Building trust: Auditors' compliance with independence and conflict of interest obligations

Report 817 | October 2025

About this report

This report summarises our findings from ASIC's review of compliance by auditors with their independence and conflicts of interest obligations under the *Corporations Act 2001*.

The findings and calls to action from this report will be of interest to the entire auditor population, audit firms and professional accounting bodies.

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About ASIC regulatory documents

In administering legislation ASIC issues the following types of regulatory documents: consultation papers, regulatory guides, information sheets and reports.

Disclaimer

This report does not constitute legal advice. We encourage you to seek your own professional advice to find out how the Corporations Act and other applicable laws apply to you, as it is your responsibility to determine your obligations.

Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

Executive summary

Auditor independence is fundamental to a high-quality audit. It underpins stakeholder trust and confidence in the audit process and in the reliability of an entity's financial statements. In this way, auditor independence is essential to market integrity.

Under the *Corporations Act 2001* (Corporations Act), auditors are subject to prescriptive independence requirements relating to auditor rotation and prohibited relationships between auditor and client, and general independence requirements relating to conflicts of interest.

To be considered independent of mind and in appearance, Australia's legal framework requires that auditors ensure that they are unaffected, and are seen to be unaffected, by influences that could compromise their professional judgement with the entities they audit.

Events over the past few years in Australia and internationally have raised questions about the culture and integrity of audit services. This review is part of ASIC's wider work program to maintain strong oversight of auditors and enhance the quality of financial reporting and auditing in Australia. This work includes our recently published findings from REP 816 *Accounting for your super: ASIC's review into the financial reporting and audit of super funds* (REP 816) and findings from our annual financial reporting and audit surveillance for companies and auditors, to be published later in October 2025.

What we did

ASIC took an innovative, data-driven and risk-based approach to select auditors for inclusion in this review. We developed a bespoke data model to enable us to target audits of companies where there was a greater risk of threats to auditor independence. We did this by combining internal ASIC data on approximately 2,900 registered company auditors and publicly available information about their clients spanning several years to identify audits with indicators of potential threats to independence arising from:

- the provision of non-audit services to audit clients
- long association with clients (including rotation), and
- relationships between auditors and clients or their officeholders (including explicitly prohibited relationships).

Based on the risk-rated output of the data model we targeted 48 auditors in respect of the audits of 53 clients, to review how they complied with their independence requirements under the Corporations Act. Where these auditors came from an audit firm, we also examined the frameworks that the 19 audit firms had in place at the time of conducting the audit. The findings in this report therefore relate to these 48 auditors and 19 audit firms but will be relevant to all auditors and audit firms practising in Australia.

What we found

Many auditors, whether practising as individual auditors or from audit firms of any size, were unable to effectively demonstrate how they complied with their prescriptive and general independence and conflicts of interest obligations.

FINDING 1: We identified likely breaches of the prescriptive independence requirements for almost one third of the 48 auditors that were the subject of our review.

Our review indicated that:

- **nine auditors were unable to demonstrate how they met the rotation requirements in relation to the audits of 14 listed clients.** These requirements are designed to limit threats to an auditor's independence resulting from over-familiarity with a client.
- **five auditors held relationships in relation to six clients that are explicitly prohibited under the Corporations Act** because they are considered inherently non-independent.

These auditors were from small to medium sized audit firms or practising as individual auditors.

Drivers for this included:

- gaps in the systems, policies and procedures to track and support compliance with obligations,
- carelessness in compliance practices and a lack of quality control, and
- a lack of engagement with or understanding of their obligations.

The high number of likely breaches of the prescriptive independence requirements is particularly disappointing. These requirements are unambiguous and longstanding and have also been the subject of previous ASIC compliance work and enforcement action.

FINDING 2: We identified gaps in how many auditors approached and documented compliance with their general independence requirements, including how they considered potential threats to independence.

We saw common gaps:

- many auditors adopted a narrow, 'tick-box' approach to compliance by focusing on prescriptive requirements and guidance
- some auditors demonstrated limited consideration of independence in appearance
- some auditors did not consider changing facts and circumstances before and during an audit
- some auditors relied on inadequate or inappropriate safeguards
- many auditors could not show how they considered certain threats to independence in their documentation, and
- the design of policies, procedures and systems that auditors rely on contributed to these gaps.

We saw these gaps with auditors from audit firms of any size and those practising as individual auditors.

Examples of potential threats to independence that some auditors did not sufficiently consider, or failed to document, include:

- revenue received from providing non-audit services was as much as five times that from audit services, with non-audit fees exceeding audit fees over multiple years
- long associations between auditors and clients up to 36 years

- multiple factors suggesting current and past relationships between auditors and officeholders of clients, and
- a combination of potential threats to independence arising from non-audit service, long association and relationships.

FINDING 3: Auditors who did not appear to meet their independence requirements failed to proactively identify and report this to ASIC, even after we prompted them to do so.

- Before commencing our review, we wrote to auditors and called on them to identify and report non-compliance with their independence and conflicts of interest obligations.
- None of the auditors who appeared to breach the independence requirements proactively identified and reported this to ASIC before we started making our inquiries.
- A small number reported likely breaches later, but after our inquiries.

This limited proactive auditor reporting raises concerns about how well auditors engaged with the call to review their compliance with their independence requirements. It also brings into question their ability and capacity to monitor their own compliance.

What auditors and audit firms can do better

Where we identified what auditors did better in our review, we have listed these throughout this report to support auditors and audit firms looking to strengthen their practices.

In addition, auditors and audit firms told us they were making changes. For example, some smaller audit firms told us that as a result of our inquiries, they were revising independence policies and procedures and introducing quality checks and other oversight mechanisms. Some larger audit firms told us they were setting higher expectations around documentation, and refining processes such as consultation with independence experts to introduce greater consistency. **These changes are welcome, but they are not enough.**

We urge all auditors and audit firms – whether they were included in this review or not – to act on the findings in this report and strengthen and deepen their approach to independence in line with our calls to action, including to:

- improve how they comply with the prescriptive independence requirements, particularly for individual auditors and those from smaller firms
- move beyond ticking boxes to comply with the general requirements for independence and consider threats to independence broadly
- adequately consider independence in appearance
- monitor for threats to independence as facts and circumstances change
- deploy safeguards that are tailored and appropriate to the potential independence threat
- ensure that independence assessments are appropriately documented
- strengthen the systems of quality management to support compliance with independence requirements, and
- proactively monitor compliance with independence requirements and report to ASIC where required.

ASIC action

We are committed to maintaining close oversight of auditors and enhancing the integrity and quality of financial reporting and auditing in Australia.

We have already taken action as a result of the findings of this review. This includes:

- entering into three Court Enforceable Undertakings (CEUs) with registered company auditor members of an audit firm and an additional two auditors for not meeting their rotation requirements on multiple occasions, and for failures relating to systems of quality management for the audit firm in particular Media Release (25-223MR) *ASIC accepts three court enforceable undertakings for auditor rotation failures at Hall Chadwick (NSW) (2 October 2025)*.
- issuing an Infringement Notice to an authorised audit company for providing a non-audit service not allowable under APES 110 *Code of Ethics*, Media Release (25-221MR) *Nexia Perth Audit pays penalty because of alleged prohibited non-assurance services provided by firm* (1 October 2025), and
- negotiating a cancellation of an auditor's registration for holding a prohibited relationship with multiple clients, providing non-audit services that are likely prohibited under APES 110 Code of Ethics and maintaining a long association with the clients. Media Release (25-195MR) *ASIC accepts cancellation of company auditor registration for independence failures* (5 September 2025).

We will continue to investigate potential breaches of independence and conflicts of interest obligations and take compliance or enforcement actions as appropriate. ASIC has a number of inquiries underway as a result of this surveillance.

We have also secured a number of compliance outcomes as a result of our intervention, including an audit firm that will cease auditing an audit client, and another that has revised policies and procedures to ensure better compliance in future. We will seek further compliance outcomes from auditors and audit firms as appropriate, including action plans to enable us to track and monitor how deficiencies we identified are being addressed.

Auditor independence will remain a key part of our focus on the integrity and quality of audits, and **we have further work underway:**

- a number of audit files from this review will be referred to ASIC's ongoing surveillance program to consider whether there is an impact on audit quality, and
- the innovative data model developed for this review will be adapted for ongoing use. This will allow us to target audit files that indicate potential independence threats and include them in our ongoing surveillance program in future years

We will also continue our focus on auditors' compliance with reporting obligations. We recently reissued Regulatory Guide 34 *Auditor Obligations: Reporting to ASIC* (RG 34) to consolidate and simplify existing guidance on auditor breach notification and contravention reporting obligations to ASIC as well as reflect changes to the law. See our article *Regulatory guide reissued on auditor reporting obligations to ASIC* (18 September 2025).

Surveillance Snapshot

FINDINGS AND ACTIONS TO DATE

15
auditors reviewed had likely breaches

- **9** did not meet rotation requirements
- **5** had relevant relationships
- **1** provided a prohibited non-audit service

5
ASIC actions

- **3** court enforceable undertakings accepted relating to registered company auditors
- **1** auditor's registration voluntarily cancelled
- **1** infringement notice issued

None of the auditors
made proactive reports to ASIC, despite being prompted to do so.

REVIEW COHORT

48 auditors | **19** firms | **53** clients

Review cohort of **48 auditors** and **19 firms** selected using a **risk-based methodology** to be the subject of this review.

Call to action

1 Many auditors need to improve how they comply with the prescriptive independence requirements

We saw a significant number of likely breaches of the mandatory rotation and specific independence requirements (relating to prohibited relationships) among individual auditors and those from small to medium sized audit firms. Auditors must focus on improving their understanding of and compliance with these prescriptive and long-standing obligations.

2 All auditors should look beyond ticking boxes and think broadly about whether they are meeting their general independence requirements

The prescriptive auditor independence requirements cannot provide for every set of facts and circumstances that could compromise auditor independence. Auditors therefore need to think more broadly, comprehensively and critically about whether a conflict of interest situation exists, and thus whether they are complying with their general independence requirements.

3 The perception of independence matters

A conflict of interest situation may arise even if an auditor is confident that they are able to exercise objective and impartial judgement. Auditors must consider not only actual impartiality but also the perception of impartiality when identifying, assessing and mitigating threats to independence.

4 Threats to independence need to be assessed on an ongoing basis

As facts and circumstances change over the course of an audit or from one audit to another, auditors need to identify and evaluate any new or changing threats to independence and take action, if necessary.

5 Safeguards need to be fit for purpose

Where auditors deploy a safeguard to reduce an independence threat to an acceptable level, the safeguard must be tailored. If they involve the deployment of other auditors, those auditors' circumstances must also be assessed for any threats to independence.

6 Auditors should ensure they document independence assessments appropriately

Limited documentation may signal poor engagement with the independence requirements. Auditors should consider whether they are adequately documenting how they assess compliance with their independence obligations, in particular with the general requirements. Documentation needs to be capable of demonstrating compliance, supporting the work of those directing or supervising the audit, and enabling the conduct of quality review and oversight processes.

7 Audit firms can strengthen their systems of quality management to support auditor independence

Audit firms establish the frameworks within which auditors assess their compliance with independence obligations. Audit firms need to ensure that their policies, procedures and frameworks support auditors in complying with both the prescriptive and general independence requirements.

8 All auditors should proactively monitor compliance and report breaches to ASIC

The re-issued Regulatory Guide 34 *Auditor's obligations: Reporting to ASIC* (RG 34) updates, consolidates and simplifies previous guidance on auditors' obligations to report to ASIC. Auditors and audit firms need to ensure that their quality management systems enable them to monitor for and detect non-compliance, and report in line with regulatory obligations.

About auditor independence

Auditors are legally required to be independent from the entity they audit, to enhance users' confidence and trust in an entity's financial report. The auditor independence requirements, discussed below, recognise that independence has two dimensions: independence of mind and independence in appearance. Independence of mind means that the auditor is able to form an objective and impartial opinion of financial statements, free from conflict of interest, bias or undue influence. Independence in appearance means that the auditor is seen to be independent, by a reasonable person, with full knowledge of all relevant facts and circumstances. In other words, perception matters, and not just the auditor's state of mind.

Threats to auditor independence can arise from:

- self-interest: where an auditor's own interest inappropriately influences judgement or behaviour
- self-review: where the results of a previous judgement made or activity performed by the auditor or another individual in their firm are relied upon when forming a judgement, and not appropriately evaluated
- advocacy: where the client's position is promoted to a point where objectivity is compromised
- familiarity: where a long or close relationship with a client leads to being too sympathetic to their interests or too accepting of their work
- intimidation: where there is deterrence from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence

Threats to independence should be identified, evaluated and addressed by either eliminating or reducing them to an acceptable level through the deployment of safeguards.

The legislative and regulatory framework

The **Corporations Act** includes provisions aimed at strengthening auditors' capacity to act, and be seen to act, independently and to exercise objective and impartial judgement when conducting an audit. The requirements for registered company auditors and authorised audit companies include:

- **general independence requirements** which require all reasonable steps to be taken to ensure audit activity does not continue in conflict of interest situations, and to notify ASIC if a conflict continues within seven days of becoming aware of it (Subdiv A of Div 3 of Pt 2M.4), and
- **prescriptive independence requirements** about rotation requirements (Div 5 of Pt 2M.4) and a non-exhaustive list of prohibited relationships (Subdiv B of Div 3 of Pt 2M.4).

Retiring audit firm partners/directors and professional members of authorised audit companies must also meet certain waiting periods before taking up certain positions with an audit client (Subdiv B of Div 3 of Part 2M.4).

Individual auditors or audit firms can be appointed to audit a client under s324AA of the Corporations Act and under s307C of the Corporations Act, the individual auditor or lead auditor (responsible to the audit firm for the conduct of the audit) must give a written declaration of independence to the directors of the client. The declaration, which is included in the director's report, states that to the best of the auditor's knowledge or belief, there have been no contraventions of the auditor independence requirements under the Corporations Act or applicable code of professional conduct.

Auditing Standard ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (ASA 102) requires auditors to comply with relevant ethical requirements, including those pertaining to independence, when performing audits. As such, auditors must also comply with the applicable requirements of **APES 110 Code of Ethics** (APES 110) issued by the Accounting Professional & Ethical Standards Board. APES 110 details independence and professional conduct requirements for members of certain professional accounting bodies. It contains specific provisions to address key threats to auditor independence but also principles-based obligations. ASIC used APES 110 to help us understand what threats to independence might be posed by specific facts and circumstances, and how they should be evaluated and addressed, when considering compliance with general independence requirements.

The **Australian Standard on Quality Management 1** (ASQM 1) sets out responsibilities for audit firms to design, implement and operate a system of quality management for audits, including to ensure that the 'firm and its personnel understand.. and fulfill their responsibilities in relation to the relevant ethical requirements, …, including those related to independence' (ASQM 1 paragraph 14). Auditing Standard ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Information* also sets out the lead auditor's responsibilities in relation to these requirements at an engagement level, including by relying on the audit firm's policies or procedures.

Auditors have obligations to report to ASIC their own contraventions and suspected contraventions, including under s311 of the Corporations Act. They must also report to ASIC conflict of interest situations and circumstances involving relevant relationships if it is ongoing after seven days under s324CA-CC and s324CE-CG of the Corporations Act.

Finding 1: Likely breaches of the prescriptive independence requirements

The Corporations Act includes prescriptive and long-standing auditor independence requirements, including requirements mandating auditor rotation for listed clients and prohibiting certain auditor-client relationships.

Our review indicated that 14 auditors did not meet these requirements in relation to the audits of 20 clients. This represents nearly one third of the auditors in our review.

These auditors were either from small to medium sized audit firms or practising as individual auditors.

We found that gaps in policies, procedures and systems contributed to this, as well as poor compliance practices and a lack of engagement with the requirements.

1a: Gaps in compliance with mandatory rotation requirements

To limit threats to auditor independence through familiarity with a listed client or registrable superannuation entity (RSE), the Corporations Act imposes strict auditor rotation requirements.

Our review indicated that 9 auditors did not meet these requirements for 14 listed clients.

The requirements

Under Div 5 of Pt 2M.4 of the Corporations Act, an auditor is prohibited from playing a significant role in the audit of a listed client or RSE for more than five successive financial years or more than five out of seven successive financial years, unless certain conditions are met.

These conditions include the ability for directors of a listed client or RSE to extend the rotation period by up to two years. For an extension to be effective, the approval granted by directors must comply with specific conditions designed to protect auditor independence and safeguard the quality of the audit.

The appendix of Regulatory Guide 187 *Auditor Rotation* (RG187) provides an overview of the rotation requirements.

What we found

The findings of our review indicated that all nine auditors exceeded the limited term for eligibility to play a significant role in the audit of a listed client, and either:

- relied on extensions that did not meet the conditions required to extend their eligibility term and were thus ineffective, or
- had not sought extensions at all.

CASE STUDY: ISSUES WITH AUDIT ROTATION SCHEDULE

An auditor from a small to medium sized audit firm served as the lead auditor of a listed client for six successive financial years, without an extension for the sixth year. The auditor had relied on the firm's internal audit rotation spreadsheet (the "audit rotation schedule"), where the start date of the auditor's involvement was incorrectly recorded. As a result, the auditor believed they only played a significant role in the audit of the client for five successive financial years rather than six.

This error was identified only after receiving our notice and prompted the audit firm to review its compliance with auditor rotation requirements more broadly. In addition to reviewing the firm's audit rotation schedule, the audit firm committed to implementing the following remedial actions in response to ASIC's intervention:

- Revise controls involving the audit rotation schedule, including by restricting access to audit partners only.
- Implement an audit rotation document within each audit file, supplementing the existing audit rotation schedule. This will require the lead and review auditor to document the number of years they have been engaged by the client and confirm that rotation requirements have been met.
- Provide additional training to the audit team on auditor independence and rotation requirements, supplementing the independence training currently in place.

Root causes

Limited processes or issues with processes for tracking time spent on audits

- Some auditors had manual or no processes for tracking rotations.
- Where auditors did have rotation schedules, some were inaccurate or incomplete, with data entry errors leading to incorrect calculation of the number of years an auditor played a significant role.

Inadequate supporting systems to comply with rotation requirements

- Some sections of questionnaires, intended to confirm compliance with rotation requirements, were either completed inaccurately or not at all before starting the audit.
- Where auditors relied on obtaining directors' approval to extend the eligibility term, the policies and procedures lacked the detail outlining the conditions required for approving the extension.
- In one instance, there was a failure to retain documentation to show how the criteria for approval by a directors' extension was satisfied.
- None of the auditors identified the above errors or potential breaches of rotation requirements before our inquiries, indicating a lack of oversight and quality assurance.

Lack of engagement with and understanding of the rotation requirements

- Despite the above deficiencies, it is reasonable to expect that an auditor who is familiar with the rotation requirements would be able to identify that they had been playing a significant role in the audit of a client for more than five years and take action to address this. The fact that this did not take place suggests a lack of engagement with or ownership of compliance with rotation requirements.

- Some auditors did not appear to understand or were unaware of the prescriptive requirements that must be met for an extension to be valid.
- One auditor believed the five-year term referred to only the time for which the client has been listed. Instead, the requirements apply to any upcoming audit of a listed client regardless of when they became listed.

What some auditors did better

- **Stronger supporting procedures and processes**: Some audit firms' workpaper templates, policies and procedures covered the rotation requirements in greater detail, including example scenarios to help auditors understand what would amount to a breach.
- **Proactive monitoring and planning of rotation:** One audit firm had a system that actively monitored key rotation dates and recommended their auditors develop a rotation succession plan two years before the end of the eligibility term. This firm also had a panel to facilitate discussion and consider concerns arising from rotation requirements, in particular assessing requests for extensions to the eligibility term prior to requesting approval from the client's Audit Committee.
- **More sophisticated systems:** Some audit firms had more sophisticated systems in place to monitor key rotation dates and manage compliance with their rotation requirements, for example, systems or tools that helped identify partners who were eligible to rotate on to an audit or automatically calculated when the eligibility term ends.

CASE STUDY: PURPORTED GRANT OF APPROVALS FOR TERM EXTENSION WERE INEFFECTIVE

The five-year audit involvement period may be extended by up to two successive years for a listed client if certain conditions are met. Three auditors from the same small to medium sized audit firm played a significant role in the audit of eight listed clients for six or seven years each.

The auditors stated they complied with the rotation requirements, because the clients' directors granted approval to extend the eligibility term under s324DAA of the Corporations Act. However, our findings indicated that these approvals did not meet the conditions set out in s324DAA, s324DAB and s324DAC, which are designed to ensure that directors are satisfied that the audit quality is maintained and the extension does not cause a conflict of interest situation. The purported grant of approvals was therefore ineffective.

The firm's policies, procedures and independence questionnaires were deficient. Sections of questionnaires used to prompt the auditor to consider if they had audited the client for more than five successive years were also filled out incorrectly or not at all, with no secondary checks or sign-offs completed.

The audit firm and auditors did not identify these issues until we alerted them to our concerns.

As a result of our surveillance activity, the auditors and audit firm have entered into a court enforceable undertaking with ASIC. When seeking any extension of the eligibility term, the auditors will be required to submit evidence of compliance, or the planned steps to comply with the requirements of s324DAA-s324DAC to ASIC. The audit firm must also have their system of quality management, as it relates to compliance with independence requirements, evaluated by an independent expert to ensure it is adequately and properly designed, implemented and operating, in order to fulfill its responsibilities relating independence requirements.

1b: Evidence of Prohibited Relationships

There are certain relationships between auditor and client that are considered inherently non-independent and are explicitly prohibited under the Corporations Act.

Our review indicated that five auditors held such relationships with six clients.

The requirements

Subdiv B, Div 3 of Part 2M.4 of the Corporations Act provides a list of relationships (broadly categorised as employment relationships and financial relationships) that are treated as non-independent and therefore explicitly prohibited when auditing a client.

These restrictions ensure that auditors do not hold certain relationships that undermine an auditor's ability to adopt (and appear to adopt) an unbiased approach when conducting an audit.

What we found

The findings of our review indicated that five auditors held prohibited relationships with six clients, including where:

- the auditor was also the officeholder of the client. This can create a self-review threat and generally implies a close association with the client
- the auditor was an officeholder of the client in the 12 months preceding the beginning of the audit period. This raised concerns the auditor may be evaluating the work they had influenced or performed in the previous period as part of the current audit, and
- an ex-partner of the audit firm who became an officeholder of the client was participating in the business and professional activities of the audit firm and received a payment for work performed for the audit firm. This raised concerns that the relationship between the audit firm and officeholder has not been severed and the audit team may be less rigorous in its scrutiny of the client's financial statements.

Root causes

Insufficient awareness and understanding of prohibited relationships

- Certain auditors held officeholder positions while auditing the client but stated that they only handled particular tasks associated with the officeholder role. However, holding any such role or even partial performance of officeholder duties may still constitute a prohibited relationship and threaten independence.
- One auditor stated they were not an officeholder while auditing the client. However, they failed to recognise the restriction on auditing a client for whom they were an officeholder in the preceding 12-month audit period.

Few or ineffective systems to support compliance

- Some auditors did not provide any documentation to demonstrate how they evaluated their independence before starting an audit.
- The policies of one audit firm made limited reference to prohibited relationships.

What some auditors did better

Mechanisms to ensure compliance

- policies, guidelines and checklists to help staff consider relevant relationships before commencing an audit, and
- procedures to ensure the independence test was satisfied when officeholders received payments from the audit firm.

CASE STUDY: ACTING AS BOTH AUDITOR AND COMPANY SECRETARY OF THE CLIENTS

An individual auditor led the audit of at least two large proprietary companies while they were registered as their company secretary for more than 15 years. Under the Corporations Act, a secretary of a corporation is an officer, and it is prohibited for the auditor to also be the officeholder of the audit client.

The auditor stated that they never felt their independence had been in question. The auditor submitted to ASIC that their independence breaches were inadvertent, and they never attended board meetings and did not have a contract of employment or access to computer systems. However, their duties did involve assisting the companies with compliance in their annual company statements, statutory registers and other requirements. They also prepared annual general meeting minutes at meetings where accounts were presented, as well as solvency resolutions for the companies.

In response to ASIC's queries, the auditor admitted they held a relevant relationship defined in s324CH(1) of the Corporations Act, and therefore 'technically the auditor independence requirements … have been compromised'.

The auditor did not share any documentation of how they evaluated their independence at the time of the audits. This, and the length of time the individual held both roles, reinforces concerns that auditor independence was not adequately considered over the course of their audit involvement period with the client. ASIC has accepted the voluntary cancellation of this auditor's registration as a company auditor.

Finding 2: Narrow approach to the general independence requirements

The Corporations Act contains general auditor independence requirements for dealing with conflict of interest situations, in addition to the more prescriptive independence requirements. This reflects that fact that not every situation that can compromise independence of mind or independence in appearance can be legislated for. This means that in addition to complying with their prescriptive requirements, auditors need to think broadly about the potential for real or perceived conflicts of interest.

Our review indicated that many auditors took a narrow approach to complying with the general independence requirements. Sections 2a-2d describe how this manifested in key areas.

The requirements

General auditor independence requirements, which are defined by reference to the existence of a 'conflict of interest situation', are found in Subdiv A of Div 3 of Pt 2M.4 of the Corporations Act. A contravention of the general requirements for independence arises when an auditor or authorised audit company is aware that a conflict of interest situation exists and does not take all reasonable steps to ensure it ceases to exist. Under s324CD of the Corporations Act, a conflict of interest situation exists in relation to a client at a particular time if, because of circumstances that exist at that time:

- the auditor, or a professional member of the audit team, is not capable of exercising objective and impartial judgement in relation to the conduct of the audit of the client, or
- a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor, or a professional member of the audit team, is not capable of exercising objective and impartial judgement in relation to the conduct of the audit of the client.

In determining this, auditors should have regard to circumstances arising from any relationship that exists, has existed or is likely to exist between the auditor, the audit firm and the client.

In other words, when determining whether a conflict of interest situation exists, the objective and impartial judgement requirement is to be assessed by reference not only to the actual capabilities and situation of the person concerned (independence of mind), but also from the perspective of a reasonable person (independence in appearance). This judgement is to be applied to everyone in the audit team who exercises professional judgement or influences the outcome of the audit.

Common themes

We identified gaps in how many auditors approached compliance with their general independence requirements, regardless of whether they practised as individual auditors or as part of a firm of any size. Pages 16-31 set out how these gaps manifested in the key areas that we focused on. We observed the following common themes:

› A 'tick-box' approach to compliance and considering potential threats to independence

We found that many auditors did not consider potential threats to independence as comprehensively as would be necessary to ensure conflict of interest situations did not arise. Many auditors demonstrated that they considered and complied with prescriptive requirements in both the Corporations Act and APES 110. However, when considering whether a conflict of interest situation existed, we found certain facts and circumstances were often not meaningfully considered at all, or were considered in a superficial way, without much reasoning. In some cases, auditors also did not consider how facts and circumstances may pose threats to independence cumulatively.

We generally observed a limited application of the 'Conceptual Framework' in APES 110. The framework calls on auditors to consider a wide range of facts and circumstances to identify, evaluate and address threats to independence, including in aggregate.

It was disappointing to observe that some auditors appeared to consider only the prescriptive requirements in legislation and in APES 110 but did not demonstrate further consideration of potential threats to independence at all.

› Limited focus on independence in appearance

Some auditors focused on independence of mind and did not give equal consideration to independence in appearance. That is, their responses to ASIC and their workpapers set out why they considered that their ability to exercise impartial and objective judgement in relation to an audit was not affected. But they did not consider whether a reasonable person might reach the same conclusion.

› A point-in-time consideration of independence

We saw instances where the facts and circumstances had changed from one financial year to another, or during the course of an audit, but this was not taken into account in the written responses to ASIC's queries, as to whether a conflict of interest situation existed, or reflected in workpapers.

We also saw instances of the same workpapers being used from year to year, with wording 'rolled forward', without evidence that consideration had been given to whether new potential threats to independence existed.

› Inadequate assessment of safeguards

In some cases, auditors deployed safeguards in response to threats to independence that we consider were too general and did not effectively mitigate the threat. For example, we saw instances where the appointment of a review auditor was cited as a safeguard, but we did not see sufficient consideration of whether the review auditor themselves was the subject of a similar conflict or threat.

› Lack of documentation

In several cases, auditors provided an evaluation of whether specific facts and circumstances resulted in a conflict of interest situation in response to ASIC's queries, but this was not reflected in the accompanying audit documentation. This means that auditors were unable to evidence that consideration was given to these matters at the time of the audit. In addition, we saw that where there was documentation, it was in some cases very brief and did not provide a clear record of whether threats had been identified, and how they had been assessed.

How policies, procedures and systems contributed to these gaps

While the responsibility for compliance with independence obligations in the conduct of an audit rests with the auditor, audit firms set the policies, procedures and systems which auditors rely on when ensuring compliance. ASIC did not test for compliance with ASQM 1. However, we consider that policies and systems contributed to the gaps we saw:

- Audit documentation such as client engagement and independence questionnaires generally focused on detailed, prescriptive requirements. Few prompted for a broader consideration of threats to independence with more open questions or prompted auditors to consider independence in appearance.
- Where there were prompts for auditors to consider potential threats broadly, these were not always supported by guidance documents to help auditors identify and evaluate possible broader threats to independence beyond prescriptive requirements, and to do so consistently.
- Some firms prompted auditors to consult with their independence lead – but in many cases such consultations were optional or at the discretion of the auditor.
- Even where questionnaires prompted broad consideration, or policies encouraged or mandated consultation with independence partners, at times there did not appear to be minimum expectations for how these considerations should be documented to assist with future oversight, quality control or compliance checks.
- We saw some instances of internal policies and procedures not being followed by auditors. In some cases, these did not appear to have been identified until ASIC started making inquiries, raising questions about arrangements for quality monitoring and control.

2a: Gaps in how provision of non-audit services was assessed

The provision of non-audit services to audit clients could affect the independence of mind and in appearance of an auditor if, for example:

- the auditor prioritises protecting the total revenue generated from the client, leading to a self-interest threat to independence
- a large share of revenue generated by non-audit services has the effect of intimidating an auditor because of real or perceived pressures
- the audit firm assumes management responsibilities or engages in work that has a material effect on the financial statements of a client, leading to a self-review threat to independence from auditing their own work.

Our review indicated that auditors generally did well at demonstrating adherence to prescriptive aspects relating to the provision of non-audit services, such as restrictions on contingent fees and prohibition of remuneration that rewarded cross-selling of non-audit services, and considering which services were explicitly prohibited or restricted.

However, for many auditors we did not see enough evidence of how auditors considered threats to independence more broadly to demonstrate compliance with the general independence requirements, including threats from high ratios of non-audit service to audit service fee ratio and certain self-review threats.

What we found

Adherence to prescriptive guidance

Auditors were generally better at demonstrating their consideration of some threats to independence from the provision of non-audit services over others, and better able to show how they complied with the more prescriptive guidance contained in APES 110. They generally considered contingent fees and whether a non-audit service was strictly prohibited or restricted. We did not observe any instances in which an auditor was evaluated or compensated based on their success in selling of non-audit services. Further, we saw some audit firms had internal policies which strictly prohibited providing financial benefits to an audit partner for the successful referral of non-audit work.

Despite this, we have reasonable grounds to believe at least one auditor provided a prohibited non-audit service listed in APES 110, resulting in a potential self-review threat. The auditor identified this issue after our enquiries. It arose because engagement workflows had not been updated to reflect changes to prohibited services made in APES 110. The relevant non-assurance fees were estimated to be $4,500. ASIC has issued an infringement notice for this breach.

More broadly, we observed gaps in how many auditors considered potential threats to independence from their provision of non-audit services.

Lack of consideration of the ratio of non-audit service to audit service fees

Across the sample in our review, the ratio of non-audit to audit fees ranged from 0.98:1 to 5.86:1. In some cases, these ratios persisted over multiple years.

Several auditors did not show that they considered the impact that non-audit revenue that is greater than audit fees can have on independence of mind and in appearance in their audit documentation.

This is despite the fact that APES 110 prompts auditors to consider how the level of threat is impacted when a large proportion of revenue is generated by providing non-audit services, due to concerns about the potential loss of either the audit or non-audit service. Threats posed include intimidation and self-interest threats, as well as perception that the audit firm prioritises the non-audit relationship over audit quality.

In certain instances, non-audit services were assessed individually, without considering the combined effect of threats to independence posed by multiple non-audit services provided to an audit client, despite this being required under APES 110.

Limited and inconsistent consideration of some risks of self-review

Non-audit services may still create self-review risks even if they are permissible under APES 110, as there may be unique features of the service that are not captured by the guidance. Some auditors did not show if or how they considered these risks in their audit documentation. In other cases, this was limited to 'yes/no' check box answers without any rationale provided as to why these risks did not exist.

In certain instances, members of the audit team provided non-audit services to a client in the same financial year that they were conducting the audit. Using professionals who are audit team members in the provision of non-audit services may mean there is an increased risk of the audit team reviewing their own work or interest in managing the client relationship. However, we did not see any evidence of such potential threats to independence being identified or evaluated and safeguards implemented to address this.

Potential for additional services to be provided without re-assessment

Several engagement letters and statements of work included a line item for 'other ad hoc' or 'general advisory' services. This was particularly evident in tax-related work. This creates the risk that extra tasks or fees undertaken as 'ad-hoc services' are not re-evaluated for independence after the initial non-audit service is approved.

What some auditors did better

- **Internal consultations for high ratios:** Some firms implemented a mandatory requirement for audit teams to consult the audit firm's independence function to consider threats to independence arising from a high non-audit fee to audit fee ratio. The threshold set by firms ranged from 0.5:1 to 1:1. Some firms told us about instances where they had declined an audit or a non-audit service because of the high ratio, including the perception created by this.
- **Documentation that demonstrated consideration and rationale:** We saw some examples where high ratios of non-audit service to audit fees were considered thoroughly, in a way that showed what threat had been identified and how it was evaluated. In some cases, this followed consultation with the independence team.
- **Detailed guidance on permissible non-audit services:** Some firms had detailed guidelines on how to interpret the permissible services contained in APES 110 that reflected internal risk appetites. System workflows were designed to prompt auditors to reconsider providing certain types of services.
- **Controls around scope creep:** One audit firm told us they have prohibited the term 'ad hoc services' in engagement letters for audit clients. This would trigger new engagement acceptance processes and independence assessments being performed again when additional non-audit services were scoped in, instead of relying on existing engagement letters.

CASE STUDY: DIFFERENT APPROACHES TO ASSESSING THREATS TO INDEPENDENCE FROM THE PROVISION OF NON-AUDIT SERVICES

We reviewed how two auditors from different audit firms assessed the threats to independence from the provision of non-audit services to audit clients, where the fees for the non-audit service significantly exceeded the fees for the audit. In both cases:

- The non-audit to audit fee ratio was approximately 4:1 over three consecutive years.
- The client was a public interest entity, which heightens the risks from any non-compliance with auditor independence obligations, considering the greater stakeholder interest in the financial performance of these entities.

We found a significant difference between the approach and extent to which the auditors considered potential threats to independence.

Auditor 1: Poor example of assessing independence

We observed one auditor assess their independence without any detailed commentary or rationale to explain their conclusion that a conflict of interest situation did not exist in the provision of non-audit services.

The audit documentation showed limited consideration of factors which could create independence threats. For example, audit documentation did not show consideration of:

- intimidation or self-interest threats due to the length of time that non-audit fees had exceeded audit fees
- potential self-review threat created by the potential assumption of management responsibilities through significant influence over the client's IT infrastructure or whether the provision of these services was allowable under APES 110
- self-review, advocacy or familiarity threats arising from an employee's secondment to the audit client.

The audit firm has informed ASIC that they have since updated their independence policies to reflect the restrictions on information technology related services and will not provide similar services to public interest entity clients in the future.

Auditor 2: Better example of assessing independence

Another auditor showed that they considered factors relevant to their independence more thoroughly. This included:

- intimidation and self-interest threats from the high non-audit fees relative to audit fees and the length of time during which this high ratio existed
- nature, scope and permissibility of all non-audit services
- client's dependency on the service
- non-recurring and fixed fee structure.

Accompanying audit documentation reflected detailed commentary in assessing whether independence threats were within an acceptable level and the non-audit services were assessed with regard to specific threats and safeguards in APES 110 .

The high value and proportion of non-audit fees triggered the audit team to formally consult with the independence leader. This consultation was documented in an independence memorandum as an additional audit procedure. Re-consultation was also required if additional services were provided to the client.

2b: Limited consideration of long association with clients

While time spent on an audit can support audit quality, a long association with a client may also give rise to a familiarity and self-interest threat and impact auditor independence if it leads to the auditor being too sympathetic or accepting of the client's work.

Our review indicated that auditors who had spent 10 or more years on a client's audit team sometimes referenced compliance with the mandatory rotation requirements outlined in the Corporations Act and in APES 110 to satisfy themselves that they were meeting their independence obligations.

However, some did not demonstrate enough consideration to other factors, such as the total time spent auditing a client, the threat posed by roles played in consecutive periods and the adequacy of the safeguards they implemented that related to other personnel.

What we found

Reliance on the rotation requirements in Corporations Act and APES 110

Auditors generally showed that they considered the 'time-on' and 'cooling-off periods' in APES 110 for public interest entities and the rotation requirements for listed clients in the Corporation Act.

However, beyond this we found limited consideration of the threats to independence posed by a long association.

Lack of consideration of total time spent auditing a client

Across our sample, we saw that several auditors had participated in the audit of a single client as a key audit partner or member of the audit team for up to 36 years. Yet audit documentation rarely addressed how the total duration of an auditor on the client's audit team, or the involvement of multiple long-standing team members, may impact independence.

Some auditors of large proprietary companies were unable to articulate how they evaluated independence risks associated with their tenure. They instead referenced that rotation requirements in the Corporations Act and APES 110 did not apply to non-listed audit clients, despite general requirements applying to audits of all clients.

More broadly, several auditors of listed clients relied on complying with the rotation requirements to satisfy themselves that they met their general independence requirements.

Lack of consideration of threat posed by roles played in consecutive periods

We saw at least one example where the auditor moved from lead to review auditor in consecutive periods, which poses a self-review threat in relation to significant audit judgements made during the auditor's time as the lead auditor. Audit documentation did not show that this risk was considered. Australian Standard of Quality Management 2 (ASQM 2) requires a two-year cooling-off period before a lead auditor can assume the role of review auditor to address this risk.

Adequacy of safeguards involving other personnel

Several auditors told us that they managed familiarity risks associated with long tenure by rotating team members other than the lead and review auditor or by giving responsibilities to members of the audit team. However, it is not clear that this would be an effective safeguard, particularly where team

members were more junior staff who may be limited in their ability to challenge senior staff or influence the outcome of the audit.

Many auditors also did not demonstrate that they considered how a familiarity threat could be exacerbated if team members, other than the lead or review auditor, also had a long association with an audit client.

What some auditors did better

- **Setting internal rotation requirements for the audits of large proprietary companies:** Some audit firms developed an internal requirement to rotate auditors of non-public interest entities after a certain number of years (most commonly 10) to manage familiarity risks that may arise from a long association.

CASE STUDY: MULTIPLE AUDIT TEAM MEMBERS WITH A LONG ASSOCIATION WITH A LARGE PROPRIETARY CLIENT

An auditor from a small to medium sized audit firm was the lead auditor of a large proprietary company for 36 consecutive years. Two other members of a four-person audit team had also been involved in the audit of the client for a significant period (i.e. 18 and 23 consecutive years, respectively).

The independence questionnaire provided required consideration of how tenure may impact independence by asking 'Has your duration as a member of the engagement team exceeded any "appropriate period" as determined by a network firm?' This was answered no, with no accompanying commentary. 'Appropriate period' was not defined in any of the workpapers or policies and procedures shared with ASIC and there was no evidence that potential independence threats from the long association were otherwise considered by the auditor or audit firm.

The auditor has since stepped down from any role in the audit of the client, but the lead auditor who has taken over has already been involved in the audit of the client for 23 years. As a result of ASIC's intervention, the audit firm has agreed to appoint an external engagement quality reviewer in the current financial year and will relinquish the audit after its completion. The audit firm also engaged an external party to provide a seminar for staff on ethics and quality control matters.

While there may be resourcing challenges for smaller audit firms to rotate key audit partners, they still need to identify, evaluate and address independence threats arising from long association.

CASE STUDY: MULTIPLE AUDITORS WITH A LONG ASSOCIATION WITH A LISTED CLIENT

Two auditors from a large audit firm each spent more than 15 years auditing a listed client during a 24 year period.

In their audit documentation, each auditor concluded there were no independence threats arising from their audit involvement periods as they complied with rotation requirements in the Corporations Act and the time-on and cooling-off periods in APES 110. In their independence assessment, one auditor also referenced the audit client being a very different organisation following a reverse acquisition in the 16th year with different board and management team as a reason as to why a familiarity threat did not exist. They noted that a potential familiarity threat was also managed through a review auditor and new team members.

However, we did not see consideration of other factors that could pose a threat to independence from familiarity:

- Characteristics other than the board and senior management team of the audit client pre and post-acquisition that could remain the same and thus create familiarity throughout the tenure of the auditors' involvement.
- Both auditors spent a long time on the audit of the client. Throughout a 24-year period, the first auditor spent 16 years playing a significant role on the audit whilst the second auditor spent 12 years, with an additional 6 years as the audit engagement manager.
- Both the first and second auditors served as the review auditor immediately after being the lead auditor, posing a self-review threat and reducing the efficacy of the review auditor as a safeguard (as discussed above, although ASQM 2 was not in effect at the time).
- There may be familiarity threats from multiple members of the team. A third auditor had also spent an extended time on the audit team of the client. The second auditor referenced above acted as the review auditor for three years alongside the third auditor, who was lead auditor. Auditor three had also spent seven consecutive years on the client's audit team (three as a lead auditor and four as engagement manager).

The audit firm has since updated their workpaper templates to require consideration of additional factors, including total time spent auditing the client, and whether any safeguards in place appropriately mitigate any familiarity threat.

The audit firm is no longer auditing the client.

2c: Narrow focus on relationships with officeholders who are ex-partners

Professional or employment, financial and personal relationships between auditors and their clients create potential self-interest, intimidation and familiarity threats to independence. In considering whether a conflict of interest situation exists, the Corporations Act specifically requires auditors to have regard to any relationship that exists, has existed, or is likely to exist between the auditor or audit firm and the client.

We examined cases where the ex-partner of an audit firm had gone on to become an officeholder at the client, sometimes after having audited the client while at the audit firm.

We found that some auditors appeared to focus more on meeting the prescriptive requirements of the Corporations Act and showed less consideration of whether they were meeting their general independence obligations under the Corporations Act. We did not see sufficient evidence of how auditors considered actual or perceived threats to independence that could arise from the professional ties to officeholders that we identified more broadly.

What we found

We reviewed relationships that auditors or audit firms may have with ex-partners of the same firm who had gone on to become officeholders at the client (and in some cases, went on to become a member or the chair of the audit committee). We found that the relationships exhibited some or many of the following characteristics ('relationship characteristics'), which we consider are potential threats to independence. Specifically:

- The officeholder had worked with the auditor on the audit of the client.

- The officeholder and the auditor had worked on multiple other audits together.
- The officeholder and the auditor had worked in the same offices while at the audit firm for an extended period.
- The officeholder had been a professional development manager or supervisor of the auditor or vice versa.
- The officeholder had been the auditor's formal sponsor to partnership.
- The officeholder and the auditor had ad hoc catch ups, professional interactions or social interactions in the past or that were ongoing. These were unrelated to the audit itself.
- The officeholder attended alumni and other events held by the audit firm.
- The officeholder held leadership positions while they were at the audit firm.
- A relatively short time had passed between the officeholder leaving the audit firm and joining the client.

Focus on prescriptive requirements

Auditors largely demonstrated a focus on ensuring that they, and ex-partners who had become officeholders of the client, complied with the prescriptive requirements in the Corporations Act and APES 110.

Most audit firms had systems and processes in place to enable auditors to demonstrate that the minimum waiting periods before ex-partners are permitted to join an audit client in s324CI, s324CJ and s324CK of the Corporations Act were met (where they applied), and no prohibited relationships existed. For example, several audit firms paid pension payments to ex-partners and have arrangements in place to ensure that these complied with the independence test in sections 324CE(7), 324CF(7) and 324CG(11) of the Corporations Act where the ex-partner had become an officeholder.

Some audit firms also had documentation and processes to prompt current auditors to consider their own personal independence obligations, commonly related to the employment, financial and personal relationships outlined in APES 110 and the Corporations Act. Methods included individual independence declarations, evaluation of independence threat templates, and policies requiring mandatory consultations with the firm's specialised independence teams in certain scenarios.

Limited documented consideration of potential threats to independence from relationship characteristics

Some auditors stated that they did not consider that the relationship characteristics described above created a conflict of interest situation and did not appear to consider that such a relationship could pose a threat to independence.

We saw only one instance where examples of these characteristics were identified as potential threats to independence and more thoroughly documented at the time of the audit.

In many cases, audit documentation did not show that these relationship characteristics were considered potential threats to independence at all. Consequently, we did not see how these were evaluated and, if necessary, safeguarded. In some cases, auditors and audit firms told us that they had been considered but were not thought necessary to document, or that documentation could have been improved.

We consider that this approach was likely informed by:

- a view that any threats posed by the relationships were addressed by compliance with the prescriptive requirements,
- a sense that such connections were a common occurrence and did not necessarily need to be specifically considered and documented, and failing to sufficiently consider whether a reasonable and informed person would view these relationships as a potential conflict of interest, and
- the lack of any prescriptive guidance in APES 110 dealing specifically with some of the facts and circumstances we raised, beyond the requirements relating to a significant connection and the financial arrangements between an officeholder and the audit firm (APES 524.4).

We note that APES 110 at 524.4 A2 encourages auditors to consider whether an intimidation or familiarity threat might still be created even if the prescriptive requirements around significant connections are met. Few auditors' documentation showed this consideration in much detail.

In the absence of comprehensive documentation of consideration of these relationship characteristics, it is difficult to assess the extent to which these factors were considered, if at all.

Little consideration of what a reasonable person may think, including in relation to cumulative ties

In line with the above, auditors mostly made no specific reference to how a relationship between an auditor and an officeholder may be perceived in their written responses to our queries and in their audit documentation. This included how the existence of multiple ties as noted above and their potential cumulative impact on independence might be considered by a reasonable and informed third party.

Policies, processes and systems contributed to limited or inconsistent consideration

We also observed inconsistencies between auditors from the same audit firm in how they considered and documented potential independence threats from relationships. Some audit firms told us that this was due to different interpretations and risk appetites on the part of the auditors. However, we also identified factors that could contribute to inconsistencies emerging, including that auditors were not provided direction or guidance on how to consider the relationship characteristics noted above. In addition, consulting with the audit firm's centralised independence team was in some cases optional.

Audit documentation sometimes declared compliance with the APES 110 requirement for 'no close personal relationships' with officeholders, but without accompanying definitions or additional guidance to clarify what a reasonable person might view as a close personal relationship.

Lack of consideration of changing circumstances

In some instances, workpapers demonstrated some consideration of threats to independence when an ex-partner first became an officeholder, but it was unclear how or whether subsequent changes in circumstances were considered, including where:

- a new member of the audit team had relationship ties or connections to an officeholder of the client, and
- an officeholder (who was an ex-partner and in some cases the client's ex-auditor) changed roles, including being appointed a member or chair of the audit committee, which can increase familiarity, intimidation and self-interest threats due to their role in engaging with the audit firm.

We saw examples where audit documentation was 'rolled forward' from year to year with little or no change, and no confirmation that this was because the facts and circumstances were the same and the assessment still appropriate for the current year.

Inadequate assessment of safeguards

In response to our enquiries, some auditors referred to the appointment of review auditors as a safeguard against threats to independence from relationships between lead auditor and officeholder. However, we saw instances where the same or similar facts and circumstances that could pose a threat to the independence of the lead auditor existed with the review auditor, but these were not identified and considered in their appointment.

What some auditors did better

- **Evaluated past professional relationships between the audit team and officeholder who was an ex-partner:** In one example, an auditor provided us with evidence of how they considered their ties to the ex-partner. A documented discussion with assurance and independence leaders outlined the relationships between the ex-partner and the audit team, the real or perceived impacts on independence from potential familiarity risk, and associated safeguards.
- **Guidance on 'close relationships':** Some audit firms provided guidance or examples in their policies and audit workpapers on what a 'close personal relationship' is – for example, routine leisure or social activities unconnected to the auditor-client relationship, intimacy, cohabitation, frequent entertainment or non-business overnight trips. This prompts auditors to consider relationships they may otherwise not disclose.

CASE STUDY: AN EX-PARTNER, WHO WAS FORMERLY A CLIENT'S LEAD AUDITOR, ON THE BOARD OF THE CLIENT

An ex-partner of a large audit firm joined the board of a client after having served as its lead auditor three years prior. They began as a member of the audit committee and became its chair in the following financial year.

The audit firm's documentation included a series of prompts to consider potential independence threats, such as certain relationships with the clients or officeholders. Despite this, we did not see meaningful evaluation of the potential independence threats relating to relationships with the client or officeholder. Audit documentation recorded that the required waiting periods were met before the ex-partner joined the client, in compliance with legislative requirements. The ex-partner's role as chair of the audit committee was identified but not evaluated in audit documentation.

We did not see the following facts considered in the audit documentation:

- The current lead auditor previously supervised the ex-partner while both were at the audit firm. They had both also worked together on some of the same audits in the same office and had ad hoc social interactions since the ex-partner joined the client.
- The review auditor also had ties to the ex-partner, having worked on some of the same audits, including for the client, though they worked in different offices.
- The ex-partner's membership of the audit committee (prior to becoming chair).
- The ex-partner had an ongoing alumnus relationship with the firm.

In their written response to our queries, the lead auditor stated that the appointment of a review auditor, who was based in a different state and office to the auditor and ex-partner, was a safeguard to protect independence. However, this was not reflected in the audit documentation which instead suggested that the review auditor was appointed due to the client's status as a public interest entity.

Subsequently, a new review auditor was appointed (unrelated to ASIC's review). This new review auditor also had a relationship with the ex-partner, in that they had been the ex-partner's performance manager, worked on several audits with the ex-partner in the same office, and had ad hoc social interactions since the ex-partner joined the client. This may reduce the efficacy of the safeguard that the lead auditor had cited in their written response. We did not see evidence that the new review auditor identified or meaningfully evaluated their ties to the ex-partner and the potential impact on their independence.

2d: Multiple areas giving rise to potential independence threats

There may be instances where potential threats to independence may not individually be significant but may give rise to a conflict of interest situation in aggregate.

Our review indicated that some auditors who had exhibited various combinations of the potential threats discussed in sections 2a-2c (pages 20 to 27) above were unable to show how they considered potential threats to independence cumulatively.

The general approach taken by auditors

Failure to consider potential individual threats cumulatively

Despite policies and procedures referencing the APES 110 requirement to consider multiple threats collectively, where auditors did consider issues as potential independence threats, they did so in isolation, rather than considering their actual or perceived combined effect. A contributing reason was the fact that audit workpapers did not require auditors to evaluate the collective facts and circumstances that could, either in mind or appearance, impair the objectivity of the audit team.

CASE STUDY: MULTIPLE POTENTIAL THREATS TO INDEPENDENCE NOT ASSESSED COLLECTIVELY

An auditor from a large audit firm took part in the audit of a large proprietary company, with the following facts and circumstances:

- Fees from non-audit services exceeded audit services for one year with a non-audit to audit fee ratio of 1.33:1. The non-audit service related to developing and implementing a reporting framework for forecasting and planning processes.
- The auditor had been a member of the audit team of the client for 18 years. This included 5 years as lead auditor and 13 years as a member of the audit team in a non-key audit partner role.
- An ex-partner of the audit firm was the audit client's company secretary and chief financial officer.

These factors were considered in audit documentation to various degrees, but there was no collective assessment by the auditor of the cumulative effect of these threats. This is despite the firm's policy reflecting the APES 110 requirement for these threats to be evaluated in aggregate.

Finding 3: Failures to proactively report to ASIC

Auditors are required to report conflict of interest situations and circumstances involving relevant relationships if they are aware of it and it is ongoing after seven days. This is as part of an auditor's independence obligations under s324CA–CC and s324CE-CG of the Corporations Act.

In addition, auditors are required to notify ASIC within 28 days of becoming aware of circumstances that give them reasonable grounds to suspect a contravention of the Corporations Act under s311.

None of those auditors in the review who we consider likely breached their obligations reported these breaches proactively to ASIC.

What we found

Many auditors did not appear to take sufficient steps to identify potential breaches of their independence requirements, despite being called on by ASIC to do so in our letter to registered company auditors on 30 October 2024.

The findings of our review indicated that at least 15 auditors had potentially breached their independence obligations, making up almost one third of the 48 auditors in our review. **None of those auditors proactively reported to ASIC before ASIC made inquiries. A small number later submitted reports.**

The lack of proactive reporting indicates some auditors may not have:

- been fully engaged with reporting and notification obligations
- performed ongoing monitoring of compliance with independence requirements or had adequate systems to detect breaches

Of the broader auditor population that were not subject to our review, only **three auditors proactively submitted reports** to ASIC between our prompt in October 2024 and 31 August 2025.

ASIC expects all auditors, regardless of size of firm, to have mechanisms in place to identify and report ongoing conflicts of interest situations, relevant relationships and suspected contraventions to ASIC proactively and in a timely manner, in line with their obligations.

ASIC has publicly reinforced the importance of these obligations. In addition, RG 34 was re-issued to simplify and consolidate existing guidance on auditor reporting requirements, including examples of what must be reported.

Appendix 1: Methodology

Call to action for registered company auditors

On 30 October 2024, ASIC emailed approximately 2,900 registered company auditors advising them that we were commencing our surveillance and calling on them to proactively self-identify and self-report any non-compliance with their independence and conflicts of interest obligations.

Targeted, data-driven and high-volume engagement with auditors

Using a combination of internal and public data, ASIC developed a model to generate alerts to identify auditors and audits of company financial statements where:

- Income from non-audit services exceeded audit services for one or more years
- Where a lead or review auditor has been auditing a listed client for six or more successive years, without a two-year break
- When an auditor has been involved in the audit of a client for 10 or more years
- Where an auditor has been involved in the audit of a client that they have been a current or previous officeholder of
- Where an auditor has been involved in the audit of a client that has an officeholder who was from the same audit firm as the auditor (including where they were also previously auditing the client).

The output from this risk model helped us prioritise 123 client audits, conducted by 109 auditors. We conducted a high-level assessment of these to consider which most warranted further review. We ultimately selected 48 auditors for a review of how they met their independence and conflicts of interest obligations in respect of 53 clients. The auditors were either individual auditors or came from 19 audit firms. The findings set out in this report relate to this population.

The findings in this review therefore focus on select audits from 48 auditors who were flagged for being at a higher risk of non-compliance with independence obligations based on the available data. The review does not provide a representative sample of the audit industry.

However, we consider that all auditors and audit firms – whether they were included in the review or not – should consider the findings in relation to their own practice and make improvements in line with the calls to action where necessary.

Review of written statements, workpapers and policies and procedures

We issued notices to 48 registered company auditors in respect to the audits of 53 clients. Where they did not practice as an individual auditor, we also issued notices to the audit firm. These notices required written statements in response to questions about how they complied with their independence obligations and the production of relevant workpapers, policies and procedures that applied at the time of the audit.

The findings in our report are based largely on a desktop review of this material, with meetings conducted with large audit firms to understand their practices, and policies, procedures and systems.

While the review did not include a full review of audit firms' systems of quality management and compliance with ASQM 1 or ASA 220, where necessary and appropriate we make observations on how

policies, procedures and systems supported compliance, as well as the oversight arrangements in place. These observations relate to the arrangements in place at the time of the audit.

In conducting our review, we relied on the Corporations Act, and similarly used APES 110 as a reference tool, as were in force at the time of the audit.

The scope of the review did not include an assessment of the quality of the audits conducted.

Appendix 2: Audit firms involved in our review

- BDO Audit Pty Ltd
- BDO Audit (WA) Pty Ltd
- Connect National Audit Pty Ltd
- Deloitte Touche Tohmatsu
- Ernst & Young
- Grant Thornton Audit Pty Ltd
- Hall Chadwick (NSW)
- Hall Chadwick WA Audit Pty Ltd
- Kelly Partners (Sydney) Audit Partnership
- KPMG Australia
- Nexia Perth Audit Services Pty Ltd
- Pitcher Partners
- PKF Melbourne Audit & Assurance Pty Ltd
- PricewaterhouseCoopers
- RSM Australia Partners
- Stantons International Audit and Consulting Pty Ltd
- Trood Pratt Audit & Assurance Services Pty Ltd
- William Buck (QLD) Pty Ltd
- William Buck Audit (WA) Pty Ltd

The review also included individual auditors.

Key terms and related information

Key terms

APES 110	Refers to the APES 110 Code of Ethics for Professional Accountants (including Independence Standards). Auditing Standard ASA 102 requires auditors and audit firms to have regard to applicable requirements of APES 110, which are to be taken into account when determining whether relevant ethical requirements referred to in paragraph 6 of the auditing standard are met.
ASIC	Australian Securities and Investments Commission.
audit	An audit carried out by a registered company auditor of a company's financial report as required and prepared under Chapter 2M of the Corporations Act 2001.
auditor	A registered company auditor performing audits as an individual auditor or as a representative of the audit firm.
audit documentation	The record of audit procedures performed, relevant audit evidence obtained and conclusions the auditor reached. Terms such as "workpapers" are also sometimes used.
audit firm	An audit partnership or authorised audit company that is appointed to audit a client in line with s324AA-s324AD of the Corporations Act 2001.
client	A company that must have their financial report audited in accordance with Division 3, Part 2M.3 of the Corporations Act 2001 and obtain an auditor's report.
conflict of interest situation	Under s324CD of the Corporations Act 2001, a conflict of interest situation exists in relation to an audited body at a particular time if, because of circumstances that exist at that time: › the auditor, or a professional member of the audit team, is not capable of exercising objective and impartial judgement in relation to the conduct of the audit of the audited body, or › a reasonable person, with full knowledge of all relevant facts and circumstances, would conclude that the auditor, or a professional member of the audit team, is not capable of exercising objective and impartial judgement in relation to the conduct of the audit of the audited body. In determining this, auditors should have regard to past, current and future relationships between the auditor, the audit firm and the audited body.

Corporations Act	*Corporations Act 2001*, including regulations made for the purposes of that Act.
familiarity threat	The threat that a long or close relationship with a client leads to being too sympathetic to their interests or accepting of their work (APES 110, paragraph 120.6 A3(d)).
general requirements of independence	Refers to the provisions in Subdivision A of Division 3 of Part 2M.4 of the Corporations Act which require all reasonable steps to be taken to ensure audit activity does not continue in conflict of interest situations, and to notify ASIC if a conflict continues within seven days of becoming aware of it.
independence in appearance	The auditor being seen to be independent, by a reasonable person, with full knowledge of all relevant facts and circumstances.
independence of mind	The auditor's ability to form an objective and impartial opinion of financial statements, free from conflict of interest, bias or undue influence.
intimidation threat	The threat that there is deterrence from acting objectively because of actual or perceived pressures, including attempts to exercise undue influence (APES 110, paragraph 120.6 A3(e)).
large audit firm	Large firms with the largest aggregate market capitalisation. These firms may operate through national partnerships, an authorised audit company or a national network of firms. In Australia, these are the BDO firms in Australia, Deloitte Touche Tohmatsu, Ernst & Young, Grant Thornton Audit Pty Ltd, KPMG Australia and PricewaterhouseCoopers.
lead auditor	The registered company auditor who is primarily responsible to the audit firm for the conduct of the audit, per s324AF(1) of the *Corporations Act 2001*.
officer/officeholder	Takes the meaning of those referred to under s9AD of the Corporations Act 2001, which includes a director or secretary of the client.
public interest entity	Per paragraph R400.22 in APES 110, a public interest entity is: › a publicly traded entity › an entity one of whose main functions is to take deposits from the public › an entity one of whose main functions is to provide insurance to the public, or › an entity specified as such by law, regulation or professional standards to meet the purposes of paragraph 400.15 (where there is significant public interest in the financial condition of the entity).

review auditor	The registered company auditor who is primarily responsible to the individual auditor or the audit firm for reviewing the conduct of the audit, per s324AF(2) of the *Corporations Act 2001*.
safeguard	Actions taken, individually or in combination, that effectively reduce threats to independence to an acceptable level. (APES 110, paragraph 120.10 A2).
self-interest threat	The threat that interests inappropriately influence an auditor's judgement or behaviour (APES 110, paragraph 120.6 A3(a)).
self-review threat	The threat that the results of previous judgement made, or activity performed by auditor or another individual at their firm, are not appropriately evaluated (APES 110, paragraph 120.6 A3(b)).
small to medium sized audit firm	Firms, excluding the large audit firms defined above, that may operate through national partnerships, an authorised audit company or a national network of firms.
workpapers	See: 'audit documentation' definition. Terms may be used interchangeably.

Related information

Legislation

Corporations Act 2001

Auditing and Ethical standards

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*

ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*

ASA 220 *Quality Management for an Audit of a Financial Report and Other Historical Financial Information*

APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*

ASIC documents

RG 34 *Auditor's obligations: Reporting to ASIC*

RG 187 *Auditor rotation*

Media releases

25-079MR *ASIC announces financial reporting and audit focus areas for FY 2025–26* (19 May 2025)

25-195MR *ASIC accepts cancellation of company auditor registration for independence failures* (5 September 2025)

25-221MR *Nexia Perth Audit pays penalty because of alleged prohibited non-assurance services provided by firm* (1 October 2025)

25-223MR *ASIC accepts three court enforceable undertakings for auditor rotation failures at Hall Chadwick (NSW)* (2 October 2025).