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Dear Senator Darmanin and Committee members,

**Submission in Opposition to the *Treasury Laws Amendment (Financial Reporting System Reform) Bill 2026***

Thank you for the opportunity to provide the Senate Economics Legislation Committee a submission on the *Treasury Laws Amendment (Financial Reporting System Reform) Bill 2026* (the Bill).

This submission raises serious concerns regarding the Bill. While the stated objective of improving flexibility and efficiency is acknowledged, the proposed reforms represent a material weakening of governance, independence, and public interest protections.

**Introduction**

This submission raises serious concerns regarding the *Treasury Laws Amendment (Financial Reporting System Reform) Bill 2026* (the Bill). These concerns are grounded in recent Parliamentary inquiries, ongoing investigations, and documented failures across the audit and consulting sector, which collectively demonstrate systemic weaknesses in Australia's regulatory framework.

The Bill moves further in this direction by consolidating oversight, thereby increasing, not reducing systemic risk.

**1. STRUCTURAL DEFECTS IN THE BILL**

**Elimination of Arm's Length Governance**

The most significant defect in the Bill is the removal of the arm's length relationship between standard setting and oversight functions.

Under the existing framework, the Financial Reporting Council (FRC) provides independent oversight of the Australian Accounting Standards Board (AASB) and the Auditing and Assurance Standards Board (AUASB). This separation is not incidental, it is foundational to ensuring transparency, integrity, and accountability. The FRC is established under Part 12 of the *Australian Securities and Investments Commission Act 2001* (Cth). The Act expressly prevents the FRC from directing technical standard setting, preserving independence.

The Bill collapses these distinct functions into a single entity, External Reporting Australia (ERA), governed by a single Council that, oversees standard setting, appoints decision makers, and exercises institutional power. This removes structural independence.

***This results in a system where there is no arm's length scrutiny, and where oversight becomes internal rather than independent.***

### **Concentration of Power and Erosion of Accountability**

The consolidation of multiple statutory bodies into a single entity represents a profound concentration of regulatory power.

Previously, responsibilities were distributed across independent bodies, each with defined roles and accountability mechanisms. The current reforms instead vests governance, operational control, standard setting authority, and performance oversight within a single governing Council.

**This concentration undermines accountability by removing independent checks and replacing them with self-regulation. The result is a system where the same body is effectively both decision maker and reviewer, eroding the credibility of the framework.**

### **Removal of Independent Audit Quality Oversight**

The Bill removes the explicit function of providing strategic policy advice on audit quality, previously performed by the FRC. This function is critical to safeguarding the integrity of financial reporting by independently assessing audit quality and advising government and stakeholders on systemic risks. Its removal creates a clear regulatory gap. While the Australian Securities and Investments Commission (ASIC) retains investigative and enforcement powers, it does not perform the same independent, system-wide policy oversight role.

**This represents a downgrading of audit governance, not an enhancement.**

### **Reliance on ASIC Despite Demonstrated Capacity Constraints**

The Bill implicitly relies on the ASIC to compensate for reduced independent oversight and assumes ASIC can absorb oversight functions. However, multiple reviews and inquiries into ASIC have identified limitations in enforcement capacity, resourcing constraints, and challenges in managing its already extensive regulatory remit. ASIC is fundamentally an enforcement body, not a dedicated independent policy authority for audit quality oversight. Expanding reliance on ASIC without structural reform or increased capacity risks regulatory gaps, delayed enforcement, and diminished system wide oversight.

**This is not a strengthening of governance, but a misallocation of responsibility to an already constrained regulator.**

### **Increased Ministerial Control**

The Bill significantly expands the role of the Minister, who is empowered to appoint all members of the governing Council, influence the composition of standard setting boards, and confer additional functions by legislative instrument.

**This level of control risks undermining the independence of standard setting processes, which should operate at a distance from political and executive influence.**

### **Structural Conflicts of Interest**

The Bill acknowledges the risk of conflicts of interest but fails to adequately address them. In a consolidated system individuals may oversee, influence, and evaluate related functions within the same entity, industry participants may be involved in governance structures

affecting their own regulatory environment, and conflicted members may still participate in decision making if permitted by others within the same body.

**This is particularly problematic in the absence of arm's length safeguards. Conflicts are not eliminated, they are internalised and normalised.**

Parliamentary inquiries have repeatedly identified conflicts of interest within multidisciplinary firms, lack of effective external oversight, and over reliance on self-regulation.

For example:

- The 2025 ASIC review found one third of auditors breached independence obligations, including major firms such as BDO, Deloitte, EY, Grant Thornton, KPMG, and PwC.
- KPMG whistleblower allegations demonstrate how independence and tender integrity can be compromised in practice.

**In this context, the Bill moves in the opposite direction reducing independent oversight, consolidating governance functions, and increasing reliance on internal controls and procedural safeguards.**

#### **Corporate Convenience Over Governance Integrity**

In 2024, Treasury conducted consultations on the regulation of accounting, auditing, and consulting firms and identified concerns regarding governance, transparency, and conflict management. The consolidation reduces duplication, but does so at the cost of independence, accountability, and public protection. A system that is easier to administer, but harder to scrutinise, is not an improvement it is a regression.

**This reflects a shift toward corporate convenience at the expense of governance integrity.**

#### **Marginalisation of Public Interest and Individual Stakeholders**

The Bill places strong emphasis on international alignment, market efficiency, and the needs of corporations and investors. However, it fails to meaningfully address the interests of consumers, small businesses, vulnerable stakeholders, and the broader public reliant on transparent and reliable financial reporting.

**The previous framework, through independent oversight provided a mechanism for broader public interest considerations. The new model risks narrowing its focus to corporate and institutional priorities, at the expense of community confidence and protection.**

#### **Dilution of Scrutiny Through Structural Consolidation**

The consolidation of the FRC, AASB and AUASB into a single entity has the practical effect of diluting scrutiny. Where previously multiple bodies provided overlapping and independent perspectives, issues could be escalated across institutional boundaries, and oversight functions operated separately from standard setting, the new structure removes these safeguards. The result is a system where scrutiny is consolidated, dissenting or independent views are structurally limited, and governance becomes internally managed.

**This raises a legitimate concern that the reforms are not merely administrative but may operate to reduce the intensity of regulatory scrutiny at a time when increased scrutiny is demonstrably required.**

### **Timing Concerns: Intersection with AML/CTF Reforms**

The timing of these reforms is particularly concerning when considered alongside the expansion of Australia's anti-money laundering and counter-terrorism financing regime, including the introduction of Tranche 2 obligations under the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*. These reforms will significantly expand regulatory obligations across new sectors, increasing the need for robust reporting standards, high-quality audits and assurance processes, and strong, independent oversight mechanisms. Rather than strengthening institutional safeguards in anticipation of this expanded regulatory environment, the Bill consolidates oversight, removes independent review functions, and increases reliance on internal governance structures.

**While it may not be explicitly stated, the effect of these changes is consistent with a reduction in external scrutiny at a time of increasing regulatory complexity and exposure.**

### **Cumulative Effect: Increased Systemic Risk**

When considered collectively, these factors give rise to a heightened level of systemic risk, an overburdened primary regulator (ASIC), reduced independent oversight of audit quality, concentration of governance power within a single entity, and increasing regulatory demands arising from parallel reforms.

**This combination creates a regulatory environment that is less transparent, less accountable, and more vulnerable to failure.**

### **Potential Constitutional Considerations**

While the Bill may fall within Commonwealth legislative power, it raises broader concerns regarding rule of law principles embedded within Australia's constitutional framework, including accountability of decision makers, transparency in the exercise of public power, and the maintenance of institutional checks and balances.

Under s.51 of the Constitution, it raises significant tensions with foundational constitutional principles. By removing arm's length oversight and consolidating governance within internal structures, the reforms weaken safeguards designed to ensure independence, transparency, and accountability. Diluting this separation risks undermining the rule of law, the separation of powers, and responsible government, as Parliament and external stakeholders may be unable to hold decision makers accountable. Moreover, by increasing reliance on internalised oversight mechanisms, the Bill heightens systemic risk to investors, superannuation funds, and the broader economy, raising indirect concerns under the Constitution's property protection and corporations powers. In combination with documented audit and consulting failures including PwC, KPMG, and other major accounting firms, **these structural changes exacerbate potential breaches of public accountability and transparency that underpin Australia's constitutional and regulatory framework.**

Potential Conflict with s.51(xx) (Corporations Power) Limits:

- While Parliament has broad power to legislate on corporations, there is an implied expectation that it does not authorise frameworks that undermine regulatory transparency or allow systemic conflicts of interest.
- A law that substantially diminishes oversight of financial reporting could be challenged as exceeding the intended scope of corporations regulation, especially if it prevents the detection of misconduct that affects shareholders or the public.

Indirect Impact on Property Rights (s.51(xxxi) – Just Terms):

- Weakening audit oversight may expose investors, superannuation funds, or other stakeholders to losses that they cannot recover. While not a direct constitutional

invalidity, it increases systemic risk in a way that intersects with property protections and market fairness principles.

**Confirmed Need for Stronger Oversight (Audit Inquiry)**

The Parliamentary Joint Committee on Corporations and Financial Services inquiry Regulation of Auditing in Australia (Interim Report, 2020) highlighted concerns regarding audit quality and systemic risks. It emphasised

*“confidence in the quality of financial reporting and auditing”.*

Submissions to the inquiry also stressed that the financial reporting system must maintain *“trust and confidence”.*

**The Bill undermines these very principles by weakening oversight structures.**

**2. EVIDENCE OF SYSTEMIC CORPORATE AND AUDIT FAILURES**

**Auditor Failures**

<b>Case</b>	<b>Failure</b>	<b>Consequence</b>	<b>Action</b>
Halifax Investment Services	Audit failures	\$211m losses	Criminal charges
Big Un Ltd	Revenue misstatement	Collapse	Conviction
Harris Scarfe	Stock overstatement	Collapse	Reform catalyst
iSignthis	Audit deficiencies	ASIC action	Proceedings
Greensill	Reporting failures	Sanctions	Fines
Auditor Independence (2025)	Breaches	Systemic failure	Undertakings

**Common Themes:**

- Lack of independence: auditors providing lucrative non-audit services to the same client.
- Failure of professional scepticism: revenue recognition, asset valuation, and impairment ignored.
- Poor supervision: senior auditors failing to oversee junior staff or understand client business.
- Commercial pressure: over familiarity, fear of losing fees, “Enron style” issues.
- Weak supervision.

**PwC Tax Leak Scandal**

The Senate Finance and Public Administration References Committee in its Inquiry into the Management and Assurance of Integrity by Consulting Services (Final Report, June 2024) described PwC’s conduct as:

*“a calculated breach of trust”.*

The Committee found that confidential Treasury information was misused for private gain, internal governance mechanisms failed, and oversight was insufficient to prevent or detect misconduct.

**These findings reinforce that self-regulation and internal oversight mechanisms are inadequate, particularly in high conflict environments where corporate convenience can override public protections.**

### **KPMG Allegations (2026)**

On 26 March 2026, the Parliamentary Joint Committee on Corporations and Financial Services conducted private hearings into whistleblower allegations concerning KPMG. Key allegations include misuse of confidential information, former KPMG partners providing privileged intelligence, compromising audit tender integrity, and inadequate internal and regulatory response despite whistleblower disclosures in May 2024 under statutory protections.

### **Real World Governance Failure**

Cases including PwC, KPMG, HIH, Storm Financial, Trio Capital, Halifax, Big Un, iSignthis, Greensill, and Dubber/BDO demonstrate misuse of confidential information, failure of internal governance systems, and ineffective self-regulation. The First Guardian Master Fund and the Shield Master Fund further demonstrate the consequences of weak financial oversight, inadequate disclosure, and governance failures in protecting ordinary Australians' retirement savings.

**These examples confirm that internal controls do not substitute independent oversight, and conflicts of interest are real and demonstrable. They highlight persistent governance failures in major firms and the ongoing need for strong, independent oversight, which would be further weakened under the Bill.**

### **Conclusion**

The proposed reforms do not occur in isolation. When viewed in the context of recent regulatory inquiries, identified failures within the audit profession, and expanding compliance obligations across the economy, the Bill represents a misalignment of reform priorities.

The Bill represents a significant regression in the governance of Australia's financial reporting system towards a centralised, internally controlled system.

Its key deficiencies include:

- the elimination of arm's length oversight,
- concentration of power within a single governing body,
- increased ministerial influence,
- inadequate management of conflicts of interest, and
- a diminished focus on the public interest.

**These changes do not strengthen Australia's financial reporting system they undermine its integrity. For these reasons, the Bill should not proceed in its current form.**

### **Recommendations:**

1. Retain Arm's Length Oversight  
Maintain separation between oversight and standard setting bodies.
2. Preserve the Independent Role of the FRC  
Continue independent monitoring of audit quality and governance.
3. Establish Independent Oversight of Consulting and Audit Firms  
Consistent with Parliamentary recommendations for stronger regulation.
4. Legislate Strong Conflict of Interest Controls  
Including separation of audit and consulting functions.
5. Strengthen Regulatory Capacity Before Structural Reform  
Ensure ASIC is adequately resourced and not overextended.

6. Delay Implementation Pending Full Review  
Incorporating findings from:
  - Senate Finance and Public Administration References Committee (2024)
  - Parliamentary Joint Committee on Corporations and Financial Services (2020, 2024).
7. Mandate Transparency and Accountability Measures  
Including public reporting of conflicts and governance decisions.