce market choice and competition. This is noted in the 2025 Financial Reporting Council Report on Audit Market and Competition.[21] Such capacity that comes with scale ultimately results in improved audit quality outcomes.

Restrictions on partnership composition may reduce the ability of multi-disciplinary firms to provide diverse capabilities which in turn may diminish the operational and financial resilience of firms in responding to market disruptions, significant litigation, regulatory action or audit failures, which could have broader implications around confidence in the market.

Audits of large Australian listed entities typically require a large number of partners given the scale of their operations. A reduction in the partnership limit may impact on an audit firm's ability to conduct audit of such large, listed entities. Additionally, large multi-disciplinary professional services firms attract senior specialists from a range of disciplines. Any requirements that limit partnership could reduce the breadth and diversity of available expertise in supporting audit engagements.

Furthermore, Deloitte is a significant employer of university graduates (hiring 729 graduates in FY26 in Australia). Indeed, a key role large professional services firms play is as a developer of talent, many of whom leave the profession after advancing their professional qualifications to take roles in corporate Australia. Such programs require investment and are more effective at scale. Limiting partnership numbers will diminish the ability to hire and invest in talented graduates at scale. It would also negatively impact on the ability to retain and attract talent, relative to other larger corporate entities in Australia.

Limiting the size of firms would also negatively impact on the ability to invest in audit technology and broader enterprise-wide technology, potentially impacting audit quality and the system as a whole. This is particularly relevant at a time where the contemporary environment is increasingly complex, with increasing demands for specialist skills and investment.

We also note that incorporated audit companies, where the owners or shareholder are equivalent to partners in a partnership, have no restriction as to the number of shareholders. Thus limiting partner numbers would create regulatory imbalance in the market.

Deloitte's submission to the Treasury consultation paper in 2024, highlighted key issues which are still relevant today, including:

"We do not consider that any professional partnership, or indeed any Australian business regardless of structure, should be artificially constrained in terms of its ability to grow, invest, or employ Australian workers. Australian public and private sector clients have a core expectation that large professional partnerships, such as Deloitte, will provide a breadth of disciplines and a depth of capability, from across multiple industry sectors and geographic jurisdictions.

As a result, we do not consider the size of a firm needs to be regulated in and of itself, simply because it is structured as a partnership. There are real and genuine incentives in large professional partnerships to establish appropriate governance practices and operate in an ethical manner, and these incentives do not diminish, and in fact increase, with size.

[21] Financial Reporting Council (2025), Audit Market and Competition Development 2025 Update, pp 14.

Very large professional partnerships that provide regulated services operate and are governed effectively in many overseas jurisdictions without limits on size, including for example, in the United Kingdom and the United States. Large professional partnerships also have the benefit of economic scale and are in many ways better positioned to invest effectively in quality, risk and regulatory compliance management systems and processes (including conflicts management) that underpin stakeholder confidence and trust in the delivery of regulated services." [22]

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
We do not believe this option provides key benefits which meet Treasury's objective	• Limiting the size of firms would place artificial constraints on a firm's ability to grow, invest and employ Australian workers • May limit depth of expertise and capability to provide services to reporting entities • A potential loss of economies of scale which firms may rely on to invest in quality, risk and regulatory compliance management systems and processes • Costs of restructure may result in higher costs for the provision of services to reporting entities

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

We are not supportive of this option as we have not identified any evidence that requiring audit firms to become authorised audit companies would improve audit quality, competition, or market outcomes. Specifically, there is no evidence that the legal structure of an audit firm drives better audit quality outcomes. Rather, it is the broader operating framework, including a system of quality management, which results in improved audit quality.

This option would negatively impact capital markets, both in relation to the cost to reporting entities of transitioning audit appointments to a new entity and uncertainty during the transitional period. All audit engagements, agreements and other contracting undertaken by the existing partnership with reporting entities, would be required to be re-contracted, with updated legal terms and conditions. These changes in the legal identity of the auditor, is likely to require regulatory approval for every reporting entity This would place a significant burden on corporate Australia and the regulator.

Requiring reporting entities to obtain audit services only from an audit company would result in significant cost and transitional disruption for entities currently operating as partnerships, including structure, tax, legal and other matters, which would ultimately impose time and cost on reporting entities. Moreover, any perceived increase in accountability could be achieved without significant costs and disruption to reporting entities and capital markets as a whole, through a combination of firm licencing (Option 1A) and increased regulatory powers (each of Options 1B, 1C, 4, 5A, 5B, 5C).

In addition, if reporting entities are only able to obtain audit services from an authorised audit company, there may be unintended consequences in relation to the application of the Professional Standards legislation, due to uncertainty regarding the continued availability of liability protections under the existing scheme.

Further, as outlined in Deloitte's 2024 submission to Treasury Consultation Paper, a partnership and its partners do not have any lesser responsibility to comply with laws and regulations than a corporate, and it can be argued that there are higher obligations placed on a partner than a corporate shareholder given the joint and several nature of their interest in the partnership (as opposed to being limited to the share capital invested in the corporate entity). [23]

[22] Deloitte (June 2024), Submission to Treasury Consultation Paper: Regulation of accounting, auditing and consulting firms in Australia, pp 4.
[23] Deloitte (June 2024), Submission to Treasury Consultation Paper: Regulation of accounting, auditing and consulting firms in Australia, pp 2-4.

Unlike a corporate entity, a partnership is not a separate legal entity and partners in a partnership share profit and are jointly and severally liable for the debts and obligations of the partnership. This means that, unlike shareholders in a corporate entity, partners cannot stand behind a "corporate veil" and have the protection of limited liability – instead they have their personal assets, not just their contributed capital, at risk. The consequences of joint and several liability can be personally very significant for partners and liability claims can be potentially unlimited unless liability has been capped through other mechanisms such as contractual caps. In an insolvency scenario involving a partnership, unlike a company, creditors are not limited to the recovery of the assets of the partnership but may also have access to the personal assets of partners.

Overall, we believe this option would impose significant cost and disruption to reporting entities and to broader corporate Australia. Further, the same objectives of this option could be achieved through a combination of effective firm licensing (Option 1A) and increased regulatory powers (each of Options 1B, 1C, 4, 5A, 5B, 5C) without imposing such significant cost and disruption to reporting entities.

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
We do not believe this option provides key benefits which meet Treasury's objective	• Significant transitional cost would be expected to be incurred, with a potential for these to be passed on to reporting entities • Potential for disruption to capital markets of transitional provisions

4. Improving audit surveillance

As noted in the Options Paper, ASIC's audit oversight activities play a critical role in shaping behaviour across the audit profession. We agree that effective surveillance and enforcement support higher standards of audit quality and independence, and in turn promote confidence in financial reporting and the integrity of Australia's financial markets. This requires ASIC to be appropriately resourced to meet such requirements. As such we are supportive of improving audit surveillance to achieve the objectives of enhancing trust in the system as a whole, improving the audit system of audit quality management and holding the audit sector accountable.

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

We are supportive of this option being further developed, including increased transparency through ASIC publishing annual audit quality inspection outcomes, including auditor compliance with independence and conflict of interest obligations. Reliance on such reporting will require inspection data to be comparable across firms, drawn from a reasonable and representative sample and be in respect of the same or similar financial reporting periods. Should Option 1A be adopted, consideration will be required of the details to be published in respect of outcomes of reviews of quality management systems of firms.

Deloitte's 2024 submission to Treasury Consultation Paper supported extending ASIC's remit with powers to register, monitor and regulate firms that provide regulated services, not just individual practitioners.[24] Deloitte also supported drawing from international experience to consolidate regulatory oversight within a smaller number of regulators with broader and stronger powers.

This included ASIC's oversight powers extending to:

The firm's system of quality management as it relates to the provision of audit and assurance services;

Compliance with mandated minimum firm governance standards;

Compliance with mandated reporting requirements; and

The publishing of the outcomes of ASIC's monitoring and enforcement of a firm's compliance with these requirements or, alternatively, require that the firm disclose such outcomes in an annual report.

[24] Deloitte (June 2024), Submission to Treasury Consultation Paper: Regulation of accounting, auditing and consulting firms in Australia, pp 11.

This is consistent with the proposal in Option 4, including extending to a mandated minimum level of surveillance activity by ASIC. Deloitte's 2024 submission to Treasury Consultation Paper also supported a review of whether ASIC has sufficient resources to undertake the breadth and volume of surveillance necessary to achieve the stated public interest objectives.[25] This remains our position.

Any increase in the level of surveillance and published findings should be accompanied by an appropriate review or appeals process to ensure due process, consistent with those of the FRC in the UK and PCAOB in the US.

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
Broader coverage of audit firms through file inspections and review of systems of quality management • Improvement of ASIC's visibility of individual firms and the audit sector	• The publication of audit surveillance findings may not reflect audit quality outcomes of firms if the inspection data is not comparable across firms, does not follow a consistent inspection program across firms and if not drawn from a reasonable and representative sample. This may not support decision-making of reporting entities • Additional resourcing required by ASIC to increase its level of surveillance may result in additional costs, some of which may be required to be borne by audit firms, reporting entities and the broader economy

5. Enhancing disciplinary processes and sanctions

As set out in the Options Paper, regulatory frameworks are effective at incentivising compliance when underpinned by robust and credible enforcement action. We agree that this requires timely enforcement actions that are proportionate to the gravity and extent of the contravention of the regulations and relevant laws.

We are therefore supportive of enhancing disciplinary processes and sanctions, enhancing ASIC's administrative powers, and improving the Companies Auditors and Liquidators Disciplinary Board's (CADB) disciplinary capability to apply sanctions, as several means to achieve the objectives of enhancing trust in the system as a whole, improving the overall audit system of quality management and holding the audit sector accountable.

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

We are supportive of this option being further developed.

Deloitte is mindful of the significant consequences of contraventions of auditor requirements to the individual, firms, the profession, reporting entities and capital markets currently in place.

Deloitte supports the proposed reform of the current penalties' regime and the introduction of civil penalties on RCAs, authorised audit companies, and audit partnerships for the contravention of audit obligations under the Corporations Act and the creation of a new tier of penalties for significant global audit entities. Any reforms in respect of civil penalties should be proportionate and be carefully considered alongside criminal penalties, which in themselves are significant. Consideration should also be given to appropriate escalation and judicial review processes.

The scale of civil penalties should also consider any potential impact on competition if such fines result in risks to attracting and retaining talent in the audit profession or the potential for firms' withdrawal from the market.

[25] Deloitte (June 2024), Submission to Treasury Consultation Paper: Regulation of accounting, auditing and consulting firms in Australia, pp 12.

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
• Accountability of firms for contraventions of auditor requirements	• Increased penalties may result in some firms withdrawing from the audit market, thereby reducing competition • May impact the attractiveness of the profession and / or the ability to attract and retain talent • Potential increase in insurance premiums may result in increased costs passed on to reporting entities

Option 5B: Enhance administrative powers of ASIC

We are supportive of this option being further developed.

Deloitte supports a simplified and more streamlined regulatory framework alongside this option, which would transfer certain functions of the CADB to ASIC, strengthen ASIC's audit deficiency reporting framework and provide ASIC with additional remediation powers.

Deloitte supports maintaining procedural fairness in relation to the investigation, suspension and cancellation of the registration of RCAs. It is appropriate that equivalent administrative powers by ASIC could also be applied to licensed audit firms if Option 1A was to be adopted.

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
• Simplified regulatory framework and strengthening of audit deficiency reporting framework and the system of quality management	• Increased cost for the regulator that will need to be funded

Option 5C: Improve CADB's disciplinary capability

We are supportive of this option being further developed.

Deloitte supports an improvement in CADB's disciplinary capability to support compliance and regulatory outcomes. It would be appropriate to consider CADB's power to conduct related matters for audit firms if Option 1A was to be adopted.

As part of the move to enhance accountability, we also believe the overall system would benefit from having fewer stronger regulators, also extending to disciplinary enforcement.

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
• Simplified regulatory framework and strengthening of audit deficiency reporting framework	• Increased cost for the CADB that will need to be funded

6. Enhancing audit market dynamism for reporting entities

The Options Paper sets out a view that increasing transparency over audit tenure and requiring reporting entities to actively test the market through a periodic tendering process could improve audit quality and audit market dynamism, with mandatory audit firm rotation likely to reduce the risk of familiarity.

We are supportive of increased transparency by way of improved disclosures as this would support the market's decisions on choice of service providers. However, there is minimal evidence globally that mandatory tendering or audit firm rotation, in themselves, have achieved improved audit quality, benefited the system as a whole or enhanced firm accountability. A reporting entity's market choice may be reflected in the benefits of the retention of accumulated specific expertise in the appointed audit firm and their assessment of the cost of tendering. A reporting entity may also consider whether mandatory periodic rotation of audit partners is sufficient to address objectivity and familiarity risk. Audit firms respond to a reporting entity's need for competition by being a viable option of choice, through amongst other things, their development of technically skilled people, access to specialist capabilities, investment in technology and methodology, and prioritisation of quality to meet regulatory obligations.

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

We are supportive of this option being further developed. The increase in transparency of relationships between reporting entities and their auditors would encourage reporting entities to give due consideration to the tenure of auditor engagements and its perceived or real impacts on audit quality.

Deloitte supports the public disclosure of information concerning audit relationships in annual reports, including audit firm tenure, lead auditor tenure, the commencement date of the current lead auditor and the date of the most recent audit tender. Increased transparency in relation to these matters will assist stakeholders in assessing auditor independence and audit engagement practices. This would enhance accountability and strengthen the capital market's confidence in the financial report with minimal, if any costs, to reporting entities without restricting the reporting entity's choice of auditor. Increased transparency of audit tenure would inform the market's decisions on choice of service providers.

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
• Improved transparency supporting accountability and strengthening market confidence • Minimal cost and ease of implementation	• N/A

Option 6B: Mandatory periodic tendering for audit services

We are not supportive of this option, as we are of the view that it will not have the incremental impact on trust or accountability sought by any proposed reforms and will not meet Treasury's objective. All audit engagements are for one year only, and reporting entities have the option to change every year should they choose to and if this was in the best interest of their shareholders. We note that when large reporting entities decide to evaluate a change in audit firm provider, they do so in a competitive process, through a request for tender. Ultimately, the decision to retain or change their audit firm is made by the reporting entity, overseen by their governance structures, evaluating criteria set by them, and assessed against their expectation of an audit provider. Ultimately the reporting entity's decision must be approved by their members at an Annual General Meeting.

A central part of a quality audit relies on an audit firm engaging with a reporting entity's board and applying professional scepticism that challenges management on behalf of shareholders. This requires a deep understanding, developed over time, by the auditor of complex organisations and their relevant industries.

There is no observable evidence that mandatory tendering has benefited the system as a whole. We note the potential benefits set out in the Options Paper that mandatory tendering could increase the dynamism of the market, by increasing competition and encouraging audit firms to maintain audit quality. However, we are not aware of any evidence from markets where mandatory tendering is required that supports these arguments, (for example the EU and the UK).

As noted by the UK Financial Reporting Council in 2025, the large multi-disciplinary audit firms earn 98% of FTSE 350 audit fees and 91% of all **PIEs** audit fees in 2024.[26] In addition, in the UK where mandatory tendering commenced in 2015 (in combination with increased regulation), reporting entities have experienced significant increases in audit fees, and reduction in choice. The UK shows that a churn in audit firms does not equate to greater choice or competition for reporting entities. It does not foster the participation of firms beyond the largest four in tenders to promote market diversity and resilience of the audit sector. In fact, Grant Thornton in 2018 ceased to bid for audits of the FTSE 350 entities due to increasing participation costs.

It should be noted that the UK has seen an improvement in audit quality since a high-profile company collapse in 2018, which prompted broader regulatory changes.[27] However, we believe the broad suite of regulatory reform and oversight have supported this improvement, with the FRC recently enhancing their supervisory approach to publicly report on assessments of firms' systems of audit quality, alongside audit file inspections and supervisory activity.[28]

We note the following from Deloitte's 2024 submission to the previous Treasury Consultation Paper, which continue to remain relevant:

- Many listed audited entities have already chosen to apply more stringent requirements than those mandated which shows that the market is incentivised to prioritise the independence of the auditor even in the absence of further regulation;
- For example, even without the implementation of recommendations from the PJC inquiry into the '*Regulation of auditing in Australia'* (2019 Audit Inquiry), the market moved voluntarily in various areas, such as undertaking more regular reviews of audit firm tenure and audit tender processes;
- We believe that the existing audit partner rotation requirements in Australia strike the right balance between addressing the threats to independence created by long term relationships and the need to maintain relevant knowledge and experience to support audit quality; and
- Audit partner rotation requirements do not exist in isolation, and audit committees play an important role in overseeing the quality and effectiveness of their auditor. The Australian Institute of Company Directors (**AICD**) and The Auditing and Assurance Standards Board (**AUASB**) issued a joint publication in 2022 '*Periodic Comprehensive Review of the External Auditor: Guide for Audit Committees'* which provides guidance on conducting periodic comprehensive reviews to assess the quality and effectiveness of their auditor and deciding whether to retain the auditor or remove them. It also encourages appropriate transparency and public disclosure of that process. The adoption of Option 6A could be further enhanced by the reporting entity providing explanatory information if the audit firm has a tenure greater than a defined period of time, for example 20 years.[29]

We also note that the average tenure of audit firms of ASX 200 reporting entities was 13.2 years in 2022, indicating that the threat of familiarity risk linked to audit firm tenure may not be a pervasive issue across large, listed reporting entities.

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
• Reduced perceived familiarity risk from longer tenure	• Increased costs for audit firms and reporting entities • Evidence from other jurisdictions that mandatory tendering has been largely unsuccessful in increasing market dynamism • No observable evidence that mandatory periodic tendering has increased audit quality

[26] Financial Reporting Council (December 2025), Audit Market and Competition Developments 2025 Update, pp 3.
[27] Financial Reporting Council (December 2025), Audit Market and Competition Development 2025 Update, pp 2.
[28] Financial Reporting Council (March 2026), An evolved audit supervision approach, pp 6.
[29] Deloitte (June 2024), Submission to Treasury Consultation Paper: Regulation of accounting, auditing and consulting firms in Australia, pp 6-7.

Deloitte.

Option 6C: Mandatory audit firm rotation

We are not supportive of this option, as we do not believe that mandatory audit firm rotation would meet the Treasury's objectives, as it imposes artificial restraints on choice for reporting entities, which we believe negatively impacts the system as a whole. We are also not aware of any evidence that mandatory audit firm rotation improves the system of audit quality or accountability for the audit sector.

Evidence from the UK, where mandatory rotation is in place, suggests that it has not increased choice within the market, with the large multi-disciplinary firms earning 98% of FTSE 350 audit fees and 91% of all PIE audit fees in 2024.[30]

Firm rotation can be an expensive and time-consuming process for reporting entities and audit firms. Indeed, we note that recent years, UK reporting entities have seen significant increases in the costs of audits, as a result of mandatory audit firm rotation as well as broader reforms, with audit fees increasing by 75% in the UK since the introduction of reforms.[31]

Indeed, this option may reduce reporting entities' choice of audit firms as it may decrease the number of firms able or willing to bid for audit work (for example a firm reaching the maximum year limit could not participate in the tender process). There could be situations where fewer firms are available to audit a small number of large dominant participants where reporting entities may not want the same firm auditing competitor organisations in the same market or sector. Overall, we do not believe reduction of choice is in the best interests of the audit system.

Findings from studies in other markets have also concluded there is no observable benefit from mandatory audit firm rotation:

- South Africa – Will Mandatory Audit Firm Rotation Reduce Audit Market Concentration in South Africa: Found that mandatory rotation might increase rather than reduce large multi-disciplinary audit firm concentration. It identified potential unintended consequences including higher costs and impairment of audit quality and concluded that mandatory rotation might increase rather than reduce large multi-disciplinary audit firm concentration;[32] and
- Singapore – Singapore Monetary Authority Consultation on Review of Mandatory Audit Firm Rotation for Local Banks (2016): Singapore discontinued mandatory audit firm rotation for local banks in 2017, citing mixed results from other jurisdictions' reviews of mandatory rotation (including US and Canada), domestic safeguards since 2008 (reinforced audit committee expectations, revised reappointment guidance, wider partner rotation), no conclusive research showing rotation improves audit quality, loss of cumulative audit knowledge that raises early-years audit risk, and the risk that frequent auditor changes create audit gaps that outweigh any benefits.[33]

We also note that in Australia, the average tenure of audit firms of the ASX 200 reporting entities was 13.2 years in 2022,[34] being a period less than the proposed 20 years included in the Options Paper. And as noted above, audit engagements are for the duration of one year and as such, reporting entities have the ability to change audit firms each year.

Further, the Interim Report of the 2019 Audit Inquiry noted that it had evidence "that the implementation of mandatory firm rotation in other jurisdictions to date has been largely unsuccessful" and "considered that it would be unwise to propose such a measure be introduced in Australia". It concluded that the committee was confident that the *"current and proposed legislative and professional requirements on audit partner rotation and cooling-off periods are operating effectively to manage threats to auditor independence posed through longstanding auditor tenure."*[35] We are not aware of any new evidence that would lead to a different conclusion today.

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[30] Financial Reporting Council (2025), Audit Market and Competition Development 2025 Update, pp 3.
[31] Quoted Companies Alliance (2024), It Doesn't Add Up: The Crisis of Unaffordable Audits, pp 6.
[32] Wesson, N (July 2021), Will mandatory audit firm rotation reduce audit market concentration in South Africa?.
[33] Monetary Authority of Singapore (September 2016), Consultation Paper PO11 2016 Consultation on Review of Mandatory Audit Firm Rotation for Local Banks, pp 4-6.
[34] Treasury (May 2024), Regulation of accounting, audit and consulting firms Consultation Paper, pp 22.
[35] Parliamentary Joint Committee on Corporation and Financial Services (February 2020), Regulation of Auditing in Australia: Interim Report, pp 88.

Summary benefits and costs/unanticipated consequences

Benefits	Costs/unanticipated consequences
• Reduced perceived or actual conflicts of interest	• Increased costs and organisational disruption for audit firms and reporting entities • Reduced knowledge of individual reporting entities by the auditor • Potential for constraint on reporting entities having access to relevant specialist skills and knowledge • Evidence from other jurisdictions that mandatory firm rotation has been largely unsuccessful in increasing competition, or in itself, improving audit quality

Other points for consideration

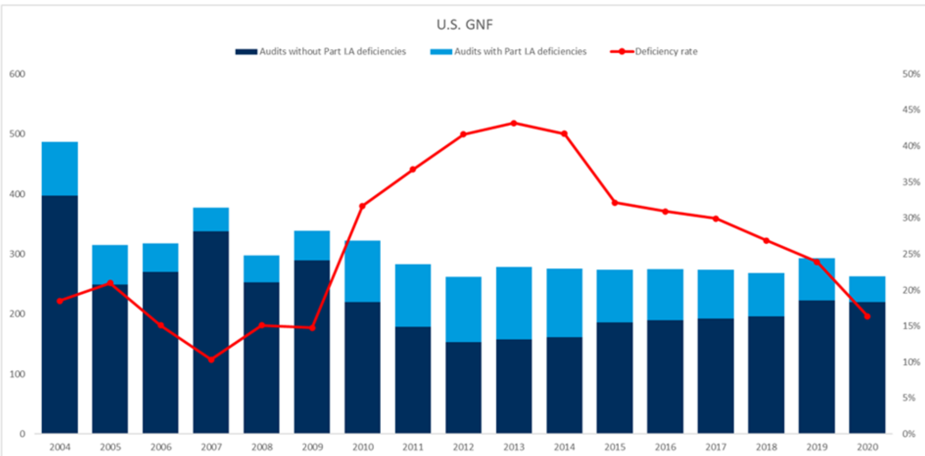
In addition to Treasury's options, we have considered evidence of regulatory reform in other jurisdictions which have improved financial reporting and audit quality and highlight some of these below.

a) US Sarbanes Oxley – improving the accuracy and reliability of financial reporting

Deloitte's submission to the PJC's 2019 Audit Inquiry noted the positive impact of the introduction of the US Sarbanes Oxley Act 2002 (the **SOX Act**) that demonstrated how regulatory frameworks can support enhanced accountability and greater transparency.[36] The SOX Act provides a balanced legislative framework within which government, regulators, auditors, company management and boards must play their part in a broader financial reporting and business accountability ecosystem.

In 2019, the PCAOB reported improved audit quality, along with improvements in auditor independence, corporate governance, internal controls, and financial reporting resulted in a much stronger system aimed at protecting investors and the public interest. After the introduction of the SOX Act in 2002, restatements of financial reports peaked in 2006 and have reduced significantly since. The PCAOB reports that their oversight is driving significant improvement in quality and has contributed to the robustness of the current financial ecosystem.

By 2022, 20 years since the SOX Act, the PCAOB has completed over 4,300 firm inspections in 55 countries, including reviewing more than 15,000 audits of public companies and over 1,000 broker-dealer engagements. This graph highlights the positive impact on audit quality since inception from the changes made:[37]



Source: PCAOB (Tables Contain Aggregated, Anonymized, and Rounded Publicly Available Data)

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[36] Deloitte (August 2023), [Deloitte Submission to the Parliamentary Joint Committee Inquiry into Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry](), (Submission 40), pp 20.
[37] Ho, C, Board Member Public Company Accounting Oversight Board (PCAOB) (September 2022), Speech: [Technology and Talent - Audit Quality Challenges in the 21st Century]().

In 2024, the PCAOB reported that *"multiple academic studies have found that PCAOB inspections improve audit quality – not only in the United States, but in countries around the world where the PCAOB inspects,"*[38] Between 50-60 inspections of audits for each of the large firms are undertaken each year.

In 2024, the PCAOB adopted QC 1000 – A Firm's System of Quality Control. It will be effective from December 2026 and shifts the regulator's focus from inspecting individual audit engagements to evaluating whether firms have effective systems of quality management that consistently produce high-quality audits. This is a significant shift by the PCAOB and recognises that advances in internal control, quality management, and enterprise risk management suggest that factors such as active involvement of leadership, focus on risk, clearly defined objectives, objective-oriented processes, monitoring, and remediation of identified issues can contribute to more effective quality control.

To complement the broader regulatory changes being considered and to strengthen the audit system as a whole, we are supportive of an evaluation of a SOX-like framework being considered in the Australian context. Such evaluation would need to consider the reasonableness of costs and effort required by reporting entities to implement such changes.

b) Digital reporting

Whilst not referenced in the Options Paper, we also support the adoption of digital reporting by reporting entities using technologies such as eXtensible Business Reporting Language (xBRL). As outlined in Deloitte's submission to the Treasury consultation paper, we consider that the introduction of such technology would enhance the overall quality of financial reporting, improve transparency and comparability of information, support audit quality, and assist regulators and other stakeholders through greater efficiency and lower information processing costs.[39]

Increased transparency will also support decision-making by market participants regarding choice of service providers. Deloitte Access Economics and Chartered Accountants Australia and New Zealand 2025 report Accelerating Digital Financial Reporting for a More Productive Australia noted *"Australia remains one of the few providers in advanced economies without digital reporting."*[40] Further, it noted that its economic modelling *"estimated a potential uplift of $7.7 billion annually by 2030 if digital reporting were mandated across all large companies."*[41] Digital reporting would directly support Treasury's objective by improving transparency, comparability and trust in financial reporting. It would also streamline information sharing between reporting entities, auditors and regulators, reducing compliance and audit costs while improving the quality and timeliness of information to investors, regulators and markets.

[38] Public Company Accounting Oversight Board (PCAOB) (2024), 2024 Annual Report, pp 3.
[39] Deloitte (June 2024), Submission to Treasury Consultation Paper: Regulation of accounting, auditing and consulting firms in Australia, pp 12-13.
[40] Deloitte Access Economics, Chartered Accountants Australia and New Zealand (2025), Accelerating Digital Financial Reporting for a More Productive Australia, pp 1.
[41] Deloitte Access Economics, Chartered Accountants Australia and New Zealand (2025), Accelerating Digital Financial Reporting for a More Productive Australia, pp 3.

3. Our conclusions and recommendations

Treasury's overall objective is to *"enhance the regulation and trust in the system and to ensure that the audit sector is accountable and that the market can continue to rely on it."*[42] Deloitte is committed to supporting regulatory change that achieves this objective in a way that is least disruptive and most cost effective to reporting entities and the system as a whole. Additionally, such change should consider implementation over a timeframe that optimises its impact.

In addition to providing feedback on each individual option in Section 2 of this submission, we are of the view that a number of the options, working in combination will most effectively assist in the delivery of Treasury's objective and address the issues arising from recent matters. These options collectively set clearer standards for conduct, impose minimum governance expectations for audit firms, enhance ASIC's ability to extend its surveillance program and allow for proportionate consequences for breaches at a firm wide level. They also set expectations and obligations for leaders in a chain of command and those charged with governance of large audit firms. Importantly, they do so without creating unnecessary disruption and cost for reporting entities or unduly constraining the supply of qualified auditors.

The combination of options we believe would best achieve the stated objectives are set out in the table below. In our view, these options would also more closely align the Australian regulatory regime with those in the UK and US. Whilst we have grouped the options into the three parts supporting the overall objective, namely; enhancing trust in the system as a whole; improving the overall audit system of quality management; and holding the audit sector accountable, they should be viewed together.

1. Enhance the system as a whole		
1A	Licensing of Audit Firms	*Require reporting entities to obtain audit services only from audit firms licensed by ASIC, with quality management and ethical obligations imposed as ongoing conditions of holding their licence*
6A	Transparency	*Additional reporting obligations for reporting entities regarding auditor tenure*
2. Improve the audit system of quality management		
2A	Permissible non-audit services	*Prohibit reporting entities from engaging their auditor for non-audit services*
3A	Minimum Governance Standards	*Impose new governance requirements on large audit firms*
3. Increase accountability		
1B	Professional conduct obligations	*Require RCAs to comply with professional conduct obligations as an ongoing obligation of registration*
1C		*Require all partners of multidisciplinary firms to meet 'fit and proper person' requirements to maintain audit firm registration*
4	ASIC powers	*Mandate the frequency of audit reviews, increase the level of surveillance, and publish findings*
5A	Sanctions, fines and penalties	*Introduce civil penalties for contraventions of auditor requirements*
5B		*Enhance administrative powers of ASIC*
5C		*Improve CADB's disciplinary capability*

Whilst we are supportive of the options noted above, there are elements of some of these that require further clarification or detail to progress. We have noted these in the response to each option in Section 2 of this report.

A key aspect of these options is an effective regulated licence regime applicable to large audit firms, in addition to the individual audit partners, bringing Australia into line with most comparable jurisdictions including the US, UK, Japan, Canada, Singapore and China.

In our view, the combination of these options would best achieve Treasury's stated objective with the least amount of cost and disruption for reporting entities and capital markets, and provide the appropriate regulatory authority to address recent market issues, by incentivising compliance and imposing proportionate penalties should breaches occur.

[42] Treasury (July 2026), Regulation of accounting, auditing and consulting firms in Australia Options paper, pp 4.