Accounting Professional & Ethical Standards Board

AGENDA PAPER

Item Number:	10
Date of Meeting:	4 December 2025
Subject:	Update on ASIC report on Auditor Independence

[ ] **Action required**	[x] **For discussion**	[x] **For noting**	[ ] **For information**

Purpose

To update the Board on ASIC Report 817 on auditors' compliance with Independence and conflicts of interest obligations.

Background

On 15 May 2024, ASIC announced an expanded program of work, including a new review of auditors' compliance with ethical and independence standards to support their financial reporting and audit surveillance program and as part of their commitment to improve financial reporting and audit quality. It was noted that ASIC's previous engagement with audit firms in 2023 on an evaluation of the firm's implementation of ASQM1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* highlighted several areas of concern across risk, governance and compliance practices at audit firms.

On 30 October 2024, as part of its release of surveillance findings for 2023-24, ASIC announced a proactive surveillance program focused on auditors' compliance with independence and conflicts of interest requirements.

ASIC wrote to registered auditors and CEOs of large audit firms, advising them of the surveillance, which indicated wide-ranging engagement with auditors using ASIC's compulsory information-gathering powers and extended to seeking information about the systems and controls relied upon in audit engagements to ensure compliance with independence and conflicts of interest requirements.

On 31 October 2025, ASIC announced the issuance of its final report for its financial reporting and audit findings for FY 2024-25. ASIC Commissioner Kate O'Rourke said: *"ASIC's expanded program of work revealed that improvement is needed in delivering higher-quality financial reports and audits, and for auditors to be more proactive in ensuring their independence and in reporting significant contraventions to ASIC."*

ASIC issued three reports from the review:

- Report 816 A*ccounting for your super: ASIC's review into the financial reporting and audit of super funds* (released 30 September 2025), which summarises findings from the financial reporting and audit surveillance of Registerable Superannuation Entities (RSEs) for FY 2024-25.
- Report 817 *Building trust: Auditor compliance with independence and conflict of interest obligations* (released 7 October 2025) which summarises findings from ASIC's review of auditor's compliance with independence and conflicts of interest obligations under the *Corporations Act 2001*, and ethical and independence requirements in Australian Auditing Standards and APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code).
- Report 819 *ASIC's oversight of financial reporting and audit 2024-25* (released 31 October 2025), which summarises findings from the financial reporting and audit surveillance program and other complementary work for FY 2024-25. The report notes that in 1 out of 15 audit files reviewed, the auditor did not comply with independence and rotation obligations.

Key Considerations

This paper provides a high-level summary of the findings from ASIC Report 817 (attached at Agenda Item 10(a)), which focuses on auditors' compliance with independence and conflict of interest obligations, covering both obligations under the *Corporations Act 2001* (the Act) and the Code. The paper also considers the impact on APESB pronouncements as a result of the findings in the report.

Review approach

ASIC used a data-driven, risk-based approach to review its internal data on approximately 2,900 registered company auditors, alongside publicly available information about their clients, to identify indicators of potential threats to independence. Based on this analysis, **48** auditors and **19** audit firms were targeted for further specific review. The review cohort included individual auditors and auditors from firms, including the Big Six firms, with the audit firms listed in Appendix 2 of the report. ASIC notes that the review does not provide a representative view of the audit industry.

Key findings

ASIC's review found that many auditors were unable to effectively demonstrate compliance with the prescriptive and general independence and conflict of interest obligations, with 15 of the 48 auditors reviewed likely to have breached these obligations.

The **first key finding** related to likely breaches of prescriptive independence requirements, including:

- ***Mandatory rotation requirements*** – 9 auditors failed to demonstrate how they complied with mandatory rotation requirements for the audits of 14 listed clients, with some auditors relying on time extensions that did not meet the conditions in the Act.
- ***Prohibited relationships*** – 5 auditors held relationships with six clients that are explicitly prohibited under the Act, including 1 auditor who was also an officeholder of their client.

The report identified the likely drivers of these breaches as gaps in policies, procedures and systems, poor compliance practices, a lack of quality control, and a lack of engagement with or understanding of their obligations.

The **second key finding** from the review was that some auditors took a narrow approach to complying with general independence requirements, which left gaps in the auditors' approach to independence and how these were documented. ASIC identified potential threats for:

- Revenue received from NAS being 5 times greater than the audit fee:
- Long association between auditors and clients of up to 36 years;
- Relationships between auditors and officeholders of audit clients;
- Independence threats caused by multiple threats arising from NAS, long association and relationships.

ASIC also reported that they have reasonable grounds that at least one auditor provided a prohibited non-assurance service listed in APES 110, as engagement workflows had not been updated to reflect changes to prohibited services as per APES 110.

The following common gaps were observed where auditors:

- Adopted a narrow, 'tick-box' approach to compliance;
- Demonstrated limited consideration of independence in appearance;
- Did not consider changing facts and circumstances before and during an audit;
- Relied on inadequate or inappropriate safeguards;
- Could not demonstrate how they considered certain threats to independence in the documentation; and
- The design of policies, procedures and systems that auditors rely on contributed to these gaps.

The **third key finding** was that auditors are failing to proactively report to ASIC when they are not meeting their independence requirements, even when ASIC prompts them to do so. ASIC is concerned about auditors' engagement with ASIC's request to review compliance with independence obligations and whether auditors have the ability and capacity to monitor their own compliance.

It was noted that only three auditors proactively submitted reports to ASIC between their prompt in October 2024 and 31 August 2025.

ASIC Actions

As a result of the review, ASIC has taken action against the auditors in breach, including:

- Entered into three Court Enforceable Undertakings (CEUs) with auditors over audit rotation failures set out in Media Release 25-223.
- Issued an Infringement Notice to an authorised audit company for providing NAS prohibited under APES 110 set out in Media Release 25-221.
- Accepted the cancellation of the company auditor's registration for holding a prohibited relationship with multiple clients, providing NAS prohibited under APES 110 and maintaining a long association with clients set out in Media Release 25-195.

ASIC has also reissued Regulatory Guide 34 *Auditor obligation: Reporting to ASIC* (RG 34) on 18 September 2025, which consolidates existing guidance on auditor reporting requirements, including examples of what must be reported to ASIC.

ASIC noted that it is continuing to investigate the circumstances identified in this surveillance program. ASIC will also use the data model developed for future use, including to identify audit files to be included in future years' surveillance programs.

Impact on APESB Pronouncements

The Technical Staff have reviewed ASIC Report 817 to assess any potential impacts on APESB pronouncements. Technical Staff noted the following matters in the report:

- Likely breaches of the Code, including:
    - an auditor being an officeholder (company secretary) of the audit client (pages 14-15 and 24-25 of the report) - likely breach of paragraphs R523.3, AUST R523.3.1 and R523.4, AUST R523.5 of the Code
    - ex-partner of a firm who was an officeholder at an audit client of the firm but still being involved in firm business & receiving payments from the firm (page 14 of the report) – likely breach of R524.4 of the Code;
    - Multiple threats to independence were not considered collectively (page 20 of the report) as required by AUST R400.19.1 of the Code
- ASIC found limited application of the conceptual framework in Code (page 17);
- Auditors were more focused on independence of mind and did not give equal consideration to independence in appearance (page 17 of the report);
- Limited evidence that changes in facts or circumstances are considered in independence reviews (page 17 of the report);
- Limited evidence that independence obligations were considered for review auditors (page 17 of the report);
- Lack of consideration of fee-related independence threats with a high ratio of NAS fees to audit fees (page 19 of the report);
- Limited and inconsistent consideration of some self-review risks (page 20 of the report);
- Lack of understanding of the general audit rotation requirements in the Code (page 22 of the report); and
- Lack of prescriptive guidance in the Code dealing with some of the facts and circumstances relating to relationships between ex-partners of firms who become officeholders at the audit client and the firm that continues to perform the audit (page 26).

Technical Staff note that many of the issues raised above indicate non-compliance with, or lack of knowledge of, the provisions of APESB pronouncements, rather than the pronouncements having significant gaps.

Technical Staff will consider the points noted above in the current project to review APESB's Audit Partner Rotation guidance to determine if further FAQs or case studies are required. These matters could also be considered in the potential upcoming revision of the Independence Guide.

The Independence Guide was last issued in 2020 as a joint publication of APESB and the three professional bodies. Given the impact of the Sustainability Amending Standard on the Code, it was important to first prepare the Compiled Code, incorporating the new standards and consequential amendments to other parts of the Code. The Compiled Code incorporating Sustainability was issued on the 6th of November 2025.

Technical Staff plan to liaise with the Professional Bodies after the December 2025 Board meeting to discuss the process for updating the Independence Guide, and to cover Sustainability Assurance Engagements performed in accordance with the new Part 5 of the Code.

Going forward, Technical Staff will continue to monitor developments regarding ASIC's review of auditor independence matters to determine whether additional guidance materials are needed to support auditors in complying with the independence requirements.

Recommendation

That the Board note the update on ASIC Report 817 on auditors' compliance with Independence and conflicts of interest obligations.

Materials presented

Agenda Item 10 (a)	ASIC Report 817 *Building Trust: Auditors' compliance with independence and conflict of interest obligations* (October 2025)

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