12 August 2026

Director
Responsible Business Conduct Unit
Digital Policy and Corporations Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via Email: DPCDConsultations@treasury.gov.au

Dear Sir/Madam,

Regulation of accounting, auditing and consulting firms in Australia – Options Paper July 2026

Accounting Professional & Ethical Standards Board Limited (APESB) welcomes the opportunity to make a submission on the Treasury's consultation on options for the regulation of accounting, auditing and consulting firms in Australia (the Options Paper).

Role and mandate of APESB

APESB is an independent entity with a primary purpose to develop, issue, and maintain high-quality professional and ethical pronouncements for the Australian accounting profession (including firms) in an independent manner with a public interest focus. APESB's pronouncements apply to the members of the three major Australian professional accounting bodies: Chartered Accountants Australia and New Zealand (CA ANZ), CPA Australia and the Institute of Public Accountants (IPA).

In Australia, APESB issues APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) and a range of professional and ethical standards that apply to members and accounting firms. As an independent national standards setter, APESB's mandate is to set standards in the public interest. It does not extend to monitoring, enforcement or determining penalties for instances of non-compliance with our standards.

The three professional accounting bodies and regulatory authorities (i.e. ASIC, ATO, and TPB) are responsible for monitoring and enforcing professional accountants' compliance with professional and ethical standards, including conducting disciplinary actions for breaches of APESB standards and determining penalties.

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The importance of professional and ethical standards

Professional and ethical standards are fundamental to maintaining public trust in the accounting profession and confidence in capital markets. Australia already has a robust, globally aligned framework of professional and ethical standards that enables accountants and firms to identify, evaluate and address ethical issues effectively.

APES 110 is based on the International Code of Ethics issued by the International Ethics Standards Board for Accountants (IESBA), which has been adopted or used in more than 130 jurisdictions worldwide. These principles-based international ethics and independence standards are developed through rigorous global due process, including input from global audit and securities regulators, to support their enforceability.

APESB has issued, in addition to APES 110, 20 other pronouncements, as listed in Appendix C. APESB pronouncements set out important firm-level obligations fundamental to the integrity of the delivery of professional services and public confidence, such as the **firm-level** independence requirements in APES 110, and the need for **firms** to establish and maintain:

- a risk management framework in accordance with APES 325 *Risk Management for Firms* (APES 325); and
- a system of quality management when providing non-assurance services in accordance with APES 320 *Quality Management for Firms that provide Non-Assurance Services* (APES 320).

Accordingly, APES 110, APES 320 and APES 325 already impose **firm-level** requirements that the Options Paper suggests are missing in the Australian environment.

APESB's pronouncements are comprehensive and comparable to the professional and ethical standards issued by the American Institute of CPAs (AICPA) for the US market, with many equivalent professional and ethical pronouncements also in place in New Zealand. We are confident that the professional and ethical standards issued by APESB, which include APES 110, APES 320 and APES 325, represent global best practice.

APESB reviews its standards regularly and is open to enhancing them where a genuine gap is identified. However, developing new standards may not be the solution where the real issues are elsewhere, as identified below.

Overall comments on the Options Paper

The accounting, auditing and consulting industries are important service sectors of the Australian economy; accordingly, we regard Treasury's consideration of the regulations applicable to accounting, auditing and consulting firms in Australia to be an important initiative.

APESB acknowledges the seriousness of the recent ethical failures within the profession, including instances of misuse of confidential client information, inadequate management of conflicts of interest and poor firm culture. These failures have damaged public trust and demonstrate that the current arrangements need improvement.

However, in APESB's view, the examinations of these failures have not identified shortcomings in the professional and ethical standards that have been developed and published for the profession but reveal failures of senior individuals within firms to adhere to the standards of the profession and indicate a need to enhance the processes of monitoring and enforcement and close the gap between the existing standards and actual conduct.

APESB believes that there is evidence that the current Australian professional and ethical standards are capable of being monitored and enforced. We note that APESB pronouncements are actively used by Australian regulators and courts in compliance, monitoring and disciplinary actions (refer to Appendices D to F). If the standards need to be modified to improve their utility to the professional and regulatory bodies charged with addressing compliance with them, APESB would welcome recommendations for improvement.

APESB considers, therefore, that a key area for policy consideration is whether relevant monitoring and enforcement bodies have the powers, resources and legislative support necessary to effectively enforce existing standards.

APESB submits that this distinction is important because, as discussed in Appendix H, the Options Paper contains several statements about Australia's existing standards framework that are inaccurate. In particular, the suggestion that firm-level obligations are largely absent does not reflect the requirements set out in APES 110, APES 320 and APES 325, the standards identified above. APESB is concerned that if left uncorrected, these inaccuracies may divert reform efforts towards developing new standards to address a gap that does not exist, rather than focusing those efforts on improved firm culture and related governance and stronger monitoring and enforcement of compliance with existing standards. APESB would welcome the opportunity to work with Treasury to ensure that Treasury's final policy position accurately reflects Australia's existing standards landscape.

Treasury may not be adequately apprised of IESBA's Firm Culture and Governance (FCG) Project. The project aims to develop a global, principles-based culture and governance framework that promotes, supports and reinforces a high standard of ethical behaviour by the firm's leadership, partners and staff across all service lines. Australia is a key contributor to this project. APESB's CEO is the Vice Chair of IESBA and has active involvement in the FCG project. APESB also encourages the Treasury to monitor the FCG project, which is planning to expose a draft document for consideration by global stakeholders. IESBA anticipates that global securities and audit regulators, including ASIC, will contribute to the exposure process. APESB would be pleased to keep Treasury informed of key developments as this global project progresses.

Finally, APESB is concerned that some of the reforms suggested in the Options Paper, which are intended to address risks associated with large multidisciplinary firms, may give rise to unintended consequences if they are not appropriately targeted to the larger firms. Whilst large firms perform professional services to substantially all of the significant corporations in Australia, medium-sized and small practices audit a significant proportion of Australia's smaller enterprises. Many of those enterprises are reporting entities. It follows that any reforms designed to address issues associated with large multidisciplinary firms should not impose disproportionate costs or other burdens on small and medium-sized practices and thereby give rise to outcomes that are likely to adversely affect audit market capacity or audit quality.

Matters for Consideration

We respectfully suggest that the following matters be considered by the Treasury as part of this consultation:

- Reforms should build upon, rather than duplicate or displace, Australia's existing co-regulatory framework (refer to Appendices A and B).

- Australian accounting, auditing and ethical standards must continue to align with the principles-based international standards, to facilitate global commerce and international investment with Australian divergence only where there is a clearly demonstrated public interest need.
- Recent ethical failures indicate a need for enhanced monitoring and enforcement, and strengthened ethical culture and governance across firms, rather than deficiencies in APESB's pronouncements or the international standards on which they are based.
- Treasury should consider providing legislative recognition for professional and ethical standards and review the resourcing of regulatory and disciplinary bodies that enforce those standards.
- APESB pronouncements, such as APES 110, APES 320 and APES 325, already impose firm-level obligations relating to independence, conflicts of interest, quality management and risk management.
- Any governance reforms for large professional services firms should build on APES 325 (effective since 1 January 2013) and emerging international developments, including the any new standards or improvements to existing standards that will result from IESBA's Firm Culture and Governance project.
- If additional firm-level obligations are required, they should be clearly defined, proportionate and targeted to the large firms and aligned with existing legal, professional and ethical requirements.
- Reforms addressing conflicts of interest in multidisciplinary firms should be evidence-based and targeted and recognise the existing APES 110 prohibitions and safeguards for non-assurance services.
- If some form of separation of large multidisciplinary firms is considered necessary, Treasury should consider operational separation approaches, informed by the UK model, before pursuing the more disruptive structural separation for which there is no global precedent.
- Audit surveillance could be strengthened through increased and transparent review activity, with additional consideration as to whether oversight of governance, risk management and quality management systems, informed by the UK FRC's model, would improve confidence in audit quality.
- Transparency regarding auditor tenure could be improved; however, the existing long association requirements in APES 110 and audited entity's governance mechanisms to periodically review the performance of the external auditor provide a proportionate response to the identified risks compared to mandatory audit firm rotation.

The appendices to this submission provide supporting information relevant to Treasury's consideration of the Options Paper as follows:

- Appendix A contains APESB's specific responses to the options raised in the Options Paper.
- Appendix B provides background information on the Australian accounting profession and the monitoring and enforcement of professional and ethical standards.
- Appendix C lists APESB's professional and ethical standards.
- Appendices D, E and F demonstrate the use and recognition of APESB pronouncements by the Australian regulators: TPB, ATO and ASIC respectively.
- Appendix G summarises the IESBA's Firm Culture and Governance project and its implications for future firm governance reforms.
- Appendix H provides additional information on inaccuracies noted in the Treasury's options paper.

- Appendix I contains an extract of APESB’s guidance document APES 110 *Prohibitions applicable to Audit, Review and Sustainability Assurance Engagements*.

Concluding Comments

We trust you find these comments useful in your deliberations. If you wish to discuss this further or require additional information, please get in touch with APESB's Chief Executive Officer, Channa Wijesinghe, at channa.wijesinghe@apesb.org.au.

Yours sincerely

The Hon. Peter Garling RFD, SC
Chairman

Appendix A

APESB's Responses to the Options in the Options Paper

APESB has responded to the options in the Options Paper that relate to or impact its role and mandate as the National Standards Setter of accounting professional and ethical standards in Australia.

Section 1: Options to increase accountability within the audit sector

APESB is supportive of reforms that will strengthen accountability within the audit sector. Recent instances of ethical failures in the broader accounting, auditing and consulting industry demonstrate that a review of the existing co-regulatory framework for accountants is warranted. However, reforms must be developed to enhance the existing co-regulatory framework, which has been designed for the broad range and size of market participants in the sector.

The current co-regulatory framework for the accounting industry in Australia allocates responsibilities to regulators, professional bodies, standard-setters, firms, members of the professional accounting bodies, individual registered company auditors and authorised audit companies.

The current framework is based on <u>principles-based</u> accounting, assurance, quality management and professional and ethical standards that are capable of being applied proportionately to firms of different sizes and circumstances. These principles-based standards are generally developed using international standards as their base.

The adoption of globally recognised standards (whether accounting, assurance or ethical) is a fundamental element in facilitating international commerce across jurisdictions. The international standards reduce global regulatory fragmentation, ensure consistent, comparable information is available across jurisdictions, promote a high standard of ethical behaviour, facilitate the consistent performance of high-quality services, and support multinational investment opportunities and business operations.

As a trade and investment dependent economy, Australia benefits significantly from alignment with international standards through improved global investor confidence, reduced compliance costs, enhanced comparability of financial information, lower friction to trade and greater access to global capital markets.

The Australian commercial and economic environment is not so unique as to warrant standards that are not aligned with international standards. In fact, removing that alignment would create unnecessary regulatory and compliance costs for investment in Australia and could lead to unintended consequences, including reducing the confidence of international investors and trading partners in Australia's regulatory framework.

In APESB's view, the recent ethical failures identified in Australia do not show that APESB pronouncements or international standards are unfit for purpose. Rather, they highlight the need for adequately resourced and strengthened monitoring and enforcement, together with stronger ethical culture and governance in large firms.

Australian professional and ethical standards

International ethical standards issued by the International Ethics Standards Board for Accountants (IESBA), one of the two international standard-setting boards housed under the International Foundation of Ethics and Auditing (IFEA), are adopted or used in more than 130 jurisdictions worldwide, including 18 of the G20 economies.[1] APESB generally adopts these international standards and, where appropriate, develops additional pronouncements to take into consideration the Australian environment. To date APESB has issued 21 pronouncements (listed in Appendix C); one of which uses an international standard as a base, two pronouncements use key elements of an international standard, and the other pronouncements have been developed by APESB in Australia.[2]

APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (APES 110) is based on the International Code of Ethics issued by the IESBA. APESB's other 20 pronouncements include standards at the **firm level** and pronouncements on a range of professional services, including non-assurance services such as taxation, valuation, forensic accounting, insolvency services, financial planning, due diligence committees and outsourced services.

APESB's pronouncements are comprehensive and comparable to the professional and ethical standards issued by the American Institute of CPAs (AICPA) for the US market, with many equivalent professional and ethical pronouncements also in place in New Zealand. We believe APES 110 and APESB's other professional and ethical standards represent global best practice.

Monitoring, enforcement and collaboration with regulators

Similar to the AASB and AUASB, as a national standards setter, APESB's mandate is limited to developing, issuing and maintaining professional and ethical standards and does not extend to monitoring compliance, enforcing those standards or determining penalties for non-compliance.

The three professional accounting bodies and relevant regulatory authorities, including ASIC, the ATO and the TPB, are responsible for monitoring and enforcing professional accountants' compliance with APESB standards. They are responsible for monitoring and enforcement, including conducting disciplinary proceedings for breaches and determining appropriate penalties. This separation of standard-setting, monitoring and enforcement responsibilities is similar to the distinction between Parliament, which makes laws, and law enforcement authorities, which enforce them.

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1 International Ethics Standards Board for Accountants (IESBA) 2026, *International Code of Ethics for Professional Accountants (including International Independence Standards)*, accessed 21 July 2026, https://www.ethicsboard.org/iesba-code. The other standard-setting board of IFEA is the International Auditing and Assurance Standards Board (IAASB).

2 APES 110 is based on an international pronouncement, with APES 315 *Compilation of Financial Information* and APES 320 *Quality Management for Firms that provide Non-Assurance Services* using elements of an international pronouncement.

Firm's obligations to comply with professional and ethical standards

APESB's pronouncements apply to the members, who operate both in business and in public practice, of the three major Australian professional accounting bodies: CA ANZ, CPA Australia and IPA. However, this does not mean the standards only impose obligations on individual members. There are also requirements that need to be met by firms, particularly in respect of auditor independence, risk management and quality management. In APES 110, firms are captured within the obligations of the standard by being included within the definition of Member in Public Practice and also through the direct imposition of independence requirements that apply to firms. The definitions of these key terms are provided in Appendix B.

The Independence Standards for Assurance Engagements in APES 110 (e.g., Parts 4A, 4B and 5) establish requirements for Firms. These specific requirements cover a range of interests, relationships, activities and the provision of non-assurance services that may create conflicts of interest, as well as the independence requirements for all assurance engagements.

Firms are also required to comply with specific Australian-developed pronouncements, including APES 325 *Risk Management for Firms* (APES 325) and APES 320 *Quality Management for Firms that provide Non-Assurance Services* (APES 320).

APES 325 sets out mandatory requirements and guidance for firms to establish, maintain, monitor and document a risk management framework. APES 325 has been effective in Australia from 1 January 2013.[3] There is no equivalent international standard for APES 325, although the IESBA is currently undertaking a project on Firm Culture and Governance that is proposed to incorporate aspects of APES 325 (refer to APESB's response at Option 3 for further details on this project).

The requirement for firms to establish a risk management framework is important for managing firm-level risks, such as governance, business and finance risks, and the proper functioning of a risk management framework will also impact the firm's professional indemnity insurance premiums. The risk management framework sits above the quality management framework[4] (illustrated in diagram 1) and addresses governance, business and financial risks, as well as firm culture. It recognises that firms have broader public interest obligations, including maintaining appropriate governance, ethical conduct, regulatory compliance and business continuity arrangements.

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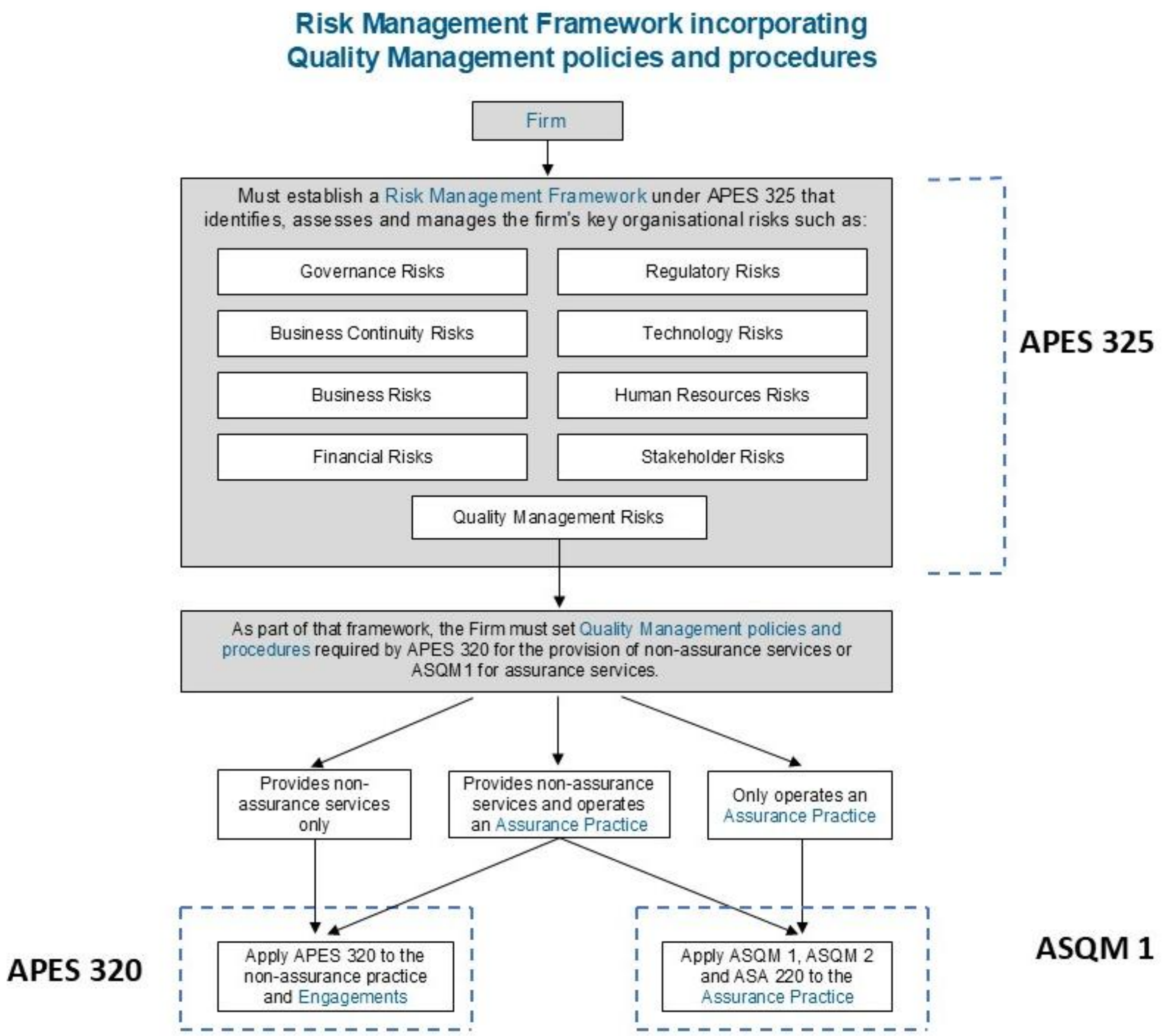
[3] Prior to this, CPA Australia and CA ANZ had their own pronouncements (CPA Australia RMS 1 *Risk Management Statement* and ICAA Guidance Note N3 *Risk Management Guidelines*, respectively) addressing risk management issues for accounting practices.

[4] Requirements relating to quality management for firms are established in ASQM 1 *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* and APES 320 depending on the services offered by the firms. The quality management policies and procedures created should be embedded within the risk management framework developed by the firms. (APES 325, para 3.3)

Diagram 1: Requirements for Risk Management Framework and quality management standards



An effective risk management framework should assist a firm to meet its overarching public interest obligations as well as its business objectives by facilitating business continuity, enabling the delivery of quality and ethical services to clients, and protecting the reputation and credibility of the firm.

APES 325 addresses the objectives of a risk management framework, the process for establishing and maintaining a risk management framework for a firm, monitoring a firm's risk management policies and procedures and documentation requirements.

Firms that provide non-assurance services, including consulting services, are also required to comply with APES 320. As such, firms must establish and maintain a system of quality management for non-assurance services, including consulting services. This includes establishing policies and procedures for accepting and continuing client relationships and specific engagements, including identifying conflicts of interest and assessing their impact on accepting or continuing an engagement.[5]

5 Set out in paragraph 4.14 of APES 320.

International best practice for ethical standards

In May 2022, the IESBA released the Benchmarking International Independence Standards Report, a study comparing the IESBA's International Code – in particular, the independence provisions applicable to audits of financial statements of Public Interest Entities (PIEs)[6] – with the relevant rules of the US Securities and Exchange Commission (SEC) and the US Public Company Accounting Oversight Board (PCAOB).

The benchmarking analysis offered valuable insight into how the International Code (used as the base standard in over 130 jurisdictions) aligns with the US rules (used only in one jurisdiction). The report identifies similarities and differences between the International Code and the US SEC and PCAOB rules in areas of key interest to stakeholders, including the permissibility of non-assurance services (NAS) to audit clients, fees, long association with an audit client, and business and financial relationships.

Australia, New Zealand, the UK and many Commonwealth countries adopt a principles-based standards approach rather than the rules-based approach adopted in the US. Despite these differences, the IESBA's International Code's auditor independence requirements align well with the US independence rules. The study found that both independence frameworks include overarching principles supported by specific requirements and specify the fundamental principles for assessing an auditor's independence.

The study also helped strengthen public confidence in the robustness of the International Code. Because the Australian Code, APES 110, is based on the IESBA's International Code, we believe APES 110 is comparable to the auditor independence rules of the US SEC and PCAOB and represents global best practice. APESB also notes that the UK FRC's Relevant Ethical Standard is based on the IESBA's International Code and, therefore, contains comparable auditor independence requirements to APES 110.

Enforceability of professional and ethical standards

APESB notes the comments raised in the Options Paper about the enforceability of professional and ethical pronouncements and considers that the explanation below would be beneficial.

APESB's standards development process is one of professional collaboration. APESB consults extensively with regulators, international and national standard-setters, professional accounting bodies, firms, accountants in public practice and business and government agencies as part of its transparent standard-setting process. This approach ensures that APESB's pronouncements effectively address key concerns or ethical matters that regulators are monitoring.

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[6] Public Interest Entities, as defined in APES 110, include:

(a) A Publicly Traded Entity (Includes a listed entity as defined in Section 9 of the *Corporations Act 2001*);

(b) An entity one of whose main functions is to take deposits from the public;

(c) An entity one of whose main functions is to provide insurance to the public; or

(d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15 (being the significance of the public interest in the financial condition of the entity).

APESB pronouncements are a key element in the monitoring, oversight and enforcement functions performed by regulators. This is evident through the integration and references to APESB pronouncements by the regulators across a range of services:

- the TPB integrates APESB pronouncements in their Code and practice notes (refer to Appendix D for further details on the specific pronouncements and references);
- the ATO includes references to APESB pronouncements in their guidance, practice statements, legislative instruments, as well as their forms and instructions (refer to Appendix E for further details on the specific pronouncements and references);
- APRA prudential standards (e.g. Prudential Standards CPS 510 *Governance* and SPS 410 *Governance*) include requirements linking to APES 110;
- ASIC integrates APESB pronouncements into its regulations and information sheets across audit, insolvency services and corporate finance services (refer to Appendix F for further details on the specific pronouncements and references).

Courts also use APESB pronouncements APES 215 *Forensic Accounting Services,* APES 225 *Valuation Services* and APES 330 *Insolvency Services* in deciding cases involving matters involving insolvency, forensic and valuation services.

Regulators can monitor and enforce compliance using APESB's pronouncements, as demonstrated in the monitoring and enforcement activity for SMSF audits by ASIC and the ATO, and the ASIC Statutory company auditor independence and conflict of interest review as outlined in Appendix B. In addition, in July 2026, ASIC wrote to all Australian registered company auditors reminding them of the need to comply with their obligations under the *Corporations Act 2001* and APES 110. The obligations include being independent, providing accurate, complete and timely information to ASIC, reporting relevant matters to ASIC and acting ethically. ASIC has reinforced that auditor misconduct is one of its specific enforcement priorities and it will take action if there is evidence that auditors are not meeting their obligations.

ASIC's actions in these matters show increasing regulatory expectations that auditors actively identify, evaluate and address threats to independence in accordance with APES 110 and that ASIC will impose sanctions based on the facts and circumstances and whether requirements, including principles-based requirements, have been complied with.

In developing the international ethics and independence standards, the IESBA explicitly considers whether the standards are capable of being enforced. The standards are developed through a rigorous due process that incorporates input from global and regional regulators[7] and oversight by the Public Interest Oversight Board (the PIOB). The standards must meet the PIOB's Public Interest Framework[8] which lists enforceability as a key characteristic required of a standard.

Other jurisdictions such as the UK, New Zealand, Hong Kong, Singapore and Malaysia that adopt or use the IESBA's International Code as the basis for their local standards have been able to take enforcement action as necessary. This includes sanctioning of auditors and firms for failing during the course of an audit to exercise appropriate "professional scepticism" (which is a term defined in

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[7] In particular, the International Organization of Securities Commissions (IOSCO), the International Forum of Independent Audit Regulators (IFIAR) and the Committee of European Auditing Oversight Bodies (CEAOB).

[8] Refer to the PIOB's *Integrated Due Process and Public Interest Framework (PIF) Operating Procedures* for the other key elements of the Public Interest Framework to be embedded in international standards.

auditing standards and is equivalent in substance to the concept of an inquiring mind in the IESBA's International Code and APES 110).[9]

In APESB's view, therefore, the key issue is not whether principles-based standards are enforceable or whether the standards are not fit for purpose, but whether the relevant monitoring and enforcement bodies in Australia have the necessary powers, resources and legislative recognition to enforce the professional and ethical standards and impose penalties.

Increasing legislative recognition for professional and ethical standards

Legislative instrument ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements* (originally operative from 1 January 2010) provides legislative backing for the Code (APES 110), incorporating auditor independence requirements. Accordingly, APES 110 has the force of law for audits and reviews performed on entities subject to the *Corporations Act 2001* and is mandatory. However, APESB's other pronouncements are not legislatively supported, although they are mandatory professional requirements for members or firms of the three professional accounting bodies.

APESB is of the view that increasing the prominence of the ethical standards and providing legislative recognition would improve compliance and enforceability. This is evidenced by the approach in which the Tax Practitioners Board's Code of Professional Conduct has been effectively incorporated into legislative and regulatory regimes.

Accordingly, APESB considers that the focus of reform should be on strengthening the mechanisms that enhance compliance, monitoring and enforcement, rather than on whether professional and ethical standards are capable of being enforced. Legislative recognition, together with independent and adequately resourced monitoring and oversight, would further enhance compliance, enforceability and public confidence.

In considering the options in Section 1, APESB encourages Treasury to ensure that any reforms implemented preserve the benefits of globally aligned principles-based accounting, auditing and ethical standards, which include scalability and the exercise of professional judgement, while also addressing any gaps in firm-level accountability, monitoring and enforcement. We have set out additional comments on these specific options below.

As noted in our response to the options in Section 4 below, APESB would also support consideration of an independent body, appropriately funded and separate from ASIC, to provide broader oversight where existing regulatory arrangements do not adequately cover all relevant services or firms.

APESB would welcome the opportunity to work with Treasury, regulators and other stakeholders to identify and implement measures that improve the compliance, monitoring and enforceability of professional and ethical requirements within the Australian regulatory framework.

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[9] For example, in July 2026 the UK FRC imposed sanctions against an individual auditor and PricewaterhouseCoopers LLP for failing to use professional scepticism in audits for Babcock International Group Plc.

Option 1A: Require reporting entities to obtain audit services only from audit firms licensed by ASIC, with quality management and ethical obligations imposed as ongoing conditions of holding their licence

APESB supports initiatives that enhance compliance with quality management and ethical obligations.

The proposed firm-level licensing model could enhance the regulatory framework by making compliance with quality management and ethical obligations ongoing conditions of an ASIC licence and could clearly encapsulate firms that are structured as partnerships (including the divisions of the firms that provide consulting or non-assurance services).

Registered company auditors and authorised audit companies are already required to meet licensing obligations to provide statutory company audits that meet *Corporations Act 2001* requirements. In addition, they are required under s307A of the *Corporations Act 2001* to comply with the auditing and assurance standards while performing their audits, which include quality management standards and the professional and ethical standards issued by the APESB. Any additional licensing requirements would therefore need to be carefully scoped to avoid conflicting or overlapping obligations and disproportionate cost, particularly for smaller firms.

While the proposed change intends to capture the large firms structured as partnerships, it may also reduce clarity around the personal obligations of the individual registered company auditor. Any reform would therefore need to preserve individual obligations while ensuring that firm-level responsibilities are clearly defined, proportionate and aligned with existing quality management and ethical requirements.

Therefore, APESB would support deeper consideration of this proposed reform against the existing landscape of requirements to avoid unnecessary duplication. If additional firm-level obligations are considered necessary, APESB is of the view that they should be imposed directly on the audit firms, rather than on reporting entities.

Option 1B: Require RCAs to comply with professional conduct obligations as an ongoing obligation of registration

APESB notes that the current registration form to register as a Registered Company Auditor in Australia requires the applicant to be a member of a professional accounting body in Australia or be assessed as being competent by those bodies.[10] Members of professional accounting bodies and firms authorised by these bodies in Australia are already required to comply with APESB ethical standards and therefore need to meet ongoing professional conduct obligations.

APESB is of the view that APES 110 is the appropriate foundation for establishing professional conduct obligations. APES 110 is based on international best practice, tailored to the Australian market as required, and is consistent with the principles-based approach applied in Australian accounting and auditing standards. For audits and reviews performed under the *Corporations Act 2001*, APES 110 already has legislative backing through ASA 102.

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[10] Refer to the ASIC website at https://download.asic.gov.au/media/3929852/checklist-application-for-registration-as-an-auditor-6-july-2016.pdf

However, APESB is of the view it is vitally important to increase the prominence of ethical standards. While the current focus on ethical issues has highlighted the importance of ethics, providing legislative recognition with appropriate penalties for non-compliance would contribute to improving compliance and enforcement of the standards. We encourage Treasury to specifically consider whether legislative recognition for the professional and ethical standards would enhance the current regulatory framework.

Option 1C: Require all partners of multidisciplinary firms to meet 'fit and proper person' requirements to maintain audit firm registration

APESB supports the objective of ensuring that individuals who can influence the conduct, culture and governance of multidisciplinary firms meet appropriate standards of integrity and accountability.

APESB notes that multidisciplinary firms may include partners who do not perform audit work and who may not be members of the professional accounting bodies. This can create inconsistency in the application of professional and ethical obligations across the firm, particularly where non-audit or consulting partners are outside the current membership-based framework. Requiring relevant partners to meet fit and proper person requirements could help address this gap, provided the requirement is targeted to those with governance, leadership, ownership or operational influence over the audit firm or its systems of risk management and quality management.

Section 2: Options to eliminate structural conflicts of interest in multidisciplinary firms

APESB supports measures that would address genuine structural conflicts of interest in multidisciplinary firms but considers that reforms should be targeted to the source of the risk and should recognise the existing robust and comprehensive independence, conflicts of interest and non-assurance services requirements in APES 110.

APESB considers that the requirements of existing APESB pronouncements and the *Corporations Act 2001* effectively address the provision of audit services and non-audit services in multidisciplinary firms, particularly in the context of managing conflicts of interest and maintaining the auditor's independence.

APES 110 sets out the requirements for professional accountants in public practice to identify and manage real and perceived conflicts of interest in their engagements in Section 310 *Conflicts of Interest*.[11] Before accepting a new client relationship, engagement or business relationship, APES 110 requires professional accountants to take reasonable steps to identify circumstances that might create a conflict of interest.[12]

Professional accountants must also remain alert to changes in the nature of activities or services, interests and relationships that might create a conflict of interest while performing professional activities or engagements.[13]

Consistent with global best practice established in the IESBA International Code, APES 110 also sets out specific prohibitions relating to the provision of non-assurance services to audit clients and in respect of professional activities, interests and relationships of all audit clients. In addition, there are more prohibitive restrictions for services and activities provided to an audit client that is a Public Interest Entity. APES 110 directly prohibits certain services and activities outright, prohibits others based on specific factors such as having a material impact on the financial statements, and also lists other services, interests, and relationships that need to be assessed to determine whether they are permissible services and activities. Refer to Appendix I for an extract of the current APESB prohibition document.

The principles-based approach in APES 110 allows for the consideration of new services and technological advances, which may result in new activities that might make sense for an auditor to perform if it utilises information already subject to audit.

The prohibitions ensure professional accountants comply with the fundamental principles in APES 110 and make it explicitly clear which circumstances or situations create a conflict of interest that cannot be appropriately managed.

The management of conflicts of interest is also addressed in APES 320. APES 320 requires firms to establish and maintain a system of quality management for non-assurance services, including consulting services. This includes establishing policies and procedures for accepting and continuing client relationships and specific engagements, including identifying conflicts of interest and assessing their impact on accepting or continuing an engagement.[14]

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[11] Note that professional accountants in business are also required to manage conflicts of interest by applying the requirements in Section 210 *Conflicts of Interest* of APES 110.

[12] As specified in paragraphs R310.5 to 310.5A3 of APES 110.

[13] Specified in paragraph R310.6 of APES 110.

[14] Set out in paragraph 4.14 of APES 320.

APESB does not consider that there are deficiencies in its standards or in laws and regulations concerning managing conflicts of interest for accounting and auditing practitioners. APESB considers that the existing professional and ethical requirements already provide a robust framework for managing conflicts between audit and non-audit services, particularly for audit clients and that any further reforms should focus on strengthening monitoring, enforcement and transparency rather than pursuing measures such as structural separation, which could lead to unintended consequences as described below.

In addition, the potential broader impact on the audit profession of any structural changes needs to be carefully considered. For example, the need to undertake complex multi-national audit and assurance services requires a diverse set of expertise across many technical areas including taxation, financial instruments and actuarial services. Separating audit practices from these complementary service lines could diminish access to specialist knowledge and negatively impact audit quality. This may also impact the attractiveness of the profession to future audit professionals if it creates limitations on career opportunities.

Option 2A Prohibit reporting entities from engaging their auditor for non-audit services

APESB does not support a blanket prohibition on reporting entities engaging their auditor for all non-audit services. As noted above, APES 110 already imposes specific prohibitions relating to the provision of certain non-assurance services (refer to Appendix I).[15]

Table 1 below sets out the revenue composition for the Big 4 firms for the 2024/25 Financial Year developed using information in the firms' transparency reports. Revenue from audit services accounts for about 20% of a firm's overall revenue, which is an increase from the 15% observed for FY2023.[16] The table also illustrates that the percentage of revenue of other assurance and non-audit services provided to audit clients in Big 4 firms in FY2025 is 6% on an aggregate basis, which is consistent with the percentage in FY2023. The major portion of the firm's revenue is earned from non-audit services to non-audit clients. In effect, the majority of the Big 4 firms' revenue is not earned from audit clients.

Table 1: Revenue composition for Deloitte, EY, KPMG and PwC (FY 2025)

Firm	Audits of financial statements (% of total revenue)	Other assurance/non-audit services for audit clients (% of total revenue)[17]	Non-audit services for non-audit clients (% of total revenue)
Deloitte	13%	4%	83%
EY	20%	5%	75%
KPMG	21%	6%	73%
PwC	27%	9%	64%
Combined	**20%**	**6%**	**74%**

Source: Compiled by APESB from (unaudited) revenue disclosures in the FY2025 transparency reports for Deloitte, EY, KPMG and PwC.

[15] Refer to APESB's guidance document *APES 110 Prohibitions applicable to Audit, Review and Sustainability Assurance Engagements* (November 2025)

[16] As noted in Table 2 on page 24 of Treasury's Consultation paper on the *Regulation of accounting, auditing and consulting firms in Australia* (May 2024).

[17] Note that a proportion of the other assurance/non-audit services for audit clients might also include audit-related services. That is, services that only the external auditor can provide.

The historical trend of the percentage of other assurance and non-audit services to audit clients shows a steady decline and a low percentage of the overall revenue of a big four. In addition, some of these other services might be classified as audit-related services that can only be provided by the entity's external auditor. The overall low percentage of revenue from other services to audit clients indicates that the existing requirements and prohibitions in the *Corporations Act 2001* and APES 110 are effective in restricting non-audit services to audit clients.

Further, if any change is proposed in relation to non-audit services to audit clients, APESB recommends that Treasury carefully consider the scope and intended purpose of the changes. For example, limiting any changes to PIE entities, rather than the broader reporting entity population. Please refer to Appendix B for further context on the scope of PIE and reporting entity.

Option 2B Achieve operational separation within existing structures

APESB considers that operational separation may be preferable to mandatory structural separation if Treasury determines that further action is required. Operational separation could be designed to strengthen audit independence, governance, resourcing and accountability while avoiding the significant cost, disruption and unintended consequences that may arise from forcing firms to structurally separate.

If this option is pursued, APESB suggests Treasury consider the UK model of operational separation, which creates a virtual separation of the audit business and the firm's other business by establishing separate governance and operational arrangements for the audit practice and the non-audit practice, with clear accountability for audit quality, and transparency reporting on how the firm manages independence, culture and conflicts of interest.

Option 2C Mandate structural separation

APESB considers that mandatory structural separation would be a significant intervention and should not be pursued without clear evidence that existing independence requirements, enhanced monitoring, transparency and operational separation would be insufficient to address the identified risks. The available evidence indicates that non-audit services provided to audit clients constitute only a small proportion of the overall revenues of major firms, with most of the revenue derived from non-audit clients, as demonstrated in Table 1 above.

Structural separation may impose substantial cost and complexity on firms, take considerable time to implement and could impact audit quality, market capacity and the availability of specialist expertise. We do not believe that there is compelling evidence that structural separation would be effective in addressing the professional and ethical issues that have arisen in Australian firms, particularly as we are not aware of a global precedent where structural separation has been enacted in another jurisdiction. Accordingly, we believe that other proportionate reforms in monitoring and enforcement in conjunction with the existing independence requirements and ethical standards are adequate.[18]

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[18] A recent example of attempted structural separation globally was initiated by EY and subsequently discontinued: EY halts plan to split firm *AFR 12 April 2023.*

Option 2D Broader reform

APESB supports broader reform that addresses gaps in the regulation of consulting and other non-audit services, including monitoring of compliance with, and enforcement of, legal, regulatory and professional and ethical requirements. APESB encourages Treasury to consider reforms that provide legislative recognition for professional and ethical standards, improve transparency of professional services fees, establish or strengthen oversight of consulting services, and consider whether a profession-agnostic code of ethics or specific standard for consulting services should be developed. Such measures would more directly address conflicts of interest, confidentiality obligations, financial interests and business relationships across professional services firms.

Section 3: Options to support increased governance of audit firms

APESB notes the concerns about the governance mechanisms in place in large accounting partnerships, especially as there is currently no prescribed requirement or mandate for partnerships to implement consistent governance structures in Australia.

APESB supports the consideration of governance requirements for large audit firms, particularly where those firms audit public interest entities or provide services to entities that have significant public interest responsibilities.

APESB would like to draw Treasury's attention to the fact that the International Ethics Standards Board for Accountants (IESBA) is currently undertaking a Firm Culture and Governance (FCG) project that focuses on the role that firm leadership, governance arrangements and organisational culture play in promoting ethical behaviour within a firm and supporting the firm in acting in the public interest.

The objective of the project is to develop a global, principles-based culture and governance framework that promotes, supports and reinforces a high standard of ethical behaviour by firm leadership, partners and staff across all service lines. The framework is intended to provide firms with a consistent global benchmark to assess and strengthen their ethical culture and governance practices, while complementing existing requirements in the IESBA International Code and quality management standards.

The eight elements that form the structure of an FCG Framework are:

- Ethical leadership,
- Oversight and governance,
- Independent input,
- Accountability across the firm,
- Incentives and disincentives,
- Open discussion and challenge,
- Education and training, and
- Transparency.

The IESBA has determined to update the International Code with a single, overarching requirement relating to firm culture and governance, supported by application material and is currently undertaking its due process to develop this standard. Further information on this project and the eight FCG elements is set out in Appendix G of this submission. An Exposure Draft is currently planned for December 2026, with final approval of the new provisions targeted by the end of 2027.[19]

APESB's CEO, Channa Wijesinghe, is currently a public interest Board Member and Vice-Chair of the IESBA. Mr Wijesinghe was the Chair of the FCG Working Group and is currently the Lead Board Advisor to the FCG Project. This provides a vital opportunity for the Australian perspective to be heard in the global standards development process.

[19] Further information on this project is available on the IESBA website at https://www.ethicsboard.org/firm-culture-and-governance.

Given APESB's CEO's active involvement in the IESBA's FCG project, APESB would be pleased to keep Treasury informed of key developments as the project progresses. Given the international focus on firm-wide governance, culture and public interest responsibilities, any Australian reforms should align with emerging international requirements and avoid unnecessary duplication or inconsistency with the IESBA's proposed FCG framework.

Option 3A Impose new governance requirements on large audit firms

APESB would support any initiatives that will enhance firms' governance requirements, particularly where those firms audit public interest entities or provide services to entities that have significant public interest responsibilities.

Firms are currently required to meet the governance and risk management requirements of APES 325. APESB considers that, where additional governance measures are warranted, these could be incorporated into APES 325 to strengthen leadership accountability, firm culture, risk management and public interest responsibilities. Alternatively, other mechanisms should be built upon the foundation created by APES 325.

APESB notes that the IESBA's FCG project is expected to introduce requirements relating to firm culture and governance. Any potential Treasury reforms should be considered in light of these developments.

Another mechanism to implement new governance requirements could be to treat large firms as if they are Public Interest Entities (PIEs) for financial reporting purposes. This change could be implemented by:

- mandating the categorisation of large firms with substantial revenue, assets and workforces as PIEs;
- requiring large firms to prepare general purpose financial reports, including the disclosure of remuneration and information relating to their operations, and subject them to audit or alternatively adopting the disclosing entities disclosure requirements of the *Corporation Act 2001*; and
- adopting remuneration and accountability practices observed in APRA-regulated listed entities.

APESB considers that this approach would enable the relevant firms to maintain their partnership structure while being treated as reporting entities, thereby bringing transparency to their financial and operational practices and remuneration disclosures. This measure could also be applied more broadly to all professional services firms that provide services of interest, such as consulting services.

APESB is also aware of multiple measures undertaken by the UK Financial Reporting Council (UK FRC) to strengthen corporate governance, audit practices and reporting in the UK. These developments in the UK could provide valuable insights when considering potential reforms to the regulatory framework in Australia.

The Big Six firms in the UK are Limited Liability Partnerships (LLPs) under the Limited Liability Partnerships Act 2000 and are subject to audit and disclosure requirements on partner remuneration. UK firms are also required to have at least three independent directors on their Boards.

It may be useful for the Treasury to consider the UK reporting requirements for partnership structures in the Limited Liability Partnerships Act 2000, the UK Audit Firm Governance Code and the Principles of Operational Separation.

However, any Australian requirements should be capable of being scaled by firm size, complexity and public interest impact, and should avoid duplication with existing or forthcoming requirements, including the IESBA's work on firm culture and governance.

Option 3B Reduce the partnership limit for accounting firms and require a percentage of partners to be registered to deliver regulated services

APESB considers that reducing the partnership limit and requiring a percentage of partners to be registered to deliver regulated services is a matter of government policy.

Option 3C Require reporting entities to obtain audit services only from an authorised audit company

APESB is of the view that alternative methods could be explored to address the issues of governance and transparency associated with partnership structures with relatively low implementation costs rather than mandating a company structure for firms, as noted in our response to option 3A above.

If changes are proposed to the provision of non-audit services to audit clients, APESB recommends that Treasury carefully consider their scope and purpose. For example, any changes could be limited to PIEs rather than applied to the broader reporting entity population. Please refer to Appendix B for further context on the scope of PIE and reporting entity.

Section 4: Options to strengthen audit surveillance

The current regulatory framework for professional accountants is a co-regulatory framework whereby several bodies monitor and oversee the different services provided by professional accountants, including auditors. Some specific services that professional accountants provide are overseen by particular regulators, such as:

- audit services (for entities reporting under the *Corporations Act 2001*) are regulated by the Australian Securities and Investments Commission (ASIC);
- tax services are overseen by the Tax Practitioners Board (TPB); and
- all other services that professional accountants provide will fall under the monitoring and enforcement of the relevant professional bodies, such as CA ANZ, CPA Australia and IPA.

With oversight responsibilities shared among different parties and subject to different monitoring and enforcement processes, the proposed reforms will need to be appropriately targeted.

The adequacy of ASIC's monitoring and enforcement program has been under scrutiny over the past few years, with concerns raised at parliamentary inquiries and within an FRC Audit Quality Report about the resources allocated to this program and the breadth and robustness of the reviews.

APESB is pleased to note that ASIC will increase the number of audit files reviewed as part of their upcoming audit surveillance program; however, we query whether this will sufficiently cover all firms and the scope of their services. APESB would be supportive of ASIC's audit review program reviewing more audit files on an annual basis and publishing the findings of the reviews. More frequent and transparent audit surveillance, in alignment with equivalent initiatives in other jurisdictions, would assist in identifying systemic issues, promoting consistent application of standards and improving confidence in the quality of audits performed under the *Corporations Act 2001*.

APESB suggests that Treasury should also consider whether the surveillance model should include reviews of governance and quality management systems, consistent with international approaches such as the UK FRC model. APESB provided information on this program as part of its responses to questions on notice for the Finance and Public Administration References Committee inquiry into the Management and assurance of integrity by consulting services (refer to question 2). APESB encourages the Treasury to consider whether the UK FRC's approach could help inform reforms to address concerns about the current Audit oversight program in Australia.

As ASIC's mandate is limited to audit services provided under the *Corporations Act 2001* and not all services provided by firms to clients, APESB has considered whether the regulatory landscape would be more effective by introducing a new independent regulator to oversee the monitoring and disciplinary activities of professional services firms (accounting and other consultants), which may not currently be subject to appropriate regulatory oversight.

APESB acknowledges that such a change will impact the whole profession, not just the large firms. Therefore, before such reform is implemented, we urge the Federal Government to consider the breadth of accounting and consulting firms and ensure that any reforms are implemented without imposing undue burdens on Small and Medium Practitioners (SMPs) and sole practitioners.

We also acknowledge that establishing a new regulator takes time and significant resources. Therefore, APESB suggests the Federal Government may consider the practice adopted in the UK, where, since June 2016, the UK FRC has established Delegation Agreements. These agreements empower Recognised Supervisory Bodies (RSBs), which include professional bodies such as the Association of Chartered Certified Accountants (ACCA) and the Institute of Chartered Accountants in England and Wales (ICAEW), to carry out specific regulatory tasks delegated by the UK FRC. The UK FRC's Professional Bodies Supervision Team (PBS) oversees the activities of these RSBs. The delegated tasks[20] include:

- Applying technical standards, professional and ethical standards, and internal quality management for statutory auditors and their work;
- Applying eligibility criteria to determine individual eligibility for appointment as statutory auditors, maintaining a register of eligible auditors and making it available for inspection;
- Procedures for maintaining the competence of statutory auditors;
- Monitoring of statutory auditors and audit work; and
- Investigating and imposing sanctions when statutory auditors breach relevant requirements.

This UK system of oversight and delegation could be considered to strengthen Australia's current monitoring and enforcement systems.

Section 5: Options to improve sanctions and penalties

APESB notes that sanctions and penalties are primarily matters for Government, regulators and disciplinary bodies and are not within APESB's standard-setting mandate. Accordingly, APESB has not provided any comments on the design of the sanctions and penalties options.

[20] UK FRC, Delegation Agreement between FRC and ACCA (2022) (clause 2.1), 29 Jul 2022.

Section 6: Options to improve dynamism in the audit market

APESB supports measures that improve audit market dynamism and reduce risks associated with excessive auditor tenure, provided those measures are proportionate and do not impose unnecessary cost or disruption on reporting entities or the audit market. APESB understands that there can be significant costs for both reporting entities and audit firms in the audit tender process that need to be considered in developing any such measures.

Sections 540, 940 and 5540 of APES 110 set out independence requirements on long association (e.g. audit partner rotation).[21] The rotation of partners and leaders is a key action that can be taken to address familiarity and self-interest threats created by long association with an audit or assurance (including sustainability assurance) client. For audits of public interest entities, APES 110 mandates specific partner rotation, cooling-off periods and restrictions for key audit partners. The rotation requirements provide a guardrail around auditor objectivity and enable "fresh eyes" to be brought to audit engagements.

These existing requirements are an important tool in reducing the risks of excessive individual auditor tenure. They should be considered by Treasury when assessing whether additional measures, such as mandatory tendering or audit firm rotation, are necessary. APESB considers that transparency, governance oversight and accountability mechanisms may in some cases be preferable to mandatory audit firm rotation.

APESB also notes that the appointment and ongoing engagement of the external auditor is fundamentally a governance matter of the reporting entity which is subject to regular assessment. Audit committees and those charged with governance are best placed to assess whether the length of the auditor relationship is affecting, or may be perceived to affect, auditor independence and objectivity, having regard to the specific circumstances of the entity and the audit engagement.

If any change is proposed in relation to audit tenure, APESB recommends that Treasury carefully consider the scope and intended purpose of the changes. For example, limiting any changes to PIE entities, rather than the broader reporting entity population. Please refer to Appendix B for further context on the scope of PIE and reporting entity.

Option 6A Additional reporting obligations for reporting entities regarding auditor tenure

APESB would support additional reporting obligations regarding auditor tenure for reporting entities, if the disclosures enhance transparency and enable shareholders, audit committees and regulators to assess whether long tenure is creating familiarity or independence risks. The additional disclosures could include the length of auditor tenure and the governance considerations supporting the auditor's continued appointment.

[21] Further information on the long association requirements in APES 110 is available in the APESB Guidance document *Audit Partner and Sustainability Assurance Leader Rotation Requirements in Australia, Technical Staff Questions and Answers (July 2026)*.

Option 6B Mandatory periodic tendering for audit services

APESB considers that mandatory periodic tendering, alongside the existing long association requirements in APES 110, may introduce greater competitive scrutiny of existing audit arrangements and provide a structured opportunity for audit committees to assess auditor independence, quality and value.

APESB considers that a more proportionate approach would be to require periodic consideration by directors or audit committees of whether a tender should be undertaken, supported by public disclosure where the entity decides not to tender. This could operate on an "if not, why not" basis and require directors to explain how they have assessed audit quality, independence, tenure and market alternatives.

If any change is proposed in relation to periodic tendering for audit clients, APESB recommends that Treasury carefully consider the scope and intended purpose of the changes. For example, limiting any changes to PIE entities, rather than the broader reporting entity population. Please refer to Appendix B for further context on the scope of PIE and reporting entity.

Option 6C Mandatory audit firm rotation

APESB considers that mandatory audit firm rotation may address perceived familiarity threats associated with long auditor tenure. Still, it may also create unintended consequences, including loss of institutional knowledge, transition costs, constraints in specialist audit markets and reduced audit quality during transition periods.

APESB notes that other jurisdictions have raised concerns about the concept of mandatory audit firm rotation. For example, in Canada, regulators have decided not to implement mandatory firm rotation, as the long association requirements in their ethical standards, the need for audit committees to assess the independence of their external auditors, and strong regulatory oversight provide better safeguards against familiarity threats and promote higher audit quality.[22]

APESB suggests that Treasury consider whether the existing long association provisions supported by enhanced disclosure and governance accountability around periodic tendering could achieve the desired outcome more proportionately.

Further, if any change is proposed in relation to mandatory audit firm rotation, APESB recommends that Treasury carefully consider the scope and intended purpose of the changes. For example, limiting any changes to PIE entities, rather than the broader reporting entity population. Please refer to Appendix B for further context on the scope of PIE and reporting entity.

[22] As set out in *Investor Considerations on Audit Firm Tenure – 2026 edition* issued by the CCAQ (The Canadian Centre for Audit Quality).

Appendix B

Additional information about the accounting profession in Australia

Definitions and explanations in APESB Standards

A **Member in Public Practice** is a Member, irrespective of functional classification (for example, audit, tax or consulting) in a Firm that provides Professional Services. This term is also used to refer to a Firm of Members in Public Practice and means a practice entity and a participant in that practice entity as defined by the applicable Professional Body.

A **Firm** is:

(a) A sole practitioner, partnership, corporation or other entity of professional accountants or Sustainability Assurance Practitioners;

(b) An entity that controls such parties, through ownership, management or other means;

(c) An entity controlled by such parties, through ownership, management or other means; or

(d) An Auditor-General's office or department.

Paragraphs 400.4 and 900.3 explain how the word "Firm" is used to address the responsibility of Members and Firms for compliance with Parts 4A and 4B, respectively.

Paragraph 5400.4 explains how the word "Firm" is used to address the responsibility of individual Sustainability Assurance Practitioners and Firms for compliance with Part 5.

Monitoring and enforcement activity for SMSF auditors.

ASIC and the ATO are co-regulators of SMSF auditors. Both regulators monitor SMSF auditor conduct, with ASIC having the authority to disqualify, suspend, cancel or impose additional conditions on the registration of SMSF auditors.

APESB notes that ASIC has consistently acted against self-managed superannuation fund (SMSF) auditors due to breaches of professional obligations and ethical standards, including independence requirements. Table 2 shows the total actions announced by ASIC between 1 July 2022 and 30 June 2026.

Table 2: Summary of ASIC actions for SMSF Auditors

ASIC actions against SMSF auditor	FY 2025/26	FY 2024/25	FY 2023/24	FY 2022/23
Disqualified	8	7	15	15
Suspension	3	3	1	0
Imposed additional conditions	10	14	24	7
Cancelled registration	43	24	6	3
Total ASIC Actions	**64**	**48**	**46**	**25**

Statutory company auditor independence and conflict of interest review for FY 24/25

In October 2025, ASIC released a report[23] detailing the findings of a review into auditors' compliance with independence obligations conducted in FY 2024-25. The review found that auditors from firms of all sizes frequently failed to comply with independence and conflict of interest obligations, highlighting 15 likely breaches, including audit partner rotation, prohibited relationships and the provision of non-assurance services. Of note, the report criticised auditors who only considered explicit prohibitions and failed to apply professional judgement to identify less obvious threats, reflecting the importance of a principles-based independence assessment.

As a result of their FY 24/25 review, ASIC has taken action against the auditors in breach, including:

- Entered into three Court Enforceable Undertakings with auditors over audit rotation failures set out in Media Release 25-223.
- Issued an Infringement Notice to an authorised audit company for providing NAS prohibited under APES 110 set out in Media Release 25-221.
- Accepted the cancellation of the company auditor's registration for holding a prohibited relationship with multiple clients, providing NAS prohibited under APES 110 and maintaining a long association with clients set out in Media Release 25-195.

Context for reporting entity and public interest entities

The definitions of reporting entity and public interest entity (PIE) in Australia are intended to capture different subsets of entities for different purposes.

The definition of PIE is a defined term in APES 110 and is the basis on which the additional independence requirements in APES 110 apply. APES 110 distinguishes PIEs from other entities on the basis that there is significant public interest in these entities due to their potential impact on stakeholders. Accordingly, stakeholders have increased expectations regarding auditor independence.

The concept of reporting entity is not applied within APES 110 in relation to independence. The reporting entity population is substantially broader than the PIE population, and many reporting entities, notably large proprietary companies and most unlisted public companies, are not PIEs.

Definitions

A **reporting entity** is an entity required to prepare financial and sustainability reports under Chapter 2M.3 of the *Corporations Act 2001*. This includes disclosing entities, public companies, large proprietary companies, registered schemes, registrable superannuation entities and certain small proprietary companies.

An entity is a **Public Interest Entity** in APES 110 when it falls within any of the following categories:

(a) A Publicly Traded Entity*;

(b) An entity one of whose main functions is to take deposits from the public;

(c) An entity one of whose main functions is to provide insurance to the public; or

(d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15.

* Includes an entity that is listed, as defined in Section 9 of the *Corporations Act 2001*.

[23] See ASIC Report 817 *Building trust: Auditor compliance with independence and conflict of interest obligations'*

Paragraph AUST R400.23.1 sets out the entities in Australia that will generally be classified as PIEs:

- Authorised deposit-taking institutions (ADIs) and authorised non-operating holding companies (NOHCs) regulated by the Australian Prudential Regulation Authority (APRA) under the *Banking Act 1959*;
- Authorised insurers and authorised NOHCs regulated by APRA under the *Insurance Act 1973*;
- Life insurance companies and registered NOHCs regulated by APRA under the *Life Insurance Act 1995*;
- Private health insurers regulated by APRA under the *Private Health Insurance (Prudential Supervision) Act 2015*;
- Disclosing entities as defined in Section 111AC of the *Corporations Act 2001*;
- Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeship that have five or more members, regulated by APRA under the *Superannuation Industry (Supervision) Act 1993*; and
- Other issuers of debt and equity instruments to the public.

Firms are also required under paragraph AUST R400.24 to determine whether to treat additional entities as PIEs based on several factors.

Appendix C

APESB's Professional and Ethical Standards

APESB's Professional Standards	
APES Series	Name of Standard
All Members	
APES 110	Code of Ethics for Professional Accountants (including Independence Standards)
APES 205	Conformity with Accounting Standards
APES 210	Conformity with Auditing and Assurance Standards
APES 215	Forensic Accounting Services
APES 220	Taxation Services
APES 225	Valuation Services
APES 230	Financial Planning Services
APES GN 20	Scope and Extent of Work for Valuation Services
APES GN 21	Valuation Services for Financial Reporting
Members in Public Practice	
APES 305	Terms of Engagement
APES 310	Client Monies
APES 315	Compilation of Financial Information
APES 320	Quality Management for Firms that provide Non-Assurance Services
APES 325	Risk Management for Firms
APES 330	Insolvency Services
APES 345	Reporting on Prospective Financial Information prepared in connection with a Public Document
APES 350	Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document
APES GN 30	Outsourced Services
APES GN 31	Professional and Ethical Considerations relating to Low Doc Offering Sign-offs
Members in Business	
APES GN 40	Ethical Conflicts in the Workplace – Considerations for Members in Business
APES GN 41	Management Representations

Appendix D

TPB references to APESB's Pronouncements

TPB references	APESB Pronouncements
Current TPB Guidance	
TPB(GS) 01/2010 Code of Professional Conduct	APES 110 APES 220 APES 310 APES 320
TPB(GS) 20/2012 Holding money or other property on trust	APES 310
TPB(GS) 22/2013 Reasonable care to ascertain a client's state of affairs	APES 110 APES 220
TPB(GS) 24/2014 Managing conflicts of interest	APES 110 APES 220
TPB(GS) 26/2014 Confidentiality of client information	APES 110 APES GN 30
TPB(GS) 31/2018 Outsourcing and offshoring of tax services - Code of Professional Conduct considerations	APES GN 30
TPB(GS) 34/2019 Letters of engagement	APES 305
TPB(GS) 49/2024 Upholding and promoting the ethical standards of the tax profession	APES 110 APES 220
TPB(GS) 50/2024 False or misleading statements	APES 110 APES 220
TPB(GS) 51/2024 Managing conflicts of interest when undertaking activities for government and maintaining confidentiality in dealings with government	APES 110 APES 220 APES GN 30
TPB(GS) 52/2024 Obligation to keep proper client records of tax agent services provided	APES 110 APES 220 APES 320
TPB(GS) 53/2024 Supervision, competency and quality management under the Tax Agent Services Act 2009	APES 110 APES 220 APES 320
TPB(GS) 55/2026 The use of Artificial Intelligence and the Code of Professional Conduct	APES 110
TPB Web Content, FAQs and Webinar Materials	
The Code Determination - Supervision, competency and quality management	APES 320
FAQs - Code Determination FAQ: *"How can tax practitioners comply with the new obligations?"* Answer: The additional obligations also leverage material from the work of other existing bodies, such as the Accounting Professional & Ethical Standards Board, which has developed and released substantial guidance material.	Refers to APESB as the source of substantial guidance material.

TPB references	APESB Pronouncements
Webinar resources - Ethics FAQ: *"Can a trust account be another bank account held by the business, separate to the operating business account?"* Answer: For TPB purposes, a trust account may be a separate bank account as long as this account is exclusively used only for handling client monies as instructed by respective clients. However, tax practitioners who are members of relevant professional bodies that have adopted the standards of the Accounting Professional and Ethical Standards Board (APESB), should also consider the APESB's guidance APES 310.	APES 310
Factsheet - Outsourcing and Offshoring	Refer to Accounting Professional & Ethical Standards Board for further guidance.

Appendix E

ATO references to APESB's Pronouncements

Guidance	
Auditor independence	APES 110
SMSF auditor independence compliance focuses	APES 110 APESB Independence Guide 5th Edition
SMSF auditor professional requirements	APES 110
What we look for when auditing an SMSF auditor	APES 110 APESB Independence Guide 5th Edition
Auditor independence and audit quality	APES 110
Independence standards for tax professionals with SMSF clients	APES 110 APESB Independence Guide 5th Edition
Market valuation for tax purposes	APES 225
Practice Statements and Legislative Instruments	
PS LA 2018/1 Self-managed superannuation funds – disqualification of an approved SMSF auditor	APES 110
LI 2024/20 Tax Agent Services (Code of Professional Conduct) Determination 2024	Refer to the obligations in the sections, which have been informed by standards issued by APESB, which can be viewed on the APESB website.
LI 2024/25 Explanatory statement – Tax Agent Services Act 2009	APES 110 APES 220 APES 320
Forms and Instructions	
Self-managed superannuation fund independent auditor's report (NAT 11466)	APES 110 APESB Independence Guide 5th Edition
Approved SMSF auditor checklist (NAT 75229)	APES 110 APESB Independence Guide 5th Edition

Appendix F

ASIC references to APESB's Pronouncements

Regulatory Guides and Legislative Instruments	
Regulatory Guide RG 115 Audit relief for proprietary companies (RG 115)	APES 315
Regulatory Guide 181 AFS licensing: Managing conflicts of interest (RG 181)	APES 110
Regulatory Guide 187 Auditor rotation (RG 187)	APES 110
Regulatory Guide 243 Registration of self-managed superannuation fund auditors (RG 243)	APES 110
Report 484 Due diligence practices in initial public offerings (REP 484)	APES 350
Report 799 ASIC's oversight of financial reporting and audit 2023–24 (REP 799)	APES 110
Report 817 Building trust: Auditors' compliance with independence and conflict of interest obligations (REP 817)	APES 110
Report 819 ASIC's oversight of financial reporting and audit 2024-25 (REP 819)	APES 110
Reports and Media Releases	
24-116MR Auditor and audit firm admit to independence failures	APES 110
25-195MR ASIC accepts cancellation of company auditor registration for independence failures	APES 110
25-221MR Nexia Perth Audit pays penalty because of alleged prohibited non-assurance services provided by firm	APES 110
26-010MR ASIC acts against 28 SMSF auditors, flags increased scrutiny on in-house audit breaches	APES 110
26-083MR ASIC accepts cancellation of company auditor registration after raising independence concerns	APES 110
ASIC Corporate Insolvency Update - Issue 29	APES 330
Independent Peer Review Summary Report - Hardwickes	APES 320
Regulatory Web Pages, Information Sheets and FAQS	
Auditor independence and audit quality	APES 110
Audit inspection and surveillance programs	APES 320
Your ongoing obligations as an SMSF auditor	APES 110
SMSF auditors - competency exam	APES 110
Registrable superannuation entity financial reporting and audit	APES 110
Letter to registered company auditors: Compliance with auditor obligations	APES 110
Liaison with auditing profession	Refer to Accounting Professional & Ethical Standards Board, for the domestic agencies and bodies that ASIC liaise with.
FAQs: Review or audit of sustainability reports FAQ 16: *"How do the auditor independence requirements apply where there is more than one auditor or lead auditor?"* Answer: Auditor independence requirements also apply under APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)*.	Refer to auditor independence requirements under APES 110

Appendix G

IESBA's Firm Culture and Governance Project

In 2024, the IESBA established a FCG Working Group to undertake research and analyse recent ethical failures in accounting firms globally, such as in South Africa, the US, the UK and Australia. APESB's CEO and IESBA Member Channa Wijesinghe chaired this Working Group. Through extensive research and global stakeholder engagement, the Working Group identified the key elements that promote an ethical firm culture and examined how governance, leadership and accountability mechanisms can reinforce ethical behaviour, enhance public trust and mitigate the risk of unethical conduct.

Based on the Final Report of the IESBA FCG Working Group, the IESBA agreed to proceed with a project to develop a global, principles-based culture and governance framework that promotes, supports and reinforces a high standard of ethical behaviour by firm leadership, partners and staff across all service lines. The framework is intended to provide firms with a consistent global benchmark to assess and strengthen their ethical culture and governance practices, while complementing existing requirements in the IESBA Code and quality management standards.

The eight elements that form the structure of an FCG Framework and that are covered by the IESBA Viewpoints are:

- Ethical leadership,
- Oversight and governance,
- Independent input,
- Accountability across the firm,
- Incentives and disincentives,
- Open discussion and challenge,
- Education and training,
- Transparency.

Together, these elements influence how ethical values are embedded in firms' decisions and behaviours, helping to establish an organisational culture that integrates ethics into decision-making at every level and across all service lines.

The Eight FCG Elements: Summary

This summary sets out the eight interconnected elements of the IESBA proposed Firm Culture and Governance (FCG) framework, comprising two key drivers — Ethical Leadership and Oversight & Governance — and six supporting elements. Together, these elements form a holistic structure for building and sustaining a strong ethical culture across the whole firm.

ELEMENT 1

Ethical Leadership

Driver Element

Ethical leadership sets the tone and direction across the firm. Senior leadership's own conduct, priorities, and visible commitment to ethical values determine whether ethics is treated as a genuine strategic priority or a compliance afterthought. As a driver element, it shapes how effectively the six supporting elements function, since staff calibrate their own behaviour against what leadership demonstrably values and rewards, not merely what policy documents state.

ELEMENT 2

Oversight and Governance

Driver Element

Oversight and governance guides leadership and builds trust by ensuring that ethical culture is actively monitored and reinforced rather than left to leadership's own discretion. This element calls for a named ethics oversight function with real authority. This includes standing up and challenging leadership decisions rather than a monitoring mechanism that relies entirely on the firm's own internal integrity. Alongside Ethical Leadership, it is the second key driver enabling the other six elements to function effectively.

ELEMENT 3

Independent Input

Supporting Element

Independent input brings impartial perspectives and challenge into the firm's decision-making, most notably through independent non-executives (INEs) who sit outside the partnership structure. This element provides a structural check on conflicts of interest, client acceptance decisions, and strategic choices that might otherwise go unexamined by those with a direct financial stake in the outcome.

ELEMENT 4

Accountability Across the Firm

Supporting Element

Accountability connects ethical values to individual responsibility, ensuring that expectations around ethical conduct apply consistently to every partner and staff member, not only those working on assurance engagements. This addresses a key gap where consulting, tax, and advisory partners can otherwise sit outside meaningful ethical accountability structures even as they operate under the same firm brand and culture.

ELEMENT 5

Incentives and Disincentives

Supporting Element

This element aligns rewards, remuneration, and career advancement with expected ethical behaviour, rather than allowing compensation structures to inadvertently reward revenue generation or client retention at the expense of professional scepticism and independence. It is often the hardest element to assess from public enforcement records alone, since incentive structures are rarely disclosed, yet it is frequently the underlying driver behind documented misconduct.

ELEMENT 6

Open Discussion and Challenge

Supporting Element

Open discussion and challenge enable early identification of ethical issues by fostering an environment where partners and staff feel safe raising concerns, disagreeing with more senior colleagues, or escalating red flags without fear of retaliation. Where this element is weak, problems tend to surface only once they have escalated into regulatory findings rather than being caught and resolved internally.

ELEMENT 7

Education and Training

Supporting Element

Education and training build ethical judgment and confidence over time, equipping partners and staff to recognise and navigate ethical dilemmas as they arise in practice rather than merely completing periodic compliance modules. Where training itself becomes compromised, for example, through exam-cheating incidents, this element's failure is particularly acute, since it undermines the very mechanism meant to build ethical capability.

ELEMENT 8

Transparency

Supporting Element

Transparency reinforces trust both internally and externally by ensuring that ethical culture, breaches, and governance arrangements are communicated openly to those charged with governance, to regulators, and to the public, rather than confined to narrow, audit-quality-focused disclosures. Weaknesses here manifest as withheld information from audit committees or delayed or incomplete self-disclosure of issues that a genuinely transparent culture would surface proactively.

Note: *The framework treats these eight elements as interconnected rather than as a checklist to be assessed in isolation. The two driver elements (1 and 2) enable the other six to function effectively, and weaknesses in one element frequently manifest as failures in another.*

At its June 2026 meeting, the IESBA agreed to proceed with a targeted update to the International Code that would establish a single, overarching requirement relating to firm culture and governance, supported by application material linked to these eight FCG elements. An Exposure Draft is currently planned for December 2026, with final approval of the new requirements targeted by the end of 2027. Further information on this project is available on the IESBA website at https://www.ethicsboard.org/firm-culture-and-governance.

Appendix H

Inaccuracies identified in the options paper

APESB appreciates the level of background information provided in the Options Paper. However, several matters would benefit from specific amendments to ensure the paper accurately reflects the existing APESB and assurance pronouncements and their application to firms and audit engagements.

Comment in Options Paper	APESB comments and clarifications
'Despite ASQM 1 being internationally developed and representing a comprehensive standard for firm-level quality management, many of its requirements are principles-based and broadly worded, which may make it difficult for courts to determine non-compliance or impose penalties.' (page 9)	• This statement appears to imply that requirements drafted using a principles-based approach are unenforceable. APESB is not aware of evidence suggesting that principles-based standards are incapable of effective enforcement. • The requirements denoted by an "R" in ASQM 1 and APES 110 have gone through a rigorous global due process to ensure enforceability and to which the global securities and audit regulators (e.g., IOSCO and IFIAR) have provided input. • The UK FRC has adopted the international equivalent of ASQM 1 and actively monitors compliance with ISQM (UK) 1 through its Systems of Quality Management Monitoring Program, reviewing firms' quality management systems, annual evaluations and remediation activities. • While ISQM (UK) 1 is a recent standard, the UK FRC has a longstanding history of taking regulatory action in relation to deficiencies in firm-wide quality control systems under the predecessor ISQC 1 framework, demonstrating that principles-based quality management requirements are capable of effective regulatory oversight and enforcement. • Courts routinely interpret principles-based statutory concepts (e.g. good faith, reasonableness and best interests). • The existence of professional judgement within a standard does not make the standard unenforceable. Courts and regulators regularly assess compliance with principles-based obligations across corporate, financial services and auditing legislation. • For example, in the CADB tribunal matter *ASIC vs Robert James Evett* (Matter No: 17/NSW20), the Board considered whether the auditor had used professional scepticism and professional judgement in the audits of Halifax in accordance with applicable auditing standards.
Issue: Lack of audit firm-level obligations *Description: …* In addition, several independence obligations in APES 110 may be more appropriate as firm-level obligations. This may include certain prohibitions on non-	• The Options Paper does not clearly note that APESB pronouncements contain obligations that apply at both the individual and firm level. • APES 110, APES 320 and APES 325 contain extensive **firm-level** obligations that may be relevant for Treasury's consideration of this issue. • APES 110 includes requirements that apply to **firms**, particularly in the Independence Standards for audits,

Comment in Options Paper	APESB comments and clarifications
audit services to audit clients (provided by non-audit partners). (Table 3, row 1, page 11)	reviews and other assurance engagements. Parts 4A, 4B and 5 of APES 110 include requirements that address the responsibilities of **firms** in relation to independence, interests, relationships, activities and the provision of non-assurance services. • Section 600 of APES 110 sets out the requirements and **prohibitions** for the provision of non-assurance services. The requirements in this section apply to **firms**. The prohibitions may assist Treasury's assessment of whether this issue is addressed in the current professional and ethical standards framework. Refer to Appendix I for further details on the established prohibitions for firms. • APES 325 and APES 320 also establish **firm-level** obligations. • APESB encourages Treasury to consider the requirements of APES 325, which require firms to establish and maintain risk management frameworks. • These existing APESB requirements demonstrate that the identified issue is already addressed within the current professional and ethical standards framework.
Issue: Current ethical standards are challenging to enforce in the Australian legislative framework *Description: …* The ethical and independence standards contained in APES 110 are not well suited to enforcement with criminal penalties by a court, nor for the Companies Auditors Disciplinary Board (CADB) to determine whether an RCA should be deregistered. This is because: • APES 110 is drafted to apply to 'members' of the PABs, whereas the obligation via ASA 102 (under the Corporations Act) is on RCAs, AACs, and lead auditors • many of the expectations in APES 110 are principles-based and do not impose obligations directly relating to the conduct of audits (as is required by Corporations Act, s 307A).[24] Therefore, APES 110 is not suited for the application of penalties or consideration of whether an audit standard has been breached • certain obligations are not relevant to RCAs, AACs, or lead auditors, and	• APESB considers that the practical application and enforceability of the current ethical standards may need further consideration by Treasury, particularly given the existing extensive use of the standards by regulators and courts. • APESB pronouncements are currently referenced by regulators and courts as part of their monitoring, enforcement and disciplinary activities. • Any requirement in a principles-based standard is capable of being enforced. • The requirements denoted by an "R" in ASQM 1 and APES 110 have gone through a rigorous global due process to which the global securities and audit regulators (e.g., IOSCO and IFIAR) have provided input. • Auditors are required to comply with the requirements of APES 110 under ASA 102. • Auditors are a subset of the members that need to apply APES 110. • The creation of ASA 102, originally instigated by Treasury, was to make the Code legally enforceable and to also capture RCA's who were not current members of the professional bodies. • ASIC has taken enforcement action based on APES 110 requirements. Refer to Appendix B for details of the enforcement activity. • The concept of inquiring mind aligns with the concept of professional scepticism.

24 Corporations Act, s 307A requires an audit to be conducted in accordance with the auditing standards.

Comment in Options Paper	APESB comments and clarifications
may not be enforceable by a court. For example, APES 110 requires 'members' to avoid any conduct that they know, or should know, might discredit the 'profession'. Another example is the requirement for members to 'have an inquiring mind' when applying the 'conceptual framework' (Table 3, row 2, pages 11-12)	• Global and local regulators have taken action against auditors and audit firms on their application of professional scepticism and professional judgement. • For example, in the CADB tribunal matter *ASIC vs Robert James Evett* (Matter No: 17/NSW20), the Board considered whether the auditor had used professional scepticism and professional judgement in the audits of Halifax in accordance with applicable auditing standards. • The UK FRC Annual Enforcement Report for 2026 notes that during FY 25/26 there were seven cases involving insufficient use of professional scepticism where they undertook constructive engagement with firms, and an additional four audit investigations where professional scepticism was an issue. • The practical issue in Australia is whether monitoring and enforcement bodies have sufficient powers, resources and legislative support, rather than whether principles-based standards can be enforced.
Issue: The existing conflict of interest obligations in the Corporations Act would be more effective when combined with ethical standards that are better aligned to Australia's legislative framework *Description:* Unlike the prescriptive requirements relating to conflicts of interest under the Corporations Act, ASA 102 are APES 110 are code of ethics frameworks that are largely principles-based. ASA 102 and APES 110 require auditors to apply professional judgement when assessing professional or ethical issues that may arise in performing the audit function. ASA 102 and APES 110 also contain specific provisions to address key threats to auditor independence. Consequently, while the general auditor independence requirement in the Corporations Act is intended to cover all conflict of interest situations, there may be certain circumstances that do not contravene Corporations Act requirements. One example is the delivery of (certain) non-audit services by an audit firm to an audit client, which is prohibited under ASA 102, but not under the Corporations Act. (Table 3, row 3, page 12)	• APESB notes that principles-based requirements and legislative requirements can serve different but complementary purposes within a regulatory framework. • While a prescriptive legislative framework may provide clarity at a given time, a framework that incorporates principles-based requirements is better positioned to respond to emerging services, technologies and business practices. • Auditors are required to comply with both the requirements in the *Corporations Act 2001* and APES 110. • The principles-based method in APES 110 addresses circumstances that cannot be or may not be specifically identified in legislation. • APES 110 has been developed to align with globally recognised best practice. When required, provisions have been amended to align with Australian laws and regulations to ensure it is fit for purpose for the Australian environment.
Issue: Using APES 110 for the purposes of a legislative instrument creates enforcement challenges and risks	• The statement does not reflect that APES 110 is derived from internationally accepted standards developed under independent global public-interest oversight.

Comment in Options Paper	APESB comments and clarifications
Description: Legislative instruments that attract penalties are best prepared by a government body to ensure legal and enforcement risks are appropriately managed. This would also address perceived conflicts of interest associated with members of a profession crafting their own standards. (Table 3, row 4, page 12)	• APESB considers that further context regarding its governance arrangements may assist in distinguishing its role from traditional self-regulatory models. • APESB's governance arrangements with an independent chair and non-executive directors are specifically designed to address concerns that may arise when a profession is involved in developing the standards that apply to its members. • APESB is an <u>independent</u> standard setter with a public interest mandate and a governance structure that separates standard setting from the commercial and representative functions of the professional accounting bodies. • APESB's transparent due process, public consultation procedures and engagement with regulators and other stakeholders provide important safeguards against regulatory capture and ensure that professional and ethical standards are developed in a manner that serves the public interest and supports confidence in the profession.
In response to Treasury's Issues Paper, the largest audit firms,[18] PABs,[19] and the Accounting Professional and Ethical Standards Board (APESB) supported the creation of firm-level standards and expectations on audit firms. (page 12)	• This statement is inaccurate. APESB supported the development of a firm-level standard on management consulting. APESB did not advocate for the creation of firm-wide requirements where such obligations already exist in APESB's standards.
Ethical obligations on firms and individuals The AUASB flagged in its submission to the 2024 PJC Inquiry similar issues in the application of ethical standards to the application of quality management standards. It noted that ASA 102 requires auditors, assurance practitioners, engagement quality reviewers, and firms to comply with APES 110. It also identified that auditing standards (including ASA 102) are only enforceable against the lead auditor in the context of an audit firm, and only in relation to individual audits, whereas most of APES 110 is written to apply generally and not in the conduct of individual audits.[30] (page 13)	• This statement may not fully reflect the structure and operation of APES 110. • Parts 4A and 5 comprise a substantial portion (58%) of APES 110 and apply directly to audit, review and Sustainability Assurance Engagements. • The existence of overarching ethical principles does not mean the Code is not audit-focused or that its provisions are insufficiently specific. • Accordingly, it is inaccurate to say that most of APES 110 does not apply to the conduct of individual audits.

Comment in Options Paper	APESB comments and clarifications
This recognises that while there are benefits for the Australian financial system of having Australian ethical standards broadly aligned with international requirements, tailoring requirements to meet the needs of the domestic market, including domestic regulatory enforcement, is required.[40] Footnote 40: The UK Financial Reporting Council (UK FRC) attempts to align its ethical standards with the International Ethics Standards Board for Accountants (IESBA) Code of Ethics (which is the basis of APES 110). The UK has a tailored code that it has attempted to draft simply and provide additional clarity on the application of ethical standards. See UK FRC (2024) 'Revised Ethical Standard 2024'. (page16)	• APESB considers that footnote 40 does not accurately describe the relationship between the UK ethical requirements and the IESBA Code. • The UK Relevant Ethical Standard is based on, and substantively aligned with, the IESBA Code, while also incorporating jurisdiction-specific requirements for the UK environment. • While the UK standard contains a number of jurisdiction-specific features, there is significant commonality with the international standards. • APESB undertakes a due process when adopting international standards that ensures the standard is fit for purpose for the Australian environment. This includes incorporating Australian-specific requirements and guidance material when required. • APESB is often seen as a leader in the global standard-setting space. We consistently lead the way in the adoption of global requirements. We have also implemented requirements on the identification of PIEs in APES 110 and the establishment of risk management frameworks in APES 325, which are stricter than the global position. • APESB's due process includes consultation with regulators. APESB has engaged with regulators, such as the ATO and ASIC, to ensure the provisions of the Code are enforceable and suit the needs of the domestic market. Refer to Appendix B for examples of relevant enforcement undertaken relating to APESB pronouncements. • The public interest benefits of maintaining alignment with international ethics and independence standards should be recognised when considering any Australian-specific changes.

Conflicts of interest can arise in multidisciplinary firms for several reasons
• Audit partners operating in business with non-audit partners may be incentivised to 'go soft' on audit findings due to financial incentives stemming from the remuneration structure of the firm. This might arise if:
  – audit partners are profiting from the cross-selling of non-audit services (due to distributions within the partnership), either contemporaneously or after the client ceases to be an audit client
  – the economic viability of an audit engagement is reliant on the cross-selling of non-audit services.
• Auditors may be in a position to 'review their own firm's work', if the firm has
	• The Options Paper outlines several risks related to conflicts of interest. However, consideration should be given to the reforms and requirements that have already been introduced to address those risks.
	• The listed risks in the column to the left are already addressed in existing APES 110 requirements and prohibitions, for example:
	  ○ Para AUST R411.4 of APES 110 prohibits audit partners from being directly or indirectly incentivised from the cross-selling of non-assurance services to any audit client of the firm. This specific requirement was included in the Australian Code based on a recommendation from the 2019/20 PJC Audit Inquiry.
	  ○ Para R600.17 states that a Firm or a Network Firm shall not provide a non-assurance service to an Audit Client that is a Public Interest Entity if the provision of that service might create a self-review threat in relation to the audit of the Financial Statements on which the Firm will express an Opinion.

Comment in Options Paper	APESB comments and clarifications
provided advisory services related to financial reporting or internal controls. … • Increased familiarity with the management of audit clients, arising from the provision of non-audit services and/or cases where there are particularly long-term relationships between an audit firm and client, may compromise independence. (pages 18-19)	○ Section 540 of APES 110 sets out requirements relating to long association that address the risks of familiarity or long-term relationships with a client. • From a practical perspective, the fact that the average Big 4 firm revenue for other assurance and non-assurance services to audit clients is 6% means that these prohibitions have been effective in limiting other services to audit clients.
Footnote 49: Under APES 110, the prohibitions are more extensive for audit clients that are public interest entities (such as listed companies) and include services such as internal audit services and IT consulting for internal controls, valuations, and litigation support (all based on materiality thresholds). (page 20)	• Materiality is not used as the specific factor in all situations to determine whether a non-assurance service is prohibited. The key factor is whether the service will create a self-review threat. Refer to Appendix I for the prohibitions and the related specific factors for a range of non-assurance services.
The Australian requirements do not incorporate the following independence-related mechanisms adopted by some overseas jurisdictions: • **US** – audit committees of public companies are required to pre-approve all audit and non-audit services from their auditor firm. (page 20)	• The Options paper identifies this as a point of difference. However, APES 110 already contains substantively equivalent governance requirements for PIE audit clients. • APES 110 include specific requirements in paragraphs R600.22 to R600.25 of APES 110 on the role of those charged with governance of a PIE audit client in approving the provision of non-assurance services by their external auditor. • Accordingly, there are similarities between the Australian and US approaches for public companies in the oversight and approval of non-assurance services provided.

APESB
Accounting Professional & Ethical Standards Board

Appendix I

Extract from
APESB Prohibitions document

APES 110 Prohibitions applicable to Audit, Review and Sustainability Assurance Engagements

November 2025

Part 1 – Audit and Review Engagements

Table 1: Summary of APES 110 prohibitions relating to providing Non-Assurance Services to Audit Clients

Prohibition	All Audit Clients	PIE Audit Clients only	Non-PIE Audit Clients only
	Strictly Prohibited	Strictly Prohibited or by factors listed	Prohibited based on specific factors
Assuming management responsibility for a client (R400.20). When performing a professional activity for an audit client the firm must be satisfied that client management makes all judgements and decisions that are the proper responsibility of management (R400.21)	●		
Accepting an audit appointment where a non-assurance service that was previously provided might create a self-review threat unless the service ceases before the audit commences, the firm takes action to address any threats, and any threats have been or will be eliminated or reduced to an acceptable level (R400.32)		● Self-review	
Allowing the audit fee to be influenced by the provision of non-audit services (R410.6)[25]	●		
Compensating or evaluating a key audit partner based on that partner's success in selling non-assurance services to any audit client of the firm (AUST R411.4)[26]	●		
Managing the administration of an insolvent client (AUST R523.3.1)	●		
Serving as a company secretary (R523.4 & AUST R523.5)	●		
Non-assurance service that might create a self-review threat[27]		● Self-review (R600.17)[28]	● Conceptual Framework (R600.9, 600.14 A1 & R600.15)

25 This does not prevent the firm from taking into consideration the cost savings achieved from the experience of providing the non-audit services to the client when determining the audit fee (paragraph R410.7).

26 A firm must also take reasonable steps to ensure any profit-sharing arrangement is not a cross-subsidisation of the audit by other service lines or a mechanism to distribute indirect incentives based on the ability to sell non-assurance services to the firm's audit clients.

27 Paragraph R600.15 requires a determination of whether providing a non-assurance service might create a self-review threat by evaluating whether there is a risk that:

a) The results of the service will form part of or affect accounting records, internal controls over financial reporting, or financial statements; and

b) In the course of the audit, the audit team will evaluate or rely on any judgements made or activities performed by the firm or a network firm when providing the service.

28 Paragraph R600.18 provides an exception to paragraph R600.17 where firms may provide advice and recommendations to PIE audit clients in relation to information or matters arising in the audit provided the firm:

a) Does not assume a management responsibility; and

Prohibition	All Audit Clients	PIE Audit Clients only	Non-PIE Audit Clients only
	Strictly Prohibited	Strictly Prohibited or by factors listed	Prohibited based on specific factors
Subsection 601 **Accounting and Bookkeeping**			
Accounting and bookkeeping services, including preparing accounting records or financial statements (R601.5 & R601.6) subject to limited exceptions		● Self-review (R601.6)[29]	● Routine & Mechanical[30] (R601.5)
Subsection 603 **Valuation Services**			
Valuation services		● Self-review (R603.5)	● Materiality[31] and a significant degree of subjectivity (R603.4)
Subsection 604 **Tax Services**			
Tax services or recommending transactions related to marketing, planning, or opining in favour of a tax treatment initially recommended by the firm or a network firm, unless the firm is confident the treatment has a basis in applicable tax law or regulation that is likely to prevail (AUST R604.4)[32]	●		
Calculating current and deferred tax liabilities (or assets)		● (R604.10)	● Conceptual Framework (R600.9, 604.7 A1 to 604.9 A2)[33]

b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

Paragraph 600.18 A1 provides examples of advice and recommendations contemplated by paragraph R600.18.

29 Preparing statutory financial statements is allowed for certain related entities of PIE audit clients (as specified in subparagraphs (c) and (d) of the definition of related entity) and subject to conditions in paragraph R601.7.

30 Providing accounting and bookkeeping services to non-PIE audit clients is prohibited unless the services are of a routine or mechanical nature and the firm addresses any threats that are not at an acceptable level (paragraph R601.5). Routine or mechanical services involve information, data or material in relation to which the client has made any judgements or decisions that might be necessary and require little or no professional judgement (paragraph 601.5 A1 and refer to paragraph 601.5 A3 for examples).

31 Reference to materiality in this table refers to a material effect on the financial statements on which the audit firm will express an opinion. The concept of materiality is addressed in Australian Auditing Standard ASA 320 *Materiality in Planning and Performing an Audit.* The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors and is also affected by perceptions of the financial information needs of users.

32 The firm will need a high level of confidence it is likely to prevail, which will be gained if there is a high probability, if viewed objectively by applying the reasonable and informed third party test (paragraph AUST 604.4 A1.1). Paragraph AUST R604.4.1 requires the firm to document the factors considered and conclusions reached in determining that the tax treatment is not prohibited by paragraph AUST R604.4.

33 Reference to Conceptual Framework means that although the non-assurance services are not strictly prohibited, the auditor needs to consider whether the application of the conceptual framework would lead to the services being impermissible.

Prohibition	All Audit Clients	PIE Audit Clients only	Non-PIE Audit Clients only
	Strictly Prohibited	**Strictly Prohibited or by factors listed**	**Prohibited based on specific factors**
Tax advisory and tax planning services where the effectiveness of the advice depends on a particular accounting treatment or presentation in the financial statements and the audit team has doubt as to the appropriateness of that treatment or presentation (R604.13)	●		
Tax advisory and tax planning services		● Self-review (R604.15)[34]	● Conceptual Framework (R600.9, 604.11 A1 to 604.12 A3, and 604.14 A1)[18]
Valuation for tax purposes		● Self-review (R604.19)[35]	● Conceptual Framework (R600.9, 604.16 A1 to 604.18 A3)[19]
Providing assistance in the resolution of tax disputes		● Self-review (R604.24)	● Conceptual Framework (R600.9, 604.20 A1 to 604.23 A1)
Acting as an advocate for a client in the resolution of tax disputes before a tribunal or court		● (R604.26)	● Materiality (R604.25)

34 Tax advisory and tax planning services will not create a self-review threat if such services (a) are supported by a tax authority or other precedent; (b) are based on established practice that is commonly used and not been challenged by the relevant tax authority; or (c) has a basis in tax law that the firm is confident is likely to prevail (paragraph 604.12 A2).
The firm requires a high level of confidence it is likely to prevail which will be gained if there is a high probability, if viewed objectively by applying the reasonable and informed third party test (paragraph AUST 604.12 A2.1). Paragraph AUST R604.12.1 requires the firm to document the factors considered and conclusions reached in determining that the tax advisory and tax planning service satisfies paragraph 604.12 A2.

35 A valuation for tax purposes will not create a self-review threat if (a) the underlying assumptions are either established by law or regulation, or are widely accepted; or (b) the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority (paragraph 604.17 A3).

Prohibition	All Audit Clients	PIE Audit Clients only	Non-PIE Audit Clients only
	Strictly Prohibited	Strictly Prohibited or by factors listed	Prohibited based on specific factors
Subsection 605 Internal Audit Services			
Internal audit services[36]		● Self-review (R605.6)[37]	● Conceptual Framework (R600.9, 605.1 to 605.5 A1)
Subsection 606 Information Technology Systems Services			
Designing or implementing IT systems[38]		● Self-review (R606.6)[39]	● Conceptual Framework (R600.9, 606.1 to 606.5 A1)
Subsection 607 Litigation Support Services			
Litigation support services		● Self-review (R607.6)[40]	● Involving estimating damages or other amounts that affect the financial statements, materiality and a significant degree of subjectivity (607.4 A2 & R603.4)
Acting as an expert witness		● R607.9 (unless 607.7 A2 or A3 applies)[41]	● Conceptual Framework (R600.9, 607.7 A1 to 607.8 A1)

36 A firm must be satisfied that the client has taken management responsibility for the internal audit services as specified in paragraph R605.3.

37 Paragraph 605.6 A1 includes examples of internal audit services that are prohibited by paragraph R605.6, being services that relate to internal controls over financial reporting, financial accounting systems, or amounts or disclosures that relate to the financial statements.

38 A firm must be satisfied that the client has taken management responsibility for the information technology systems services as specified in paragraph R606.3.

39 Paragraph 606.4 A3 includes examples of designing or implementing IT systems services that are prohibited by paragraph R606.6, being IT systems that form part of the internal control over financial reporting, or generate information for accounting records or financial statements.

40 Paragraph 607.6 A1 includes an example of a litigation support service that is prohibited which is providing advice in connection with legal proceedings where there is a risk that the outcome of the service affects the quantification of any provision or other amount in the financial statements.

41 Paragraph 607.7 A2 states that a threat to independence is not created if an individual acts as a witness of fact and provides an opinion in the individual's area of expertise in response to a question asked in the course of giving factual evidence. Paragraph 607.7 A3 states that the advocacy threat from acting as an expert witness is at an acceptable level if the firm or a network firm is appointed by a tribunal or court, or is engaged in relation to a class action subject to listed criteria.

Prohibition	All Audit Clients	PIE Audit Clients only	Non-PIE Audit Clients only
	Strictly Prohibited	**Strictly Prohibited or by factors listed**	**Prohibited based on specific factors**
Subsection 608 **Legal Services**			
Legal advice		● Self-review (R608.7)	● Conceptual Framework (R600.9, 608.1 to 608.6 A1)
Serving as General Counsel (R608.9)	●		
Acting as an advocate for a client in resolving a dispute or litigation before a tribunal or court		● (R608.11)	● Materiality (R608.10)
Subsection 609 **Recruiting Services**			
Performing negotiations for a client as part of a recruiting service (R609.5)	●		
Recruiting services, including recommending persons or advising on employment terms, relating to positions as director or officer, or for a senior management position that can exert significant influence over accounting records or the financial statements (R609.6)[42]	●		
Subsection 610 **Corporate Finance Services**			
Promoting, dealing in, or underwriting a client's shares, debt or other financial instruments or providing advice on investment in such shares, debt or other financial instruments (R610.5)	●		
Corporate finance advisory services where the effectiveness of the advice requires a particular accounting treatment or presentation in the financial statements and the audit team has doubt as to the appropriateness of that treatment or presentation (R610.6)	●		
Corporate finance services		● Self-review (R610.8)	● Conceptual Framework (R600.9, 610.1 to 610.4 A1, and 610.7 A1)

42 The firm must be satisfied that the client has taken management responsibility when providing recruiting services for other positions that are not specifically prohibited (paragraph R609.3).

Table 2: Summary of APES 110 prohibitions relating to interests, relationships and actions for all Audit Clients

Prohibited Interests, Relationships and Actions
Acting where a conflict of interest compromises professional or business judgement (R310.4)
Receiving commissions or similar benefits for assurance engagements (AUST R330.5.2)
Offering or accepting, or encouraging others to offer or accept, inducements that the auditor considers is made with the intent to improperly influence the behaviour of the recipient or another individual (R340.7 and R340.8)
Assuming custody of client money or other assets unless permitted by law to do so and in accordance with any conditions under which such custody may be taken (R350.3)
Charging contingent fees for an audit engagement (R410.9)
Charging contingent fees for a non-assurance service provided to the audit client where the fees are material to the firm (or network firm) or the outcome of the service is dependent on a judgement related to a material amount in the financial statements (R410.10)
Receiving total fees from a **PIE audit client** that represent more than 15% of the firm's total fees for more than five consecutive years (R410.20)[43]
Gifts and hospitality from the client where the value is not trivial and inconsequential (R420.3)
Direct financial interest or material indirect financial interest in the client, subject to limited exceptions in relation to an immediate family member (R510.4 and R510.5)
Direct financial interest or material indirect financial interest in the client's parent entity when the client is material to that entity (R510.6)
Acting as a trustee where the trust holds a direct financial interest or material indirect financial interest in the client unless specific requirements are met (R510.7)
Financial interests held in common with a client in an entity where either the financial interests are material or the client can exert significant influence over the entity (R510.8)
Loans, or guarantees for a loan, to the client that are material (R511.4)[44]
Loans, or guarantees for a loan, from a client that is a bank or similar institution that are not made under normal lending procedures, terms and conditions (R511.5)
Deposits or brokerage accounts with a client that is a bank, broker or similar institution that are not under normal commercial terms (R511.6)
Material loans, or guarantees for a loan, from a client that is not a bank or similar institution (R511.7)
Close business relationships with a client that are significant or involve a material financial interest (R520.4)
Business relationships involving holding common interests in a closely-held entity with a client or a director or officer of the client, or any group thereof, if the business relationship is significant, any financial interest is material or the financial interest creates control over the closely-held entity (R520.5)
Using technology to provide a non-assurance service or providing, selling, reselling or licensing technology to resulting in the provision of a non-assurance service to an audit client, which does not comply with Section 600 (520.7 A1 and 600.6)

43 Paragraph R410.21 provides for an exception to this if there is a compelling reason having regard to the public interest and subject to criteria. Paragraphs R410.18 and R410.19 include requirements pertaining to actions that might be safeguards when total fees from a PIE audit client represent more than 15% of the Firm's total fees for two to five consecutive years.

44 When a significant part of fees due from an audit client remains unpaid for a long time, the firm must determine whether the overdue fees might be equivalent to a loan to the client, in which case Section 511 applies, and whether it is appropriate for the firm to be re-appointed or continue the audit engagement (paragraph R410.13).

Prohibited Interests, Relationships and Actions
Participating in an audit team if an immediate family member (spouse (or equivalent) or dependent) is, or was during any period covered by the engagement or financial statements, a director or officer of the client or an employee able to exert significant influence over the client's accounting records or financial statements (R521.5)
Participating in an audit team if, during the period covered by the audit report, the individual served as a director or officer of the audit client or was an employee able to exert significant influence over the client's accounting records or financial statements (R522.3)
A partner or employee acting as a director or an officer, including the company secretary, of the client (R523.3 and AUST R523.5). A firm must refuse/withdraw from an audit if a partner or employee were to serve as an officer or a director of the client or as an employee able to exert direct and significant influence over the subject matter of the audit (AUST R523.3.1)
Significant connections between a firm (or network firm) and a former partner or audit team member who is now employed by an audit client as a director, officer or employee in a position to exert significant influence over the client's accounting records or financial statements (R524.4) Key audit partners or senior or managing partners joining **PIE audit clients** as a director, officer or an employee able to exert significant influence over accounting records or financial statements unless an applicable 'cooling-off' period has passed (R524.6 and R524.7)[45]
Loan of personnel to the client unless specific requirements are met (R525.4)
Individuals who are serving a cooling-off period due to long association (540.1 to R540.6) are prohibited from: • Being a member of the engagement team for the audit engagement or sustainability assurance engagement; • Performing an engagement quality review or similar review for the audit engagement or sustainability assurance engagement; or • Exerting direct influence on the outcome of the audit engagement or sustainability assurance engagement. This requirement is stricter for **PIE audit clients** with specified cooling-off periods[46] for engagement partner, engagement quality reviewer, other key audit partners or key sustainability assurance leader after serving a maximum length of time on the audit engagement or sustainability assurance engagement (R540.7 to AUST R540.22.1). In addition, key audit partners or key sustainability assurance leaders who are serving a cooling-off period due to long association (R540.23) are prohibited from: • Being on the audit engagement team or sustainability assurance engagement; • Performing an engagement quality review or similar review on the audit engagement or sustainability assurance engagement; • Consulting with the client or engagement team on technical or industry-specific issues, transactions or events affecting the audit engagement or sustainability assurance engagement; • Leading or coordinating the professional services provided to that client; • Overseeing the relationship with the client; or • Undertaking any other role or activity (including providing non-assurance services) involving significant or frequent interaction with senior management or those charged with governance of the client, or exerting direct influence on the outcome of the audit engagement or sustainability assurance engagement
Acting as the Engagement Quality Reviewer for an audit client after finishing the role of Engagement Partner for the same audit client, unless the individual has served a two-year cooling-off period (325.8 A3)

45 Subject to limited exceptions in relation to business combinations (paragraph R524.8).
46 Auditors must also comply with the *Corporations Act 2001* requirements on rotation. APESB guidance on rotation requirements in Australia is available at www.apesb.org.au/resources/.

Part 2 – Sustainability Assurance Engagements subject to the Independence Standards in Part 5

Table 3: Summary of APES 110 prohibitions in Part 5 relating to providing Non-Assurance Services to Sustainability Assurance Clients

Prohibition	All Sustainability Assurance Clients	PIE Sustainability Assurance Clients only	Non-PIE Sustainability Assurance Clients only
	Strictly Prohibited	Strictly Prohibited or by factors listed	Prohibited based on specific factors
Assuming management responsibility for a sustainability assurance client (R5400.20). When performing a professional activity for a sustainability assurance client, the firm must be satisfied that client management makes all judgements and decisions that are the proper responsibility of management (R5400.21)	●		
Accepting a sustainability assurance appointment where a non-assurance service that was previously provided might create a self-review threat unless the service ceases before the assurance engagement commences, the firm takes action to address any threats, and any threats have been or will be eliminated or reduced to an acceptable level (R5400.32)		● Self-review	
Allowing the sustainability assurance fee to be influenced by the provision of services other than the sustainability assurance engagement (R5410.6)[47]	●		
Compensating or evaluating a key sustainability assurance leader based on that partner's success in selling non-assurance services to any sustainability assurance client of the firm (AUST R5411.4)[48]	●		
Managing the administration of an insolvent sustainability assurance client (AUST R5523.3.1)	●		
Serving as a company secretary (R5523.4 & AUST R5523.5)	●		

47 This does not prevent the firm from taking into consideration the cost savings achieved from the experience of providing services other than the sustainability assurance engagement to the client when determining the sustainability assurance fee (paragraph R5410.7).

48 A firm must also take reasonable steps to ensure any profit-sharing arrangement is not a cross-subsidisation of the sustainability assurance engagement by other service lines or a mechanism to distribute indirect incentives based on the ability to sell non-assurance services to the firm's sustainability assurance clients.

Prohibition	All Sustainability Assurance Clients	PIE Sustainability Assurance Clients only	Non-PIE Sustainability Assurance Clients only
	Strictly Prohibited	**Strictly Prohibited or by factors listed**	**Prohibited based on specific factors**
Non-assurance service that might create a self-review threat[49]		● Self-review (R5600.17)[50]	● Conceptual Framework (R5600.9, 5600.14 A1 & R5600.15)
Subsection 5601 **Sustainability Data and Information Services**			
Sustainability data and information services, including preparing sustainability data records or sustainability information that is reported (R5601.5 & R5601.6), subject to limited exceptions		● (R5601.6)	● Routine and Mechanical (R5601.5)[51]
Subsection 5603 **Valuation and Advisory Services on Forward-Looking Information**			
Valuation or advisory services on forward-looking information		● Self-review (R5603.5)	● Materiality[52] and a significant degree of subjectivity (R5603.4)

49 Paragraph R5600.15 requires a determination of whether providing a non-assurance service might create a self-review threat by evaluating whether there is a risk that:
a) The results of the service will form part of or affect records underlying that information, or internal controls over sustainability reporting; and
b) In the course of the assurance, the sustainability assurance team will evaluate or rely on any judgements made or activities performed by the firm or a network firm when providing the service.

50 Paragraph R5600.18 provides an exception to paragraph R5600.17 where firms may provide advice and recommendations to PIE sustainability assurance clients in relation to information or matters arising in the assurance provided the firm:
a) Does not assume a management responsibility; and
b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

Paragraph 5600.18 A1 provides examples of advice and recommendations contemplated by paragraph R5600.18.

51 Providing sustainability data and information services to non-PIE audit clients is prohibited unless the services are of a routine or mechanical nature and the firm addresses any threats that are not at an acceptable level (paragraph R5601.5). Routine or mechanical services involve information, data or material in relation to which the client has made any judgements or decisions that might be necessary and require little or no professional judgement (paragraph 5601.5 A1 and refer to paragraph 5601.5 A3 for examples).

52 Reference to materiality in this table refers to a material effect on the sustainability information on which the firm will express an opinion. The concept of materiality is addressed in Australian Standards on Sustainability Assurance [ASSA 5000 *General Requirements for Sustainability Assurance Engagements*]. The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors and is also affected by perceptions of the information needs of users.

Prohibition	All Sustainability Assurance Clients	PIE Sustainability Assurance Clients only	Non-PIE Sustainability Assurance Clients only
	Strictly Prohibited	Strictly Prohibited or by factors listed	Prohibited based on specific factors
Subsection 5604 **Tax Services**			
Tax services or recommending transactions related to marketing, planning, or opining in favour of a tax treatment initially recommended by the firm or a network firm, unless the firm is confident the treatment has a basis in applicable tax law or regulation that is likely to prevail (AUST R5604.4)[53]	●		
Calculating current and deferred tax liabilities (or assets)		● (R5604.10)	● Conceptual Framework (R5600.9, 5604.7 A1 to 5604.9 A2)[54]
Tax advisory and tax planning services where the effectiveness of the advice depends on a particular treatment or presentation in the sustainability information and the sustainability assurance team has doubt as to the appropriateness of that treatment or presentation (R5604.13)	●		
Tax advisory and tax planning services		● Self-review (R5604.15)[55]	● Conceptual Framework (R5600.9, 5604.11 A1 to 5604.12 A3, and 5604.14 A1)[39]

53 The firm will need a high level of confidence it is likely to prevail, which will be gained if there is a high probability, if viewed objectively by applying the reasonable and informed third party test (paragraph AUST 5604.4 A1.1). Paragraph AUST R5604.4.1 requires the firm to document the factors considered and conclusions reached in determining that the tax treatment is not prohibited by paragraph AUST R5604.4.

54 Reference to Conceptual Framework means that although the non-assurance services are not strictly prohibited, the sustainability assurance practitioner needs to consider whether the application of the conceptual framework would lead to the services being impermissible.

55 Tax advisory and tax planning services will not create a self-review threat if such services (a) are supported by a tax authority or other precedent; (b) are based on established practice that is commonly used and not been challenged by the relevant tax authority; or (c) has a basis in tax law that the firm is confident is likely to prevail (paragraph 5604.12 A2).
The firm requires a high level of confidence it is likely to prevail which will be gained if there is a high probability, if viewed objectively by applying the reasonable and informed third party test (paragraph AUST 5604.12 A2.1). Paragraph AUST R5604.12.1 requires the firm to document the factors considered and conclusions reached in determining that the tax advisory and tax planning service satisfies paragraph 5604.12 A2.

Prohibition	All Sustainability Assurance Clients	PIE Sustainability Assurance Clients only	Non-PIE Sustainability Assurance Clients only
	Strictly Prohibited	Strictly Prohibited or by factors listed	Prohibited based on specific factors
Valuation for tax purposes		● Self-review (R5604.19)[56]	● Conceptual Framework (R5600.9, 5604.16 A1 to 5604.18 A3)[40]
Providing assistance in the resolution of tax disputes		● Self-review (R5604.24)	● Conceptual Framework (R5600.9, 5604.20 A1 to 5604.23 A1)
Acting as an advocate for a sustainability assurance client in the resolution of tax disputes before a tribunal or court		● (R5604.26)	● Materiality (R5604.25)
Subsection 5605 Internal Audit Services			
Internal audit services[57]		● Self-review (R5605.6)[58]	● Conceptual Framework (R5600.9, 5605.1 to 5605.5 A1)
Subsection 5606 Information Technology Systems Services			
Designing or implementing IT systems[59]		● Self-review (R5606.6)[60]	● Conceptual Framework (R5600.9, 5606.1 to 5606.5 A1)

56 A valuation for tax purposes will not create a self-review threat if (a) the underlying assumptions are either established by law or regulation, or are widely accepted; or (b) the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority (paragraph 5604.17 A3).

57 A firm must be satisfied that the sustainability assurance client has taken management responsibility for the internal audit services as specified in paragraph R5605.3.

58 Paragraph 5605.6 A1 includes examples of internal audit services that are prohibited by paragraph R5605.6, being services that relate to internal controls over sustainability reporting, sustainability information systems, or amounts or disclosures that relate to the sustainability information.

59 A firm must be satisfied that the sustainability assurance client has taken management responsibility for the information technology systems services as specified in paragraph R5606.3.

60 Paragraph 5606.4 A3 includes examples of designing or implementing IT systems services that are prohibited by paragraph R5606.6, being IT systems that form part of the internal control over sustainability reporting, or generate information for sustainability information records.

Prohibition	All Sustainability Assurance Clients	PIE Sustainability Assurance Clients only	Non-PIE Sustainability Assurance Clients only
	Strictly Prohibited	**Strictly Prohibited or by factors listed**	**Prohibited based on specific factors**
Subsection 5607 **Litigation Support Services**			
Litigation support services		● Self-review (R5607.6)[61]	● Involving estimating damages or other amounts that affect the sustainability information, materiality and a significant degree of subjectivity (5607.4 A2 & R5603.4)
Acting as an expert witness		● R5607.9 (unless 5607.7 A2 or A3 applies)[62]	● Conceptual Framework (R5600.9, 5607.7 A1 to 5607.8 A1)
Subsection 5608 **Legal Services**			
Legal advice		● Self-review (R5608.7)	● Conceptual Framework (R5600.9, 5608.1 to 5608.6 A1)
Serving as General Counsel (R5608.9)	●		
Acting as an advocate for a sustainability assurance client in resolving a dispute or litigation before a tribunal or court		● (R5608.11)	● Materiality (R5608.10)

61 Paragraph 5607.6 A1 includes an example of a litigation support service that is prohibited which is providing advice in connection with legal proceedings where there is a risk that the outcome of the service affects the quantification of any provision or other amount in the sustainability information.

62 Paragraph 5607.7 A2 states that a threat to independence is not created if an individual acts as a witness of fact and provides an opinion in the individual's area of expertise in response to a question asked in the course of giving factual evidence. Paragraph 5607.7 A3 states that the advocacy threat from acting as an expert witness is at an acceptable level if the firm or a network firm is appointed by a tribunal or court, or is engaged in relation to a class action subject to listed criteria.

Prohibition	All Sustainability Assurance Clients	PIE Sustainability Assurance Clients only	Non-PIE Sustainability Assurance Clients only
	Strictly Prohibited	Strictly Prohibited or by factors listed	Prohibited based on specific factors
Subsection 5609 **Recruiting Services**			
Performing negotiations for a sustainability assurance client as part of a recruiting service (R5609.5)	●		
Recruiting services, including recommending persons or advising on employment terms, relating to positions as director or officer, or for a senior management position that can exert significant influence over sustainability information or the records underlying that information (R5609.6)[63]	●		
Subsection 5610 **Corporate Finance Services**			
Promoting, dealing in, or underwriting a sustainability assurance client's shares, debt or other financial instruments or providing advice on investment in such shares, debt or other financial instruments (R5610.5)	●		
Corporate finance advisory services where the effectiveness of the advice requires a particular method of measurement or presentation in the sustainability information and the sustainability assurance team has doubt as to the appropriateness of that method of measurement or presentation (R5610.6)	●		
Corporate finance services		● Self-review (R5610.8)	● Conceptual Framework (R5600.9, 5610.1 to 5610.4 A1, and 5610.7 A1)

63 The firm must be satisfied that the sustainability assurance client has taken management responsibility when providing recruiting services for other positions that are not specifically prohibited (paragraph R5609.3).

Table 4: Summary of APES 110 prohibitions relating to interests, relationships and actions for Sustainability Assurance Engagements subject to the Independence Standards in Part 5

Prohibited Interests, Relationships and Actions
Acting where a conflict of interest compromises professional or business judgement (R5310.4)
Receiving commissions or similar benefits for sustainability assurance engagements (AUST R5330.5.2)
Offering or accepting, or encouraging others to offer or accept, inducements that the sustainability assurance practitioner considers is made with the intent to improperly influence the behaviour of the recipient or another individual (R5340.7 and R5340.8)
Assuming custody of a sustainability assurance client's money or other assets unless permitted by law to do so and in accordance with any conditions under which such custody may be taken (R5350.3)
Charging contingent fees for a sustainability assurance engagement (R5410.9)
Charging contingent fees for a non-assurance service provided to the sustainability assurance client where the fees are material to the firm (or network firm) or the outcome of the service is dependent on a judgement related to a material amount in the sustainability information (R5410.10)
Receiving total fees from a **PIE sustainability assurance client** that represent more than 15% of the firm's total fees for more than five consecutive years (R5410.20)[64]
Gifts and hospitality from the sustainability assurance client where the value is not trivial and inconsequential (R5420.3)
Direct financial interest or material indirect financial interest in the sustainability assurance client, subject to limited exceptions in relation to an immediate family member (R5510.4 and R5510.5)
Direct financial interest or material indirect financial interest in the sustainability assurance client's parent entity when the client is material to that entity (R5510.6)
Acting as a trustee where the trust holds a direct financial interest or material indirect financial interest in the sustainability assurance client unless specific requirements are met (R5510.7)
Financial interests held in common with a sustainability assurance client in an entity where either the financial interests are material or the client can exert significant influence over the entity (R5510.8)
Loans, or guarantees for a loan, to the sustainability assurance client that are material (R5511.4)[65]
Loans, or guarantees for a loan, from a sustainability assurance client that is a bank or similar institution that are not made under normal lending procedures, terms and conditions (R5511.5)
Deposits or brokerage accounts with a sustainability assurance client that is a bank, broker or similar institution that are not under normal commercial terms (R5511.6)
Material loans, or guarantees for a loan, from a sustainability assurance client that is not a bank or similar institution (R5511.7)
Close business relationships with a sustainability assurance client that are significant or involve a material financial interest (R5520.4)
Business relationships involving holding common interests in a closely-held entity with a sustainability assurance client or a director or officer of the client, or any group thereof, if the business relationship is significant, any financial interest is material or the financial interest creates control over the closely-held entity (R5520.5)
Using technology to provide a non-assurance service or providing, selling, reselling or licensing technology resulting in the provision of a non-assurance service to a sustainability assurance client which does not comply with Section 5600 (5520.7 A1 and 5600.6)

64 Paragraph R5410.21 provides for an exception to this if there is a compelling reason having regard to the public interest and subject to criteria. Paragraphs R5410.18 and R5410.19 include requirements pertaining to actions that might be safeguards when total fees from a PIE sustainability assurance client represent more than 15% of the Firm's total fees for two to five consecutive years.

65 When a significant part of fees due from a sustainability assurance client remains unpaid for a long time, the firm must determine whether the overdue fees might be equivalent to a loan to the client, in which case Section 5511 applies, and whether it is appropriate for the firm to be re-appointed or continue the sustainability assurance engagement (paragraph R5410.13).

Prohibited Interests, Relationships and Actions
Participating in a sustainability assurance team if an immediate family member (spouse (or equivalent) or dependent) is, or was during any period covered by the engagement or the reporting period for the engagement, a director or officer of the sustainability assurance client or an employee able to exert significant influence over the client's sustainability information or the records underlying that information (R5521.5)
Participating in a sustainability assurance team if, during the period covered by the sustainability assurance report, the individual served as a director or officer of the sustainability assurance client or was an employee able to exert significant influence over the client's sustainability information or the records underlying that information (R5522.3)
A leader or employee acting as a director or an officer, including the company secretary, of the sustainability assurance client (R5523.3 and AUST R5523.5). A firm must refuse/withdraw from a sustainability assurance engagement if a partner or employee were to serve as an officer or a director of the client or as an employee able to exert direct and significant influence over the subject matter of the sustainability assurance (AUST R5523.3.1)
Significant connections between a firm (or a network firm) and a former leader or sustainability assurance team member who is now employed by a sustainability assurance client as a director, officer or employee in a position to exert significant influence over the client's sustainability information or the records underlying that information (R5524.4) Key sustainability assurance leaders or chief executive or equivalent of a firm joining **PIE sustainability assurance clients** as a director, officer or an employee able to exert significant influence over sustainability information or the records underlying that information unless an applicable 'cooling-off' period has passed (R5524.6 and R5524.7)[66]
Loan of personnel to the sustainability assurance client unless specific requirements are met (R5525.4)
Individuals who are serving a cooling-off period due to long association (5540.1 to R5540.6) are prohibited from: • Being a member of the engagement team for the sustainability assurance engagement or audit engagement; • Performing an engagement quality review or similar review for the sustainability assurance engagement or audit engagement; or • Exerting direct influence on the outcome of the sustainability assurance engagement or audit engagement. This requirement is stricter for **PIE sustainability assurance clients** with specified cooling-off periods for engagement leader, engagement quality reviewer, other key sustainability assurance leaders or key audit partners after serving a maximum length of time on the sustainability assurance engagement (R5540.7 to R5540.21). In addition, key sustainability assurance leaders or key audit partners who are serving a cooling-off period due to long association (R5540.23) are prohibited from: • Being on the sustainability assurance engagement team or audit engagement team; • Performing an engagement quality review or similar review on the sustainability assurance or audit engagement; • Consulting with the client or engagement team on technical or industry-specific issues, transactions or events affecting the sustainability assurance or audit engagement; • Leading or coordinating the professional services provided to the sustainability assurance client; • Overseeing the relationship with the client; or • Undertaking any other role or activity (including providing non-assurance services) involving significant or frequent interaction with senior management or those charged with governance of the client, or exerting direct influence on the outcome of the sustainability assurance or audit engagement
Acting as the Engagement Quality Reviewer for a sustainability assurance client after finishing the role of Engagement Leader for the same sustainability assurance client, unless the individual has served a two-year cooling-off period (5325.8 A3)

66 Subject to limited exceptions in relation to business combinations (paragraph R5524.8).