



**Basis for Conclusions:**

**Australian Ethics Standards for Sustainability Assurance (including Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting (AESSA) and Using the Work of an External Expert**

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*Prepared by the Technical Staff of the Accounting Professional & Ethical Standards Board*

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

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### **BASIS FOR CONCLUSIONS:**

#### **Australian Ethics Standards for Sustainability Assurance (including Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting and Using the Work of an External Expert**

This basis for conclusions has been prepared by Technical Staff of Accounting Professional & Ethical Standards Board Limited (APESB). It has been reviewed and approved by the Board of Directors of APESB and is provided for the benefit of stakeholders to gain an understanding of the background to Australian Ethics Standards for Sustainability Assurance (including Independence Standards) (the AESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting and Using the Work of an External Expert (External Experts).

The basis for conclusions **does not** form part of APES 110 and is not a substitute for reading the Code.

### **Background**

The International Ethics Standards Board for Accountants (IESBA) approved a project proposal on [Sustainability](#) in December 2022. The IESBA project aimed to develop profession-agnostic ethics and independence standards for all assurance practitioners in sustainability assurance engagements and to address sustainability reporting-related revisions to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the International Code).

In January 2025, the IESBA issued two final pronouncements:

- [\*International Ethics Standards for Sustainability Assurance \(including International Independence Standards\) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting\*](#) (the IESSA).
- [\*Revisions to the Code Addressing Using the Work of an External Expert\*](#) (External Experts).

In Australia, the [\*Treasury Laws Amendment \(Financial Market Infrastructure and Other Measures\) Act 2024\*](#) establishes mandatory climate-related reporting requirements for Australian entities. These reporting and assurance requirements will be phased in over three years based on the size of the reporting entity, beginning with Group 1 entities from 1 January 2025.

In September 2024, the Australian Accounting Standards Board (AASB) issued [AASB S1 General Requirements for Disclosure of Sustainability-related Financial Information](#) and [AASB S2 Climate-related Disclosures](#), which are effective from 1 January 2025.

In January 2025, the Auditing and Assurance Standards Board (AUASB) issued [ASSA 5000 General Requirements for Sustainability Assurance Engagements](#) and [ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001](#).

In March 2025, based on IESBA's final two pronouncements noted above, APESB issued:

- [\*Exposure Draft 01/25 Proposed Australian Ethics Standards for Sustainability Assurance \(including Independence Standards\) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting\*](#) (ED 01/25); and
- [\*Exposure Draft 02/25 Proposed Revisions to APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\) Addressing Using the Work of an External Expert\*](#) (ED 02/25).

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APESB received seven submissions in response to ED 01/25 and six submissions in response to ED 02/25 from a range of respondents, including large accounting firms and professional accounting bodies. The submissions generally supported the proposals in the exposure drafts. However, respondents raised concerns about the proposed effective dates and the proposed transitional provisions.

The details of significant changes made, the key issues raised by respondents and stakeholders, and how APESB has addressed them are set out below in two parts:

- **PART A:** *Australian Ethics Standards for Sustainability Assurance (including Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting (AESSA)*; and
- **PART B:** *Revisions to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Addressing Using the Work of an External Expert.*

### **PART A: Australian Ethics Standards for Sustainability Assurance (including Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting (AESSA)**

#### **(a) IESBA's revisions to the Code**

The IESBA issued the IESSA in January 2025. The global pronouncement will be effective from 15 December 2026, except for sustainability assurance provisions applicable to value chain components, which will be effective from 1 July 2028. There are transitional provisions for engagements that involve sustainability assurance performed at a value chain component for periods beginning prior to 1 July 2028. Early adoption is permitted and encouraged.

The significant changes to the extant Code included the following:

- The addition of a new Part 5 for Sustainability Assurance, which incorporates ethics and independence standards equivalent to those applicable to audit engagements in Parts 1 to 4A, but addressing sustainability-specific issues, including:
  - new definitions addressing sustainability information and other sustainability-related terms;
  - establishing independence considerations for group firms, component firms and group sustainability assurance team members when performing group sustainability assurance engagements (paragraphs 5405.1 to R5405.37);
  - outlining independence considerations when assurance work is performed at a value chain component (paragraphs R5405.30A to R5405.37);
  - requirements and guidance where the firm intends to use the assurance work of another practitioner (paragraphs 5406.1 to 5406.6 A3);
  - clarification of the process for confirmation of another practitioner's independence in accordance with Part 5 (paragraphs R5406.5 to 5406.5 A1);
  - tailored Non-Assurance Services (NAS) provisions for sustainability assurance clients in Subsection 5601 *Sustainability Data and Information Services* and Subsection 5603 *Valuations and Advisory Services on Forward-Looking Information*;
  - requiring that entities be treated as Public Interest Entities (PIEs) in Part 5 if they are deemed to be a PIE under the provisions in extant Part 4A (paragraphs 5400.13 to 5400.15);
  - outlining independence matters when the firm performs both audit and sustainability assurance engagements for the same client, including fees and long association;

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- Sustainability Reporting-related revisions to Parts 1 to 3 of the extant Code incorporate sustainability references, guidance and examples, including (but not limited to):
  - Section 220 *Preparation and Presentation of Information* – addresses the collection of information from suppliers within the value chain; the methods, metrics and estimations used in measuring information; and the exercise of professional judgement to assess the impact of business transactions and activities (paragraphs 220.3 A2 to 220.4 A4);
  - Section 240 *Financial Interests, Compensation and Incentives Linked to Financial or Non-Financial Reporting and Decision Making* – recognises that financial interests, compensation and incentives that might create a self-interest threat could also be linked to non-financial goals, such as sustainability considerations (paragraphs 240.3 A1 to 240.3 A2);
  - Section 270 *Pressure to Breach the Fundamental Principles* – includes new examples of pressure, such as mispresenting how programs, projects or products align to or achieve sustainability goals; pressure from superiors to prepare sustainability information with insufficient or deficient data; and manipulating sustainability information to avoid fines for breaches of environmental laws (paragraph 270.3 A2);
- Consequential and conforming amendments to Parts 1 to 4B of the extant Code.

In conjunction with the release of the IESSA, the IESBA released a [Basis for Conclusions](#) to inform global stakeholders of key matters considered in finalising the IESSA.

### **(b) APESB's proposals**

APESB proposed adopting the IESSA with the following Australian-specific material in ED 01/25:

- Incorporating new sustainability standards, “Australian Standards on Sustainability Assurance (ASSAs)” into the definition of “Assurance Engagement” in the Glossary.
- Highlighting that a sustainability assurance engagement must be performed by the entity’s auditor, who also audits the entity’s financial statements in Australia as set out in section 301A of the *Corporations Act 2001* (proposed footnote to paragraphs R360.18a, R5360.18a and 5400.16a).
- Recognising the requirements of the *Corporations Act 2001* for sustainability assurance practitioners when performing sustainability assurance engagements in Australia (proposed footnote to paragraph 5100.4d).
- Recognising the independence obligations for sustainability assurance practitioners when performing sustainability assurance engagements set out in the *Corporations Act 2001* (proposed footnote to paragraph 5120.15 A2).
- Clarifying the AUASB’s prohibition of internal auditors in sustainability assurance engagements set out in ASSA 5000 (proposed footnote to paragraph 5605.1).
- The addition of Australian-specific amendments that broadly mirror those already in place in the extant APES 110 and align with the Australian-specific provisions of the extant APES 110, including:
  - the prohibition of certain relationships between a person or the firm and the audited body irrespective of materiality or the significance of the relation of financial interest set out in sections 324CH(1), 324CI and 324CK of *Corporations Act 2001* (proposed footnote to paragraphs 5510.10 A13, R5511.4, R5520.4, R5520.5, 5522.4 A1, R5523.3, AUST R5523.3.1, 5524.3 A1, R5524.4, R5524.6 and R5524.7).

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- more restrictive time-on requirements for audit partners of a listed company, a listed registered scheme, or a registrable superannuation entity in Australia set out in section 324DA of the *Corporations Act 2001* (proposed footnote to paragraphs R5540.7, 5540.8 A1, R5540.10, R5540.10a, R5540.11, R5540.13 and R5540.14).
- ASIC granting extension for sustainability assurance engagements set out in section 324DA of the *Corporations Act 2001* (proposed footnote to proposed paragraphs R5540.10a and R5540.11).
- additional guidance in APES 310 *Client Monies* when sustainability assurance practitioners deal with client monies (proposed footnote to paragraph 5350.2).
- defining “credible basis” for tax planning arrangement as a “reasonably arguable position” set out in section 284-15 of the *Taxation Administration Act 1953* (proposed paragraph AUST 5380.12 A1.1).
- mandate the documentation of specific information relating to tax planning services to align with the extant requirements in the extant Code (proposed paragraphs AUST R5380.26 and AUST 5380.26 A1).
- addition of AUST paragraphs for consistency with the equivalent paragraphs in the extant Code (proposed paragraphs AUST R5114.3, AUST 5114.3 A1.1, AUST 5120.14 A1, AUST 5320.2.1, AUST R5330.4.1, AUST R5330.5.1, AUST R5330.5.2, AUST 5330.5.2 A1, AUST R5400.19.1, AUST R5411.4, AUST R5523.3.1, AUST R5523.5, AUST R5604.4, AUST 5604.4 A1.1, AUST R5604.4.1, AUST 5604.12 A2.1 and AUST R5604.12.1).
- Other consequential and conforming amendments to sections 520, 522, 523, 524 and 540 of the extant Code to reflect the revised terms used in the footnotes.

### Operative date and transitional provisions

In addition to the above Australian-specific amendments, APESB proposed changes to the IESBA operative date and transitional provisions.

APESB’s general practice for nearly two decades has been to align with the international date of the IESBA amendments to the Code, or to adopt it shortly thereafter. However, the unique circumstance with respect to sustainability in Australia is that the Australian Government enacted legislation in September 2024 that has established a mandatory climate reporting and assurance regime, which commenced on 1 January 2025. This has necessitated the Australian standard setters to develop and issue standards and make them effective before the global start dates to meet Australian legislative requirements.

ED 01/25 proposed that in light of the phasing timeline under the Auditing and Assurance Standards Board (AUASB) Standard *ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports Under the Corporations Act 2001* (ASSA 5010), where assurance requirements for Group 1 entities take effect for financial years beginning on or after 1 January 2025, and for Group 2 entities on or after 1 July 2026, the proposed revisions in the Exposure Draft were to be effective as follows:

- Except for the provisions in Sections 5405 and 5406, which deal with assurance work performed at Value Chain Components (VCCs), all proposed provisions will be effective for sustainability assurance engagements on sustainability information commencing on or after 1 January 2026; and
- Proposed provisions in Sections 5405 and 5406 applicable to assurance work performed at Value Chain Components (VCCs) will be effective for sustainability assurance engagements on sustainability information on or after 1 January 2027 (i.e., two years after the legislative commencement date).

**(c) APESB's consideration of respondents' comments to the exposure draft**

APESB's consideration of respondents' comments on the Exposure Draft 01/25 is provided below.

APESB determined to make one substantive change to the proposed AESSA regarding the effective date and transitional provisions for Value Chain Components (VCCs) as a result of the exposure draft process.

In addition to this revision, stakeholders raised several key matters, which, after detailed deliberation, did not result in changes to the proposed standard. These include:

- Independence considerations for Value Chain Components (VCCs);
- Enforcement of VCC provisions;
- Definition of Sustainability Information;
- Application of Part 5 to non-professional accountants;
- Disclosure of fees for public interest entities (PIEs);
- Long association and assurance practitioner rotation requirements;
- Non-assurance services (NAS); and
- Transitional provisions.

The following section outlines how APESB addressed each of these matters.

**Effective Date and Transitional Provisions for Value Chain Components (VCCs)**

ED 01/25 proposed an operative date of 1 January 2027 for the application of independence requirements to assurance over Value Chain Components (VCCs) under Sections 5405 and 5406, with transitional provisions for periods beginning prior to 1 July 2028.

A consistent theme in the feedback from all respondents was a strong concern regarding the proposed effective date. Australian stakeholders observed that setting an earlier date than that in the IESBA's International Ethics Standards for Sustainability Assurance (IESSA) could disadvantage Australian practitioners by limiting their ability to benefit from the IESBA's forthcoming implementation guidance and is contrary to international alignment. All respondents requested that the effective date be aligned with the IESBA's international effective date of 1 July 2028.

Respondents also highlighted that the proposed earlier date could result in unintended consequences and substantial delays, potentially resulting in audit qualifications and unintended breaches of the Code.

APESB acknowledged these concerns and, in deliberating this issue, noted the need to consider both international developments and the Australian legislative environment. Typically, APESB would align with the dates specified in the international standards. On balance, APESB was of the view that consideration of Australian legislative requirements and the phasing timeline for assurance set out in [ASSA 5010](#) *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* (ASSA 5010) issued by the AUASB was an important factor to consider. Under the phasing timeline under ASSA 5010, the assurance of Scope 3 emissions is required for Group 1 entities for years commencing 1 July 2026.

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After careful deliberation, in finalising the standard, APESB determined that the effective date for Sections 5405 and 5406 would apply from 1 July 2028, consistent with the IESSA. In making this change, APESB recognised the potential challenges for some Australian Group 1 entities that may not be from the listed entity environment, while also addressing stakeholder concerns around global consistency and readiness over group value chains.

Accordingly, consistent with the IESBA's global requirement, APESB are not proposing any changes to the following transitional provisions on VCCs in the ED for engagements on sustainability information for periods beginning, or as at a specific date, prior to 1 July 2028 that involve assurance work performed at a Value Chain Component:

- (a) A group sustainability assurance firm or component practitioner that performs assurance work at a value chain component shall apply the conceptual framework set out in Section 5120 to identify, evaluate and address threats to independence in relation to such assurance work;
- (b) If the group sustainability assurance firm intends to use the assurance work of another practitioner, the group sustainability assurance firm shall be satisfied that the other practitioner is independent, and in that regard may rely on a statement of independence in accordance with Part 4B of other professional requirements relating to independence; and
- (c) The group sustainability assurance firm shall publicly disclose that independence provisions applicable to assurance work performed at value chain components under the AESSA have not been applied, pursuant to a deferred effective date for such provisions as specified in the AESSA.

APESB noted that assurance providers for Group 1 entities would be required to make this disclosure under (c) for year ends commencing 1 July 2026 and 1 July 2027.

APESB is of the view that this approach both responds to stakeholder feedback and aligns with the public interest.

### **Independence Considerations for Value Chain Components (VCCs)**

Most respondents raised concerns over independence considerations for group sustainability assurance engagements, especially when extending the independence requirements to VCCs. Please refer to Appendix A of this document for the IESBA Flowchart for Independence Considerations applicable to assurance work performed at a VCC, which provides guidance on the application of these provisions.

APESB acknowledged this complexity and noted that additional guidance materials from the IESBA are expected to be released to facilitate the adoption and implementation of these provisions. Following the release of the AESSA and the IESBA material, APESB has requested that the APESB Technical Staff engage with Australian stakeholders to determine the need for further Australian-specific guidance materials.

APESB Technical Staff have also researched the status of current reporting and assurance engagements related to Sustainability Information and found that many large listed entities in Australia and Europe are already voluntarily disclosing Scope 3 information and are requesting assurance over these disclosures to demonstrate to the market and investors their ESG credentials.

Furthermore, the independence requirements relating to the VCCs offer clients, investors, and the public confidence that the assurance provider has adhered to applicable ethical and independence requirements when providing these assurance services.

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### Enforcement of VCCs

One respondent questioned the enforceability of VCC independence provisions in jurisdictions where the IESSA has not yet been adopted. APESB acknowledged this complexity and observed that this does not negate the Australian legislative requirements.

### Definition of Sustainability Information

Some respondents highlighted the consistency of definitions as a key concern. Two respondents were concerned that the definition of “Sustainability Information” in the [ED 01/25](#) differs from that in the [ASSA 5000](#).

In considering this issue, APESB noted that the IESBA specifically addressed this matter in paragraphs 30 to 33 of the [IESBA's Basis for Conclusions](#), stating that:

- the IESBA and IAASB are fully aligned on the definition of “sustainability information” in the IESSA and ISSA 5000, sharing the common core for “sustainability information” as “information about sustainability matters”.
- the IESBA and IAASB also agreed to add specific elements to the two terms, if and as necessary, to cater to the needs of their respective standards.

APESB reviewed the definitions of “Sustainability Information” released by the IESBA and the IAASB in their respective standards and made the following observations:

- (a) IAASB have used the common core definition of “Sustainability Information”; however, they have provided additional information on how that term is used or interpreted in the ISSAs for assurance purposes.
- (b) paragraph 2 of ISSA 5000 provides an explanation of sustainability matters that is consistent with the additional information on sustainability matters included in the IESBA definition of “Sustainability Information”. In addition, Appendix 1 to ISSA 5000 provides commentary on what sustainability information may encompass, which is similar to the explanation set out in the IESBA definition of “Sustainability Information”.
- (c) the IESBA have used the common core definition of “Sustainability Information” with the addition of content on what would be considered a sustainability matter. In addition, the IESBA have included an explanation of “Sustainability Information” and its varying forms for reporting and assurance purposes.
- (d) AUASB have adopted the IAASB definition of “Sustainability Information” in ASSA 5000.

Based on the matters considered above and the extensive coordination that has occurred between the IESBA and IAASB at the global level in finalising these definitions, APESB is of the view that the descriptions of sustainability information and sustainability matters are generally consistent across the international standards, and that the additional information in the IESBA definition ensures that this consistent position with the IAASB standard is maintained.

Accordingly, APESB determined not to amend the proposed definition of “Sustainability Information,” which is consistent with the IESBA’s definition.



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### **Application of Part 5 to Non-Professional Accountants**

Respondents generally supported applying consistent ethical standards across all sustainability assurance practitioners. However, some respondents expressed concerns about whether the Code should be extended to practitioners who are non-professional accountants (NPAs). The key reasons for these concerns included:

- (a) that the Code is written for professional accountants (PAs), and its compliance is regulated by the accounting bodies.
- (b) to attain and maintain the same high ethical standards as PAs, NPAs may potentially be required to upskill significantly.
- (c) in the absence of which entity/entities regulate(s) NPAs and the consequences for non-compliance with the Code will erode the public trust and confidence in PAs and NPAs sustainability practitioners.

APESB noted the concerns raised and highlighted that in establishing the proposed Australian ethical sustainability standard, APESB considered the following matters:

- the IESBA intentionally drafted Part 5 to be professionally agnostic to enable broad application at the request of global regulators (IOSCO and FSB);
- the Australian Assurance Standard ASSA 5000 has also been developed in a professionally agnostic manner;
- the term “Sustainability Assurance Practitioner” is used to provide a distinction between the requirements of a financial statement auditor and a sustainability assurance practitioner, and also reflects the fact that these activities could be performed by a Member or an NPA;
- the term “Member” provides explanations for its use in Parts 1 to 4B, however, it is silent on Part 5 due to the professionally agnostic nature of that Part; and
- it is the role of the appropriate authorities in each jurisdiction (such as Australia) to determine who is allowed to carry out these Sustainability Assurance Engagements in their respective jurisdiction and, consequently, how these standards are monitored and enforced.

Accordingly, to remain consistent with international practice and ASSA 5000, APESB determined to retain the proposed application without amendment.

### **Disclosure of Fees for Public Interest Entities (PIEs)**

A concern was raised about proposed paragraph R5410.31 requiring the firm providing the sustainability assurance service to publicly disclose information regarding fees for PIEs (if the entity does not make the relevant disclosure). One respondent supported the proposal, while another respondent expressed concerns that such disclosures are typically the responsibility of the entity and are not currently required under the Australian Sustainability Reporting Standards.

APESB considered these comments and noted that where the same firm conducts the financial statement audit and the sustainability assurance engagement, the entity would be required to disclose in its financial statements the fee for the sustainability assurance engagement as part of “all other services” (AASB 1054, para. 10(b)).

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APESB considered the position taken by the IESBA and existing fee disclosures by other entities in Australia, as set out below:

- (a) the requirements in proposed paragraph R5410.31 mirror paragraph R410.31 applicable to financial statement audits, which require disclosure by the auditor if the entity (audit client) does not make the disclosure.
- (b) the IESBA have provided its rationale in the [Basis for Conclusions](#) (paragraphs 144-147) for maintaining the consistent disclosure by noting there is the same ‘...interest in stakeholders receiving the same information about a sustainability assurance practitioner’s independence as in the case of the audit of the financial statements.’
- (c) in Australia, research undertaken by APESB Technical Staff found that some Australian entities have disclosed that the costs of sustainability assurance engagements are included in the fees for other assurance services provided by the external auditor.

Based on the above considerations, APESB believes that the requirement to disclose the sustainability assurance fee is not unduly burdensome and contributes to transparency. Importantly, APESB noted that this disclosure is a global requirement, and this information is deemed relevant for stakeholders when assessing the independence of an auditor or a sustainability assurance practitioner.

Accordingly, APESB decided to retain the proposed disclosure requirement without amendment and determined to inform the AASB of this disclosure requirement.

### **Long Association and Assurance Practitioner Rotation Requirements**

Some respondents expressed concern about the long association and assurance practitioner rotation requirements. Those respondents noted that the long association independence provisions set out in proposed Part 5 are consistent with the long association independence requirements of Part 4A; however, some respondents commented that the additional requirements will increase complexity.

The respondents requested that guidance material be developed to help raise awareness of some aspects of the provisions, for example, to clarify the interaction of activities such as voluntary audits of climate statements undertaken by such practitioners prior to the proposed effective date of 1 January 2026 and the time-on period for such engagements.

APESB acknowledged the requests for guidance material and indicated that it will shortly be undertaking a project to update the existing Staff Guidance publication on Long Association.

### **Non-assurance services (NAS)**

Several respondents expressed support for the overall approach taken in relation to NAS, particularly the alignment of proposed Section 5600 with Section 600 of APES 110, with which stakeholders are already familiar.

Nevertheless, a concern was raised regarding the implications of the proposed tailored NAS provisions for sustainability assurance clients, specifically in Subsection 5601 *Sustainability Data and Information Services* and Subsection 5603 *Valuations and Advisory Services on Forward-Looking Information*. The respondent queried whether the historical provision of these services – particularly services akin to management responsibilities, such as the development of sustainability reporting policies, could create threats to independence that affect the firm’s ability to undertake either sustainability or financial assurance engagements in future periods.

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In response to these concerns, APESB noted that the proposed paragraph R5600.17 prohibits firms from providing NAS that would give rise to a self-review threat that cannot be reduced to an acceptable level. This includes management responsibilities such as determining sustainability reporting policies, as addressed in paragraph 5400.20 and explanatory material 5601.2 A1. While these services may have been permitted in the past for financial assurance clients, their continued provision will not be permissible where such engagements create a self-review threat in relation to future sustainability assurance services.

In addition, APESB highlighted that the current provisions of Part 4B of the Code sets out specific requirements for firms when providing NAS, including the following relevant considerations:

- (a) a core principle of Part 4B is the prohibition on assuming management responsibilities related to the Underlying Subject Matter and, in an Assurance Engagement, the Subject Matter Information of an Assurance Engagement provided by the Firm (paras R900.13–900.14A1). These paragraphs make it clear that firms must not assume a management role in these circumstances, as doing so creates a self-review, self-interest and familiarity threat;
- (b) when providing any NAS to an Assurance Client, Firms must apply the conceptual framework to identify, evaluate and address any threats to independence (para R950.7). If threats cannot be reduced to an acceptable level using safeguards, then the NAS must not be undertaken;
- (c) self-review threats may be created for an Assurance Engagement, if the Firm is involved in the preparation of Subject Matter Information, which subsequently becomes the Subject Matter Information of an Assurance Engagement (para 950.11 A1);
- (d) the Code also recognises that threats may also be created by the combined effect of providing multiple NAS to the same assurance client (para 950.10 A1); and
- (e) Part 4B explicitly states that safeguards may not be available to reduce threats to an acceptable level in certain cases (para 950.13 A4). In such circumstances, the Firm is required to adjust the scope of the proposed service, decline or end the NAS, or, if necessary, end the assurance engagement.

### Transitional Provisions

To support the transition to the new requirements, ED 01/25 included a transitional provision for NAS engagements that commenced prior to 1 January 2026. In line with the IESBA's approach, this provision allows a Firm or Network Firm to continue delivering such services for one reporting cycle in accordance with the original terms of engagement, where the engagement has already commenced. This approach provides firms sufficient time to conclude, or transition out of, existing NAS engagements that would no longer be permitted under the revised requirements.

The same respondent sought clarification on whether this one-reporting cycle grace period would also apply to Group 2 and Group 3 entities under ASSA 5010. APESB considered this matter and noted that the transitional provision in the Code does not distinguish between different phasing of assurance for entities in accordance with ASSA 5010. However, because the Code becomes effective on 1 January 2026, and the mandatory assurance requirements for Group 2 and 3 entities will apply at a later date, in practice, these entities are unlikely to benefit from the transitional relief.

APESB acknowledged that this outcome is consistent with the rationale provided by the IESBA in paragraph 138 of its [Basis for Conclusions](#), which limits the duration of transitional relief to a single reporting cycle to minimise the risk of misuse.

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APESB also noted that while the transitional provision provides temporary relief, it does not remove the obligation on firms to evaluate any self-review threats created by prior NAS engagements. Firms are expected to assess whether past services could give rise to such threats and determine how they can be addressed or mitigated to reduce the threat to an acceptable level (extant paragraphs R600.9, R600.15 and R950.7, 950.13 A4, and proposed paragraphs R5600.9, R5600.13 and R5600.15).

Accordingly, APESB determined to make no changes to the proposed transitional provisions.

### **PART B: Revisions to APES 110 Code of Ethics for Professional Accountants (including Independence Standards) Addressing Using the Work of an External Expert**

#### **(a) IESBA's revisions to the Code**

In January 2025, the IESBA issued [Revisions to the Code Addressing Using the Work of an External Expert](#). The pronouncement will be effective from 15 December 2026. Early adoption is permitted and encouraged.

The significant changes to the extant Code included the following:

- New Sections 290, 390 and 5390, which establish an ethical framework to guide Professional Accountants (PAs) in Business (PAIBs), Professional Accountants in Public Practice (PAPPs) and SAPs in evaluating whether an External Expert has the necessary competence, capabilities and objectivity (CCO) for the PA or SAP to use the expert's work for the intended purposes. The new sections set out:
  - requirements to guide a Professional Accountant's evaluation of whether an External Expert has the necessary CCO, including the need to re-evaluate the External Expert's CCO when facts and circumstances change, and the need to conclude on the evaluation;
  - a prohibition on using the work of an External Expert if it is determined that the expert does not have the necessary CCO, or if the PA or SAP is unable to make such a determination;
  - requirements focused on evaluating an External Expert's objectivity for an audit, review, sustainability assurance or other assurance engagement, including gathering information from the External Expert about additional objectivity circumstances (e.g., interests, relationships and circumstances based on certain independence attributes); and
  - specific guidance regarding identifying, evaluating, and addressing the potential threats to compliance with the fundamental principles when a PA is using the work of an External Expert;
- New definitions of "Expert" and "Expertise," and a revised definition of "External Expert"; and
- Consequential and conforming amendments to the extant Code.

In conjunction with the release of the standards, the IESBA released a Basis for Conclusions for the [Use of External Experts](#).

#### **(b) APESB proposals**

APESB proposed adopting External Experts with Australian-specific material in ED 02/25 to include footnotes to paragraphs 390.8 A2, R390.14, 5390.8 A2 and R5390.14, which refer to the extant Australian prohibition in paragraph AUST R330.4.1 in relation to contingent fees.

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### Effective date and transitional provisions

ED 02/25 proposed that the revisions be effective for sustainability assurance engagements commencing on or after 1 January 2026, and for all other engagements and professional activities from 1 January 2027.

ED 02/25 also proposed to include transitional relief provisions to address the practical challenges in implementing the proposed provisions initiated by the mandatory implementation of Australia's climate reporting and assurance regime, including the requirements relating to assurance for affected entities in accordance with AUASB Standard ASSA 5000.

The transitional relief aimed to balance the need to ensure that external experts possess the relevant CCO for sustainability assurance engagements with the recognition that Australia's legislative environment is more advanced in requiring mandatory reporting and assurance for sustainability information than the international context in which External Experts and the related IESSA requirements were developed.

ED 02/25 proposed optional transitional relief for sustainability assurance engagements to be available in two tranches:

- For engagements with external experts entered before 1 January 2025 and for which work has already commenced, the engagement can continue to be performed using the extant provisions of the Code in accordance with the original engagement terms for no more than one reporting period;
- For periods between 1 January 2025 and 31 December 2026, the relief allows:
  - the use of the extant provisions of the Code for engagements with external experts for periods ending on or before 31 December 2026; and
  - for engagements within the scope of paragraph 5400.3b, the application of the requirements for non-PIE audit clients (in paragraphs R5390.12 to 5390.13 A2) to PIE clients for periods ending on or before 31 December 2026.

ED 02/25 also proposed that if the optional transitional provisions are used, a transparency requirement requires that the use of the provisions be disclosed. No transitional relief was proposed for periods beginning on or after 1 January 2027, as this is within the global adoption period for the IESBA standard.

### **(c) APESB's consideration of respondents' comments to the exposure drafts**

APESB's consideration of respondents' comments to the Exposure Draft 02/25 is provided below.

The exposure draft process resulted in one substantive change to APES 110 regarding the transitional provisions.

In addition to this revision, stakeholders raised a number of key matters, which, after detailed deliberation, did not result in changes to the proposed standard. These include:

- Effective date;
- Assessment of objectivity appears closer to an independence assessment;
- Safeguards for an external expert's competence, capability;
- Implementation challenges for Australian practitioners; and
- Disclosure obligations related to transitional provisions

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The following section outlines how APESB addressed each of these matters.

### **Transitional Relief Provisions**

Respondents were generally supportive of the proposed transitional relief provisions, but some concerns were raised about their clarity and whether all proposed tranches of the relief were required.

APESB notes that the context in which the transitional relief provisions were originally drafted in March 2025 has changed. Initially, the drafting reflected proposals being considered by the AUASB about the relevant ethical requirements for [ASSA 5000](#) *General Requirements for Sustainability Assurance Engagements* (ASSA 5000) that apply from 1 January 2025.

The AUASB decided on a revised approach to ASSA 5000 at its meeting on 14 May 2025, in which it was determined that the extant APES 110 will be applied in 2025. APESB considered the AUASB's revised position alongside the respondents' comments in reviewing the proposed transitional provisions.

In response, APESB agreed with the respondent's comments that the pre-2025 tranche of the relief was redundant and removed the provision. Further, to address stakeholder uncertainty regarding the scope of transitional options available to practitioners conducting sustainability assurance engagements under 5400.3b, APESB revised the transitional provisions to clarify that such engagements have the option to apply either the requirements in paragraphs R5390.12 to 5390.13 A2, or the extant provisions of the Code.

During redeliberation, APESB also considered the application of the transitional provisions (which end on 31 December 2026) and the interaction with the effective date for sustainability assurance engagements, which commences for periods beginning on or after 1 January 2026. APESB noted that, as drafted in ED 02/25, the proposals would leave a gap in transitional relief for periods between 1 January 2027 and 31 December 2027.

As such, APESB agreed to amend the proposals to extend the transition relief to periods ending before 31 December 2027 and for engagements as at a specific date before 1 January 2027.

### **Effective Date**

The proposed effective date for the Part 5 provisions was determined based on the effective date for the sustainability provisions of 1 January 2026. This date is also reflected in the legislative requirements in Australia for climate-related disclosures. The effective date for the remaining provisions aligns with the international effective date set out by the IESBA.

APESB noted that respondents were generally supportive of the proposed effective date provision. However, two respondents were of the view that the effective date (for the Part 5 provisions) should align with the international effective date.

As noted previously, APESB typically adopts international effective dates to APES 110 Amending Standards. However, in considering this issue, APESB noted that in this specific instance, Australian legislation mandates earlier reporting timeframes for sustainability reporting and assurance, requiring APESB to adopt the sustainability standards before the international standards are effective. This is also consistent with the action of the AUASB, who adopted ASSA 5000 earlier than the international date.

Based on the above, APESB did not make any changes to the effective date of the Use of and External Expert provisions other than the changes for the transitional relief provisions in the issue noted above.

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### **Disclosure Obligations Related to Transitional Provisions**

Two respondents did not support the inclusion of the transparency disclosure requirement related to the use of the proposed optional transitional relief, expressing concern that the provision could cause confusion and affect the implementation of the new requirements.

In considering these comments, APESB noted that the IESBA included a global transparency requirement in the transitional provisions for VCCs, whereby if the Sustainability Assurance Practitioner has not adopted the provisions relating to VCCs, they need to disclose this fact publicly. This was to have transparency to the sustainability assurance client and the market, the independence provisions that have been applied to the sustainability assurance engagement.

APESB is of the view that this principle should apply to the proposed transitional relief provisions and the related transparency disclosure proposed in ED 02/25.

APESB further noted that the proposed disclosure in ED 02/25 is not a public disclosure, but a disclosure made directly to those charged with governance of the assurance client to clarify which of the two transitional relief provisions will be applied for the sustainability assurance engagement. It is also a temporary transparency measure which, due to the proposed timing, will only impact Group 1 entities and some Group 2 entities.

Accordingly, APESB decided to retain the disclosure requirement as proposed in the ED and made no changes to this transitional provision in the final standard.

### **Assessment of Objectivity appears closer to an Independence Assessment**

A respondent was concerned that the new framework effectively assesses the experts' independence rather than their objectivity.

APESB noted that the IESBA confirmed in paragraphs 79-80 of the [IESBA's Basis for Conclusions](#) that while the external expert's objectivity is to be evaluated using similar categories of attributes, timeframe, and types of individuals used to assess independence for a Professional Accountant, the approach to the evaluation is different. An expert's objectivity is assessed using the conceptual framework, whereas the independence of the professional accountants is assessed using the conceptual framework with the addition of explicit prohibitions.

APESB considered the issue and determined that no amendments were required to address the matter raised.

### **Safeguards for an External Expert's Competence, Capability**

One concern raised by respondents focused on the impact of the prohibition on using the work of an external expert in proposed paragraphs R290.12, R390.12 and R5390.12 when there are concerns with the expert's Competence, Capability or Objectivity (CCO). The respondent was of the view that safeguards should be provided to address the circumstances when an external expert lacks the necessary competence or capabilities. The respondent suggested the involvement of a secondary external expert as a safeguard.

In considering this issue, APESB highlighted that safeguards are actions that the Member takes that effectively reduce threats to compliance with the fundamental principles to an Acceptable Level. Therefore, any action the external expert undertakes is not a safeguard for the purposes of the Code. This is confirmed by the IESBA in paragraph 51 of the [IESBA's Basis for Conclusions](#), which states that '...no safeguards can address circumstances where an external expert does not have the necessary competence or capabilities'.



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APESB is of the view that the use of a secondary expert is a factor to be considered in assessing the competency and capability of the external expert. APESB also noted that paragraphs 290.7 A2, 390.7 A2 and 5390.7 A2 all list ‘...the resources available to the external expert’ as a relevant factor and consider that the secondary expert could be considered as a resource available to the external expert.

In addition, APESB noted that the lists of factors and examples in the application material in the Code are illustrative and should not be considered exhaustive. Therefore, the Member must consider the factors relevant to their circumstances and exercise their professional judgement to determine whether the external expert has the necessary competence and capability for the Member’s purpose.

Based on the above, APESB is of the view that no amendments are required to the proposed provisions based on the respondent’s comments.

### **Implementation challenges for Australian practitioners**

Four respondents raised concerns about implementation challenges in the Australian environment, including the impact on small-to-medium practices (SMPs) and the time required to implement.

APESB noted that Australia is a sophisticated G20 market with many years of experience in voluntary sustainability reporting. The phased introduction of mandatory sustainability reporting and assurance requirements based on the size of the entity allows time for smaller practices and entities to adapt to the new requirements. Further, the proposed effective date provides a two-year implementation timeline, allowing sufficient time for Members to make necessary system or process changes and become familiar with the new obligations.

In addition, the IESBA considered scalability and proportionality in the final provisions for External Experts but noted that the revisions “raise the bar” for an external expert's objectivity to a sufficiently high level for the expert's work to be used in audit, review or other assurance engagements ([IESBA's Basis for Conclusions](#), paragraph 62).

Further, APESB noted that the IESBA Technical Staff is developing guidance materials to assist practitioners. A FAQ document on the Use of External Experts is expected to be released in July 2025. Accordingly, APESB did not amend the proposals in relation to these matters raised by the respondents.

### **Other Matters Raised by Respondents**

#### **Close collaboration with other standard setters and the regulators**

A number of respondents encouraged regular collaboration between APESB, AUASB and ASIC to support consistent interpretation and application of the standards. APESB noted that engagement with the AUASB, ASIC and APRA is an ongoing process.

Throughout the due process of its exposure drafts, APESB and APESB Technical Staff have engaged with the AUASB to ensure alignment between [ASSA 5000](#) and proposed AESSA, including consistency in the application of transitional provisions. APESB Technical Staff have also informed ASIC and APRA about these proposed Australian Standards.



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### **Development of Supporting and Guidance Materials**

During the consultation process, stakeholders expressed interest in guidance in particular areas, such as application of the VCC provisions, non-assurance services, long association requirements and transitional arrangements. APESB acknowledges the importance of adoption and implementation material to support and promote consistent understanding and application of the new requirements.

APESB noted that the IESBA Technical Staff are considering this matter as part of the IESBA's Adoption & Implementation (A&I) Working Group on A&I materials for sustainability-related standards, which is expected to be released in June and July 2025. After the IESBA releases its guidance materials, APESB will consider whether further Australian-specific guidance materials are necessary.

Appendix A IESBA Flowchart for Independence Considerations Applicable to Assurance Work Performed at a Value Chain Component (VCC)

INDEPENDENCE CONSIDERATIONS APPLICABLE TO ASSURANCE WORK PERFORMED AT A VALUE CHAIN COMPONENT (VCC)

Paragraphs R5405.30A to R5405.34

Who performs the assurance work at a VCC?	Group Sustainability Assurance Firm (GSAF)	Component Practitioner (CP) from GSAF's Network	Component Practitioner outside GSAF's Network
GSAF needs to be independent?	<b>YES</b> Paragraph R5405.32	<b>NO</b>	<b>NO</b>
Group sustainability assurance team (GSAT) members from GSAF need to be independent?	<b>YES</b> Paragraph R5405.30A	<b>NO</b>	<b>NO</b>
CP from GSAF's network needs to be independent?	<b>NO</b>	<b>YES</b> Paragraph R5405.33	<b>NO</b>
GSAT members from CP in GSAF's network need to be independent?	<b>NO</b>	<b>YES</b> Paragraph R5405.30B	<b>NO</b>
Other firms from GSAF's network need to be independent?	<b>NO</b>	<b>NO</b>	<b>NO</b>
CP outside GSAF's network need to be independent?	<b>NO</b>	<b>NO</b>	<b>YES</b> Paragraph R5405.34
GSAT members from CP outside GSAF's network need to be independent?	<b>NO</b>	<b>NO</b>	<b>YES</b> Paragraph R5405.31