HESTA consultation submission

Regulation of accounting, auditing and consulting firms in Australia

August 2026

HESTA

Super with impact

About HESTA

HESTA is a profit-to-member industry super fund investing more than $106 billion[1] on behalf of more than one million members, who work predominantly in the health and community services sector. Our members tend to have lower than average account balances, higher levels of part time and casual work and are more likely to retire early to care for others. The typical HESTA member is female, 42 years old and earns $64,000 a year.

HESTA invests in and for people who make our world better. We use our expertise and influence to deliver strong, long-term returns while accelerating our contribution to a more sustainable world. This is part of Super with impact™ — our commitment to more than one million members who trust us to grow and protect their retirement savings.

Introduction

HESTA welcomes the opportunity to respond to Treasury's options paper on the regulation of accounting, auditing and consulting firms in Australia. As Treasury's paper recognises, securityholders in widely held entities are generally separate from management and rely on external reporting. As a long-term asset owner, we read, rely on and act upon audit reports as a routine part of how we allocate capital. In addition to our experience of being a primary user of audit reports, our views in this submission were also informed by discussions with our investment partners, service providers, governance experts, as well as asset owner peers across Australia, the United Kingdom (UK) and the European Union (EU). Through these discussions, we heard directly from those who work under the reformed UK and EU audit regimes and learned where reforms have delivered strengthened industry practice and where further opportunities remain.

Executive Summary

The integrity of financial reporting and the audits that verify them, are an important factor in safeguarding the retirement savings of HESTA members.

[1] As at 15 July 2026.

HESTA has assessed the options in the consultation paper from our perspective as a long-term asset owner and a user of audit reports. Investors are a primary user of the audit, and it is investors who bear the consequences where audit fails to identify material key findings. Our assessment of each option is focused on whether the change would contribute to improved audit quality and strengthen the governance and accountability of audit firms in practice. Our views have been informed by our own experience of relying on audit reports and through discussions with our investment partners, service providers, governance experts and asset owner peers in Australia, UK and the EU.

We support Option 4 (mandating the frequency of audit reviews, increasing surveillance and publishing findings). We believe an enhanced surveillance program, accompanied by findings disclosure that is substantive, comparable across firms and focused on indicators of audit quality in addition to compliance, would materially enhance investors' ability to assess potential audit quality.

We also support Options 6A, 6B and 6C (disclosure of audit tenure, periodic tendering, and mandatory rotation of the audit firm). We believe these measures would add a structural layer of governance protection over a commercial relationship that grows more valuable through time, and would provide investors information about audit tenure that is not presently available to them.

Australia's superannuation system is projected to become the second largest pool of pension assets globally in the early 2030s.[2] As it grows, so does the exposure of our members' retirement savings to the quality of financial reporting in our home market. We believe that scale warrants additional governance protection that these proposed reforms could provide.

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[2] https://smcaustralia.com/media/australians-super-savings-on-track-to-become-second-largest-globally-by-the-early-2030s/

HESTA's recommendations:

1. Reform that is focused on enhancing audit quality and the governance of audit firms will strengthen the reliability of financial reporting and promote investor confidence.
2. An enhanced surveillance program accompanied by greater transparency of the program findings, can contribute to strong audit quality and promote investor confidence in financial reporting (option 4).
3. Greater transparency over audit tenure, accompanied by periodic tendering and mandatory rotation of the audit firm, can support auditor independence and stronger governance of the audit process, and promote investor confidence in financial reporting (options 6a, 6b, 6c).

Recommendation 1: Reform that is focused on improving audit quality and the governance of audit firms will strengthen the reliability of financial reporting and promote investor confidence.

Investors are a primary user of the audit, and it is investors who bear the consequences where audit fails to identify material key findings. The value of an audit to investors is determined by the strength of the process and the audit quality. Therefore, the lens we apply to any proposed reform is whether it can deliver improved audit quality and strengthen the governance, oversight and accountability of audit firms in practice.

We encourage Treasury to apply this lens to each of the options in this paper. We care about the outcomes reform can achieve and therefore support measures that can deliver improved audit quality and strong governance. The balance of our submission sets out the options where we believe the connection and evidence is clearest.

Recommendation 2: An enhanced surveillance program accompanied by greater transparency of the program findings can contribute to strong audit quality and promote investor confidence in financial reporting.

We believe ASIC's role within the broader financial regulatory system means it is well placed to manage the audit firm surveillance program. Together, effective audit surveillance including inspection reviews and greater transparency of the program findings can support strong audit quality and independence and promote investor confidence in financial reporting.

HESTA supports Option 4, to mandate the frequency of audit reviews, increase the level of surveillance and publish findings. We support increased audit surveillance from the regulator including an appropriate mix of periodic based reviews and risk-based reviews, with the largest firms subject to inspection review at regular intervals to ensure consistent scrutiny of those auditing Australia's largest companies. Similar approaches exist in other jurisdictions, where mandated review frequency scales with firm size to focus regulatory resources where the risks are most material. For example, in the UK, the Financial Reporting Council inspects its largest Public Interest Entity auditors annually.

Further, as investors we would benefit from published summaries of reviews of audit firms. For this to be of value to investors, we encourage ASIC to consider how future disclosure can be comparable across audit firms and provide indicators of audit quality in addition to compliance. This approach would align with the findings of UK's 2018 Kingman Review of the UK Financial Reporting Council (UK FRC), which recommended that individual audit quality inspection reports be published in full. We believe disclosure of this nature could materially enhance investor's ability to assess the performance of audits and to support engagement with portfolio companies. In addition, greater public disclosure may contribute to incentivising strong audit quality, governance and conduct within audit firms.

Recommendation 3: Greater transparency over audit tenure, accompanied by periodic tendering and mandatory rotation of the audit firm, can support auditor independence and stronger governance of the audit process, and promote investor confidence in financial reporting.

HESTA supports Option 6A, introducing additional company reporting obligations relating to audit tenure. Investors don't currently have access to consistent disclosure of how long an audit firm and lead auditor have been in place at a company, or when a tender was last conducted. This is material to company value as auditor independence and strong governance over the audit process are contributors to audit quality. We support disclosure including:

- Audit firm name and commencement date
- Lead auditor name and commencement date
- Date of most recent audit tender

HESTA supports Option 6B, to require reporting entities to periodically tender their external audit engagement. Several of the investors and governance experts we engaged who operate under the UK and EU regimes told us that the requirement to go to market leads the audit committee to actively assess the entity's audit needs rather than reappoint the incumbent by default, and that re-tendering has brought audit committees and their oversight of the auditor into sharper focus. We understand it has become market practice in the UK for companies to change auditors at the tender point rather than waiting until a rotation requirement compels it, which suggests that the measure supports real change rather than operating as a formality. We also heard through our discussions that audit committees which have been through the tender process value the independence and challenge a new firm brings once initial transition issues are resolved, and that companies have not raised the resourcing or cost of tendering as a significant concern with their investors.

HESTA supports Option 6C, to require rotation of the audit firm after a maximum period, operating alongside periodic tendering as in the UK and the EU. We believe the strongest case for a hard limit on tenure lies in the incentives created by long audit engagements. The current framework relies on audit firms, partners and company audit committees to manage a commercial relationship that grows more valuable to the audit firm over time. Capping tenure limits the total value of an audit contract over its life, which introduces a structural layer of governance protection. Australia's superannuation system is projected to become the second largest pool of pension assets globally in the early 2030s.[3] As it grows, so does the exposure of our members' retirement savings to the quality of financial reporting in our home market. We believe that scale warrants additional governance protection that these proposed reforms could provide.

Other Considerations

This consultation has an important role in supporting the strength of Australia's financial reporting and audit system, and as a primary user of audit reports, we welcome the opportunity for investors to provide input. We recommend periodic review of any reforms adopted to assess implementation and effectiveness and identify further opportunities to strengthen audit quality and confidence in the market.

We also support changes being implemented in a manner that allows reporting entities and audit firms adequate time to adjust and plan appropriately, with support provided where required. We encourage Treasury to phase in the reforms rather than commence them simultaneously. We also recognise that entities may face circumstances in which compliance with a tendering or rotation requirement may not be practicable for a period. We would support a mechanism allowing ASIC to grant a limited extension in exceptional circumstances where it is satisfied that doing so is in the interests of the entity's shareholders.

Finally, HESTA understands from our discussions with international market participants that the issue of audit firm market concentration has not been fully resolved in other jurisdictions through the introduction of mandatory tendering and rotation requirements. For example, changes to the UK regime have not meaningfully shifted market concentration. Therefore, we encourage Treasury to continue to focus on this risk, monitor developments

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[3] https://smcaustralia.com/media/australians-super-savings-on-track-to-become-second-largest-globally-by-the-early-2030s/

internationally and seek to develop options that increase choice in the Australian audit market. Addressing this market concentration would support the ability for reporting entity to meet potential tendering and rotation requirements as referenced in this paper.

HESTA welcomes the opportunity to discuss our submission in greater detail.

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