



Centre for
International
Corporate Tax
Accountability
and Research



Committee Secretary
Parliamentary Joint Committee on
Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600
Email: corporations.joint@aph.gov.au

Tax Justice Network Australia and Centre for International Corporate Tax Accountability & Research Joint Supplementary Submission on Inquiry into Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry 29 January 2024

The Tax Justice Network Australia (TJN-Aus) and the Centre for International Corporate Tax Accountability and Research (CICTAR) welcome this opportunity to make a joint supplementary submission to the inquiry into the “Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry.”

The submission responds to the questions put to the submitting bodies at the hearing held on 21 November 2023.

1. How do you propose addressing the conflicts of interest arising from major accountancy firms offering both assurance services and tax planning advice within a single profit-seeking firm?

We would support Professor Graeme Samuel’s proposal that where a firm provides advisory services and auditing, it should be prohibited from being able to audit an entity that it has provided other advisory services to. That would include where advisory services have been provided by a related international partnership. For example, if PwC Luxembourg provided tax advice to a corporation, then PwC Australia should not be permitted to audit the corporation. As Professor Samuel points out, even knowledge that another part of the same firm had provided advice to an entity will create a conflict of interest that, even subconsciously, will impact on the rigour and integrity of the audit.

The current complex rules allow firms to provide certain types of non-auditing services, including tax advice, under certain conditions to audited clients.¹

Mazzucato and Collington point out that auditing has often been low profit for the big six as a way to build up the selling of their other consulting and management services. They have

¹ Edmund Tadros, “Ban consulting-audit conflict: Samuel”, *The Australian Financial Review*, 21 December 2023, 9.

pointed out that between 1982 and 1990, the share of revenue generated by auditing for the Big Six dropped from 62% to just under 50%.² They argued that:³

Although these companies continued to provide auditing, it was a low-margin activity and was offered largely because of the spin-off benefits that an audit could produce – namely:

An audit allowed an accounting firm to enter the client's business, and to discover how the client's various business systems operated. If the accounting firm tangentially detected aspects of the client's systems that could be improved, then there would be an opportunity for the selling of consulting services to fix the client's problems.

By the turn of the Millennium, auditing had declined further and now accounted for less than a third of the Big Six's fees. In large part, this was because of revenue from consulting in the companies has skyrocketed. From 1996 to 1998 alone, Ernst & Young's revenues from management consulting grew over 30 per cent, while its audit business grew by just 10 per cent.

Further, they argued the accounting and consultancy firms:⁴

were employing various strategies to 'cross-sell' their many services, using existing connections and claims to organisational knowledge. The former Arthur Anderson consultant Barbara Ley Toffler described the process of cross-selling as follows: "Typically, the auditor – the keeper of the sacrosanct relationship – would set-up the meeting with the client, and then would call as many consultants as he could to come and strut their stuff."

If the above is an accurate description of the role auditing plays as a gateway to more profitable activities, it is little wonder that the accounting and consultancy firms are strongly pushing the Committee to not make recommendations to limit their ability to provide consultancy services to corporations they are auditing.

Against these concerns, Fedyk *et al* (2023) found a positive effect of consulting employees on audit quality. Specifically, a one-standard-deviation increase in the share of consulting employees in an office results in a 2.7% point reduction in restatements. The effect was strongest when consulting employees had skills complementary to auditors, such as special industry, technical, and management skills. The effect increased with consulting employees' tenure with a firm, does not diminish over time, was present for both Big 4 and non-Big 4 firms, and was more pronounced for larger, more complex and more important audit clients.⁵ The authors postulated that the findings were explained by knowledge sharing between consulting and audit employees within accounting firms.⁶

In a review of the available literature, Fedyk *et al* reported some papers found evidence of a negative association between non-audit fees and audit quality, suggesting that independence concerns are valid when audit and non-audit services are provided to the same client. Other studies found that tax-related non-audit services positively affect audit quality. Finally, some studies document no association between the provision of non-audit services and audit quality.⁷

² Mariana Mazzucato and Rosie Collington, "The Big Con", (UK: Allen Lane, 2023) 62.

³ *Ibid.*, 63.

⁴ *Ibid.*, 63.

⁵ Anastassia Fedyk, James Hodson, Tatiana Fedyk and Natalya Khimich, "Do consulting services affect audit quality? Evidence from the workforce", January 2023, 1.

⁶ *Ibid.*, 6.

⁷ *Ibid.*, 7-8.

Even if Fedyk *et al* are correct that audit quality increases for firms with both consultancy and audit arms, Jones *et al* (2017) reported that the research literature showed that corporations purchasing non-audit services from their external audit firm engage in greater tax avoidance when the external audit firm specialises in tax advice.⁸ Research from 2014, using a compound measure of long-run effective tax rates found a positive association between tax aggressiveness and audit fees.⁹ The conclusion from the literature is that accounting experts believe that auditor-provided tax planning services are an appropriate means of reducing corporate income taxes.¹⁰ Further, a research paper from 2015 found the more tax services a company receives from its auditor, the lower its effective tax rate over the long-term.¹¹

Data analysis by Jones *et al* found that the extent to which a multinational enterprise utilises tax haven located subsidiaries is 1.12 to 1.14 times higher for those corporations that utilise a Big 4 accounting firm compared with multinational enterprises that do not engage the services of the Big 4.¹²

2. In advocating for regulatory changes, what specific measures would you recommend to effectively separate auditing services from other functions within accountancy firms?

The *Corporations Act 2001* should be amended to restrict the use of the same firm to provide audit and non-audit services to Australian corporations. Corporations should also be required to have regular rotations of audit firms. Using the same audit firm for an extended period could result in an overly friendly relationship where certain audit issues may be overlooked. These reforms would bring Australian into greater alignment with similar regulations in both the US and the UK.

3. Regarding the opacity of operations, what specific steps should be taken to enhance transparency in the financial dealings of major accountancy firms operating in multiple jurisdictions?

It is strongly recommended that major accounting firms, many of which are structured as partnerships, should be required to publish annual financial statements, including specific disclosure of related party transactions. The ATO has created a voluntary framework called the Large Market Tax Advisor Principles, the principles should be reviewed, and compliance should transition from voluntary to mandatory for all large accounting firms.

4. How do you envision the role of a reformed regulatory framework for financial service professionals in ensuring public interest, efficiency, and high standards?

Professors Adam Leaver and Richard Murphy have suggested reforms are needed to clarify both the purpose of accounting and auditing.¹³ They have suggested that the purpose for accounting should be:

The purpose of accounting is to provide the stakeholders of a reporting entity with financial statements that include relevant, reliable and sufficient information which allow them to make informed decisions.

⁸ Chris Jones, Yama Temouri and Alex Cobham, "Tax haven networks and the role of the Big 4 accountancy firms", *Journal of World Business* (2017), 4.

⁹ *Ibid.*, 4.

¹⁰ *Ibid.*, 4.

¹¹ *Ibid.*, 4.

¹² *Ibid.*, 10.

¹³ Richard Murphy, "Audit needs a revolution", *AccountingWeb*, 6 August 2021, <https://www.accountingweb.co.uk/community/blogs/richardmurphy/audit-needs-a-revolution>

The purpose for auditing should then be formulated as:

The purpose of the audit of a public interest entity (PIE) is to firstly report on whether the financial statements on which the auditor offers an opinion deliver relevant, reliable and sufficient information to users of those statements and to secondly, where there is a shortcoming, remedy that shortcoming or, if it is not possible to do so, to report why that is and what the consequences are.

Professor Murphy has argued that audit failing is not the cause of increased risk of corporate failing. He has argued that the problem is that the auditor has been reduced to confirming whether or not the form and content as prescribed are complied with by the reporting entity that has engaged the auditor.¹⁴

Professor Murphy has developed his concerns further to argue that there is a problem with accounting rules permitting failing companies to present accounts that make them look like going concerns when they are not. The problem is not that auditors can't spot audit problems.¹⁵

He has argued that the International Auditing and Assurance Standards Board (IAASB) standards demand that audit firms sign off on misleading accounts as true and fair when they are not. Murphy stated that compliance with the demands of an accounting framework is all that is deemed to be necessary for a true and fair view to be shown by a set of accounts, however deficient those standards might be.¹⁶

He provided the example of companies with massive deficits on cumulative reserves on their consolidated balance sheets (which might indicate real cause for audit qualification regarding the relevance of the going concern basis). Nonetheless, under rules issued by the Institute of Chartered Accountants of England and Wales, permitted the corporation to continue to pay dividends out of group parent companies that refuse to recognise the required write down in asset values of subsidiaries that those losses appear to demand. Audit standards say if the rules are followed the accounts are true and fair. Then when the hollowed-out company fails (which is what happened in the case of Carillion) the auditors are sued.¹⁷ Murphy has argued that the unanticipated failures of corporations arise from failings inside the International Financial Reporting Standards and not the audit process.¹⁸

However, in the Carillion case, the UK Financial Reporting Council launched an investigation into KPMG's audits of Carillion, and subjected it to a disciplinary tribunal, alleging that the firm "provided false or misleading information in connection with its routine quality inspections of the audits of Carillion for the financial year ending December 2016." Carillion had collapsed with £7 billion in debts. In July 2022, the Financial Reporting Council announced that KPMG had been fined £14.4 million in relation to its audits of Carillion and another corporation Regeneris. Four auditors were also fined and excluded from membership of the Institute of Chartered Accountants in England and Wales for between seven and ten years.¹⁹ A tribunal upheld allegations that KPMG and former Carillion staff created false meeting minutes and retroactively edited spreadsheets, before sharing those documents with the Financial Reporting Council.²⁰

¹⁴ Richard Murphy, "The future of auditing", *International Journal of Auditing*, **26**, (2022), 44-45.

¹⁵ Richard Murphy, "Audit reform: Too little, too late", *AccountingWeb*, 14 April 2022.

¹⁶ *Ibid.*

¹⁷ *Ibid.*

¹⁸ Richard Murphy, "The future of auditing", *International Journal of Auditing*, **26**, (2022), 45.

¹⁹ Mariana Mazzucato and Rosie Collington, "The Big Con", (UK: Allen Lane, 2023) 100.

²⁰ Kalyeena Makortoff, "KPMG settles £1.3bn lawsuit from Carillion creditors over alleged negligence", *The Guardian*, 18 February 2023.

In February 2022, the Insolvency Service, acting as liquidators of Carillion, sued KPMG for £1.3 billion, contending the auditor “missed red flags that the UK outsourcer’s accounts were misstated and that the group was insolvent more than two years before it collapsed.” The partner responsible for the audit was alleged to have “failed to respect the proper boundaries of the auditor-client relationship.” In a statement to *The Financial Times*, KPMG said, “We believe this claim is without merit and we will robustly defend the case. Responsibility for the failure of Carillion lies solely with the company’s board and management, who set the strategy and ran the business.”²¹

KPMG later changed its tune. KPMG settled the lawsuit for an undisclosed amount in February 2023.²² In October 2023, the UK head of KPMG, Jon Holt, said he “simply cannot defend” the firm’s auditing work on Carillion. He said: “It is clear to me that our audit work on Carillion was very bad, over an extended period. In many areas, some of our former partners and employees simply didn’t do their job properly.” KPMG was fined a further £21 million by the UK Financial Reporting Council. The Council found that KPMG had failed to adhere to “the most basic and fundamental audit concepts”, as it uncovered an “unusually large number of breaches.” KPMG also had to pay £5.3 million in legal costs. The fine had been reduced from £30 million due to KPMG’s cooperation.²³

Murphy has pointed out that the International Financial Reporting Standards conceptual framework states:²⁴

The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity.

He argued that the result is that the needs of just one stakeholder group in society are met by the existing accounting framework used for public interest entities. The remaining stakeholders, including trading partners, employees, regulators, tax authorities, and civil society, can be ignored.

We also believe that auditors should be required to play a greater role in fraud detection. A consultation was conducted by the UK Department for Business and Trade. Paul Stephenson, managing partner UK auditing and assurance at Deloitte said, “We recognise that auditors have an important responsibility in identifying material fraud.”²⁵ Further, “we support the reinforcement and clarification of the responsibilities of both directors and auditors in respect to the detection of fraud.”²⁶

The International Auditing and Assurance Standards Board (IAASB) is currently working on a project to revise ISA 240, The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements. In revising this standard, the IAASB aims to:²⁷

- Clarify the role and responsibilities of the auditor for fraud in an audit of financial statements.

²¹ Mariana Mazzucato and Rosie Collington, “The Big Con”, (UK: Allen Lane, 2023) 100-101.

²² Kalyeena Makortoff, “KPMG settles £1.3bn lawsuit from Carillion creditors over alleged negligence”, *The Guardian*, 18 February 2023.

²³ Julia Kollwe and Kalyeena Makortoff, “KPMG boss says Carillion auditing was ‘very bad’ as firm is fined record £21m”, *The Guardian*, 13 October 2023.

²⁴ Richard Murphy, “The future of auditing”, *International Journal of Auditing*, **26**, (2022), 45.

²⁵ Lawrie Holmes, “Battle lines drawn over auditors’ role in combating fraud”, *Accountancy Age*, 31 August 2023.

²⁶ *Ibid.*

²⁷ <https://www.iaasb.org/consultations-projects/fraud>

- Promote consistent behaviour and facilitate effective responses to identified risks of material misstatement due to fraud through strengthening ISA 240 to establish more robust requirements and enhance and clarify application material where necessary.
- Enhance ISA 240 to reinforce the importance, throughout the audit, of the appropriate exercise of professional scepticism in fraud-related audit procedures.
- Enhance transparency on fraud-related procedures where appropriate, including strengthening communications with those charged with governance (TCWG) and the reporting requirements in ISA 240 and other relevant ISAs.

The large accountancy firms have been trying to thwart efforts by the US PCAOB to take more responsibility for tackling fraud at the corporations they audit.²⁸ The firms were trying to sign up clients to oppose the US plan, which would widen auditors' responsibility to scrutinise whether a corporation is complying with laws and regulations and communicate concerns to its board. The firms were warning clients that audit fees would rise sharply if the changes were passed through.²⁹

5. Could you provide examples of successful regulatory frameworks from other industries that might serve as models for the financial services sector?

As the Committee has already identified, the performance of the US PCAOB appears to be better than many other regulators. In August 2023, PCAOB released a report that found approximately 40% of the audits it inspected in 2022 had deficiencies that the audit firm did not have sufficient evidence to support the opinion rendered on client's financial statements or financial reporting.³⁰ PCAOB raised concern that audit quality has been deteriorating in recent years. It stated that "the most significant increase" in flaws occurred within the global network firms, that include the Big 4. PCAOB found that 34% of audits in 2021 and 29% in 2020 had such deficiencies.³¹

Interestingly, the UK Financial Reporting Council also found that 29% of 103 audits reviewed in the 2020-2021 financial year required improvement or significant improvement. They raised specific concerns regarding KPMG's banking audits, which needed improvement for the third year running.³² They reported that the overall results were an improvement on the previous year.

PCAOB announced it would publish more information on audit firms' independence violations.³³

However, critics of PCAOB say that it has failed to be an effective regulator as audit quality is trending in the wrong direction.³⁴

²⁸ Lawrie Holmes, "Battle lines drawn over auditors' role in combating fraud", *Accountancy Age*, 31 August 2023; and David Kenner, "Accounting firms accused of 'operating with impunity' as regulator flags growing number of flawed audits", *International Consortium of Investigative Journalists*, 1 August 2023.

²⁹ Lawrie Holmes, "Battle lines drawn over auditors' role in combating fraud", *Accountancy Age*, 31 August 2023

³⁰ David Kenner, "Accounting firms accused of 'operating with impunity' as regulator flags growing number of flawed audits", *International Consortium of Investigative Journalists*, 1 August 2023.

³¹ *Ibid.*

³² UK Financial Reporting Council, "FRC Annual Audit Quality Inspection Results 2020/21", Media Release, 23 July 2021.

³³ David Kenner, "Accounting firms accused of 'operating with impunity' as regulator flags growing number of flawed audits", *International Consortium of Investigative Journalists*, 1 August 2023.

³⁴ *Ibid.*

6. In proposing a single overarching regulatory body for financial service professionals, how would you address the potential complexities and variations within different types of financial services?

Current regulatory bodies could have some autonomy within an overarching regulatory body for financial service professionals so that specific expertise on various areas of financial services could be maintained. However, a combined overarching entity could more easily share best practises, maintain higher standards and act as a more rigorous enforcer of such standards. There should be a regular evaluation of audit quality and concrete steps to ensure that standards are improving rather than deteriorating, as has seemingly been the case.

7. What mechanisms would you suggest to ensure that the regulatory system promotes high standards among financial service professionals effectively?

The submission by Professor Elise Bant is correct to argue there is limited value in punishing individuals inside a legal entity for criminal activity if that criminal activity was authorised from the top and part of the culture of the entity. One tactic we have seen successfully employed by regulators and law enforcement agencies has been to pursue minor offences at their disposal to disrupt the activities of the entity to drive change. While it might not be possible to make the case for the more serious illegal activity orchestrated by those in senior roles inside the entity, by a constant stream of prosecutions and penalties for minor offences that are easy to prove it can drive culture change. The change in culture comes from both the disruptive impact of the prosecutions and reputational damage, where those in control of the entity care about their reputation.

The challenge for a Government trying to change corporate culture is that much of the heavy lifting must be done from within the organisation itself, such as ‘tone from the top’ and effective and meaningful training and oversight programs. Governments are largely stuck on the outside, trying to provide incentives, both rewards and punishments, to drive the internal culture of the organisation. While laws can impose structures, training requirements, procedures, processes, standards, and reporting requirements, an organisation with criminal intent can often find ways to subvert them. However, imposing appropriate structures, procedures, processes, standards and reporting requirements is still likely to drive some change across an industry and therefore worth doing, even if a number of entities will only pay lip service to the requirements. Concern about culture change has been raised that:³⁵

The problem is that every organisation believes it has a strong culture of integrity and compliance. Mission Statements and Codes of Conduct are filled to the brim with all manner of cultural commitments. Experiences (and research), however, tells us that its not enough to demand a positive culture; complex organisations must take meaningful steps to drive that culture.

At a higher level, legislation can require systems to be in place to ensure particular outcomes. For example, occupational health and safety laws require employers to have in place systems and procedures that ensure a safe workplace, without specifying the exact measures needed for every industry and workplace.

We would suggest that an obvious response to the points made by Professor Blunt that when an entity’s prolonged behaviour suggests that the resulting criminal behaviour was intentional, then it should be made easy for regulators and law enforcement agencies to

³⁵ Jonathan Aronie and David Douglass, “Driving Cultural Change to Reduce Corporate Risk: Lessons Learned from the Field”, *The National Law Review*, 13 January 2022.

prosecute the entity and its relevant senior management for “recklessness” or “negligence” in relation to the offences involved.

The example that Professor Blunt uses of the facilitation of money laundering by Crown Casino raises the question of where AUSTRAC was while there were such obvious, prolonged flaws in Crown’s anti-money laundering systems. AUSTRAC has the responsibility to ensure that reporting entities have effective anti-money laundering systems. When there is a lack of an effective regulator, an entity will reasonably conclude that it can get away with its conduct and may even assume that its behaviour is acceptable to the authorities.

Larmande and Lesage analysed the impact of two enforcement mechanisms on audit effectiveness and audit efficiency, when the auditor’s professional judgement was at stake.³⁶ The first was regulatory oversight, represented by inspection by the US Public Company Accounting Oversight Board (PCAOB). The second enforcement mechanism was legal liability. They found that professional judgement was a double-edged sword. Used wisely, it enables efficient audit performance, but can also be used as an excuse to put in an insufficient effort, leading to an ineffective audit. Their research argued that regulatory oversight is better at enforcing audit effectiveness, while legal liability is better at inducing efficiency. Switching from a pure legal liability regime to a joint regime that includes both enforcement mechanisms is found to improve effectiveness, limit auditor’s professional judgement, and worsen efficiency.

They defined audit effectiveness as achieving the level of audit quality mandated by standards. Audit efficiency was defined as attaining a given level of audit quality at the minimum cost.

They argued that when the penalties for an audit that does not meet the required quality are too low, professional judgement is used by the auditor as an excuse to justify low effort. When the penalty is too high, the auditor adopts a conservative strategy whereby the auditor always chooses the generic technology despite knowing that a specific one is more efficient. Thus, they argue the penalty needs to be optimised.

Larmande and Lesage pointed out that before the creation of the PCAOB in 2002 in the US, auditor’s incentives to comply with auditing standards were mostly shaped by monitoring mechanisms contingent on client’s accounting failures, especially legal liability. A main characteristic of regulatory oversight by PCAOB, and a crucial difference from legal liability, is that it is non-contingent on clients’ accounting failures.

They argued that the probability of triggering legal liability is a rare event. Thus, regulatory oversight, being non-contingent on the client’s accounting failure, can be more frequent and better at tackling the issue of the auditor’s limited liability. For a given expected penalty, a higher probability of imposing it allows for a lower nominal penalty. Thus, a non-contingent monitoring mechanism such as regulatory oversight, is better at enforcing audit effectiveness than a contingent mechanism such as legal liability.³⁷

Concerns have been raised that information asymmetry between auditors and PCAOB may result in PCAOB assessing there is an audit deficiency when such a deficiency may not exist. The concern has been put forward as explaining the recurring deficiencies reported by

³⁶ Francois Larmande and Cédric Lesage, “Auditor’s professional judgement, audit efficiency and interplay between legal liability and regulatory oversight”, *Journal of Accounting and Public Policy* **42** (2023).

³⁷ *Ibid.*, 2.

PCAOB on fair value assessment, which has been called “fair-value measurement gap”, or on any other accounting estimates, such as allowance for loan losses.³⁸

Larmande and Lesage have noted that research suggests the impacts of PCAOB’s enforcement strategy cause auditors to place great importance on receiving clean inspection reports from PCAOB. PCAOB publishes the fines it issues. Even if the audit firms are not fined, published reports documenting the audit “deficiencies” are publicly exposed. Part I of the Inspection Report is publicly available on the PCAOB website. Additionally, Part II of the Inspection Report about the identified quality control weaknesses in the inspected audit firm remain confidential only as long as PCAOB is satisfied with the remediating actions taken by the audit firm within the next year. Otherwise, PCAOB makes Part II public. The public disclosures can impact the auditor’s business as some clients might choose not to renew their audit contract. Others may demand lower fees for following years. Additional observed impacts include higher staff turn-over, loss of partner compensation and reduced intra-firm promotional opportunities. While the inspector does not directly control these indirect costs, the tone of the report is likely to influence the level of these indirect impacts.³⁹

It has been argued that there is empirical evidence that auditors are investing resources to decrease the information asymmetry. For example, auditors devote considerable effort to document their audit procedures. Such a response is potentially detrimental to audit efficiency as passing a regulatory inspection means the auditor must use impression management strategies and “functionally stupid” work practices, such as excessive documentation and a decrease in critical thinking as a result of a “box ticking” approach to auditing.⁴⁰

Larmande and Lesage pointed out that a highly mandated audit effort decreases the auditors’ incentive to invest in more efficient technologies, which can hurt audit quality in the long run.⁴¹

8. How can governments and international governance institutions redefine their relationships with major accountancy firms to restore their original role as providers of public goods?

Governments and international governance institutions should cooperate to provide an annual review of the largest accounting firms which catalogues and documents any fines or penalties imposed in any jurisdiction. This global documentation with centralised reporting would provide strong incentives to improve standards and compliance. Governments can restrict future contracts with accounting firms if standards are not maintained and improved.

9. How might the proposed legislative changes impact the engagement of auditing or consulting firms in political processes, and what safeguards could be put in place to ensure compliance?

Accounting and consultancy firms that have or seek government contracts should be banned from making political contribution, both direct and indirect contributions. In addition, lobbying expenses must be required to be disclosed as a component of public financial statements.

Restrictions must also be put into place and enforced for politicians and senior public servants gaining employment with firms seeking or holding government contracts above a certain material value where the contracts held relate to portfolios the politician or public

³⁸ Ibid., 3.

³⁹ Ibid., 5.

⁴⁰ Ibid., 3.

⁴¹ Ibid., 3

servant worked in. Current restrictions do not appear to be effective and the revolving door between government and consulting firms in Australia continues to raise significant concerns. One recent and significant example of this are the allegations that former Australian Finance Minister Mathias Cormann, now the Secretary General of the OECD, had secret share deals with the former CEO of PwC Australia.⁴² The allegation is that the issuing of these shares could be perceived as payback for winning millions of dollars in federal government contracts.

10. Can you elaborate on the potential implications of regular rotations of audit firms for both private and public sectors, and what safeguards might be necessary to mitigate any unintended consequences?

Regular rotations of audit firms should be required and are recognised as good corporate governance practices. There are concerns about the trading of audit contracts amongst the large accounting firms and also issues about using the same firms on a global basis that may be auditing numerous subsidiaries in numerous jurisdictions. Having different audit firms within global corporate structures could provide greater scrutiny over the affairs and accounts of large multinational corporations. Most multinationals tend to use the same audit firm throughout the global business which may entail hundreds of subsidiaries. If national partnerships of the same auditing firms are truly independent then using a mix of different auditors should not be of concern.

11. Is there any other further advice you could give us about the way in which ASIC might deliver the necessary scrutiny to the sector?

ASIC should be required to review financial statements of companies and ensure basic compliance. Many financial statements are filed with clear errors and filers face no or very limited consequences for filing false or misleading statements in the rare situations that errors might be identified. As in other jurisdictions, including the UK and New Zealand, annual financial statements should be free and available for review by all stakeholders. Having more public scrutiny of financial statements should be a strong motivator to increase compliance. Providing free financial statements may require alternative funding sources for ASIC. However, the increased transparency would far outweigh any additional government expenditure that might be required.

12. If you have any thoughts about legislative change that might be necessary to provide sufficient engagement of auditing firms with the responsibilities that they currently hold under the partnership structure. I'd certainly be interested in that. With regard to that, if we were to implement any change, where would compliance be provided? What does the perception of being a regulator mean in terms of perception of capture, even if there is a strident declaration that they are an enforcement agency? Do we need a financial enforcement agency with what that language delivers into the marketplace, rather than the language of regulation?

As indicated above, if accounting firms are allowed to maintain partnership structures, at a minimum the partnerships should be required to file publicly available annual financial statements including details on related party transactions, and lobby expenses. While regulatory changes are required, greater transparency could also help drive corporate behavioral changes.

⁴² Anthony Klan, "Firm secretly owned by OECD boss given taxpayer millions", *The Klaxon*, 22 January 2024. <https://theklaxon.com.au/firm-secretly-owned-by-oecd-boss-given-taxpayer-millions/>

Dr Mark Zirnsak
Secretariat
Tax Justice Network Australia
c/- 29 College Crescent
Parkville, Victoria, 3052
Phone: 0409 166 915
Email: mark.zirnsak@victas.uca.org.au

Jason Ward
Principal Analyst
CICTAR
Phone: 0488 190 457
@JasonWardCICTAR
Email: jason.ward@cictar.org

Background on the Centre for International Corporate Tax Accountability & Research (CICTAR)

CICTAR is a global corporate tax research centre that produces information and analysis to untangle the corporate tax web. The Centre is a collective resource for workers and the wider public to understand how multinational tax policy and practice affects their daily lives. CICTAR's work supports public participation in the tax debate so that everybody can participate in decision-making that affects their communities.

For more information, visit the CICTAR website here: <https://cictar.org/>

Background on the Tax Justice Network and Tax Justice Network Australia

The Tax Justice Network (TJN) is an independent organisation launched in the British Houses of Parliament in March 2003. It is dedicated to high-level research, analysis and advocacy in the field of tax and regulation. TJN works to map, analyse and explain the role of taxation and the harmful impacts of tax evasion, tax avoidance, tax competition and tax havens. TJN's objective is to encourage reform at the global and national levels.

The Tax Justice Network believes our tax and financial systems are our most powerful tools for creating a just society that gives equal weight to the needs of everyone. But under pressure from corporate giants and the super-rich, our governments have programmed these systems to prioritise the wealthiest over everybody else, wiring financial secrecy and tax havens into the core of our global economy. This fuels inequality, fosters corruption and undermines democracy. We work to repair these injustices by inspiring and equipping people and governments to reprogram their tax and financial systems.

The Tax Justice Network Australia (TJN-Aus) is the Australian arm of TJN.

In Australia, the current members of TJN-Aus are:

- ActionAid Australia
- Aid/Watch
- Anglican Overseas Aid
- Australian Council for International Development (ACFID)
- Australian Council of Social Service (ACOSS)
- Australian Council of Trade Unions (ACTU)
- Australian Education Union (AEU)
- Australian Manufacturing Workers Union (AMWU)
- Australian Nursing & Midwifery Federation (ANMF)
- Australian Services Union (ASU)
- Australian Workers Union, Victorian Branch (AWU)
- Baptist World Aid
- Caritas Australia
- Centre for International Corporate Tax Accountability & Research (CICTAR)
- Community and Public Service Union (CPSU)
- Electrical Trades Union, Victorian Branch (ETU)
- Evatt Foundation
- Friends of the Earth (FoE)
- GetUp!
- Greenpeace Australia Pacific
- International Transport Workers Federation (ITF)
- Jubilee Australia
- Maritime Union of Australia (MUA)
- National Tertiary Education Union (NTEU)
- New South Wales Nurses and Midwives' Association (NSWMWA)
- Oaktree Foundation
- Oxfam Australia
- Publish What You Pay Australia
- Save Our Schools
- SEARCH Foundation
- SJ around the Bay
- TEAR Australia
- The Australia Institute
- Union Aid Abroad – APHEDA
- United Workers' Union (UWU)
- Uniting Church in Australia, Synod of Victoria and Tasmania
- UnitingWorld
- Victorian Trades Hall Council
- World Vision Australia