

Auditing and Assurance Standards Board
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Dear AUASB members

We appreciate the invitation to comment on ED 01/25 Proposed amendments to ASSA 5000 *General Requirements for Sustainability Assurance Engagements* and ASA 102 *Compliance with Ethical requirements when Performing Audits, Reviews and Other Assurance Engagements* ('Exposure Draft'). Our response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations and are a leading business advisor to mid-market businesses internationally.

Exposure Draft Questions

1. **Do you agree that the proposed amendments to introduce new transitional provisions in ASSA 5000 for certain requirements of Part 5 of the IESBA Code are appropriate, taking into account:**
 - a. **The AUASB's objective of issuing assurance standards that are consistent with IAASB standards;**
 - b. **The importance of ethical requirements in Part 5 of the IESBA Code for sustainability assurance engagements; and**
 - c. **The possible practical implications of adopting Part 5 of the IESBA Code from 1 January 2025.**

We agree that amendments to introduce additional transitional provisions are necessary given the early and retrospective adoption of Part 5 of the IESBA Code. Ethical requirements in Part 5 of the IESBA Code are crucial for maintaining the integrity and independence of assurance engagements. The AUASB's objective of aligning with IAASB standards ensures global consistency and credibility in sustainability assurance practices.

Whilst the transitional amendments go some way to alleviating some of these concerns, we believe option 3 outlined in table 3, which suggests a deferral of the application of the entire Part 5 of the IESBA Code to 1 January 2026, with the current APES 110 applying in full in the meantime, to be a superior option.

The lead time for the application of any new auditing or independence standard is generally between one to three years and includes a robust process for public consultation and subsequent amendment. These processes allow firms and practitioners to create methodologies, make changes to systems and update quality control processes. The process for the adoption of ASSA 5000 has been short and consultation has been limited. The inclusion of Part 5 of the IESBA Code in the ASSA was not subject to consultation and was adopted retrospectively just over 1 month after the release of Part 5 of the IESBA code without any transitional provisions and during a significant holiday period in the Australian market. The timing has not allowed firms sufficient time to make relevant

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changes, and they had not been given a minimum of 30 days to review and respond as required by the AUASB's Due Process Framework (reference to section 75 of the Framework).

For example, during the finalisation of a new independence standard, assurance firms would generally:

- Review the finalised requirements of the standard;
- Identify potential gaps between the new standard and the existing firm quality management systems and processes;
- Develop changes to firm quality management systems and processes;
- Test changes to quality management systems and processes;
- Release education and training internally for the firm, and network firms globally;
- Check for breaches due to the retrospective application; and
- Monitor implementation of changes.

The above processes, which are necessary for a robust and compliant independence and quality management system, take time for firms to implement, and have not had time to be completed in the instance of the early and retrospective application of Part 5 of the IESBA code for sustainability assurance.

The lack of due process has compounded the impact of the early adoption of ASSA 5000 and IESBA Part 5. The speed at which mandatory climate reporting was legislated in Australia required fast adoption of reporting and assurance standards ahead of the rest of the world. This has meant that firms are still developing assurance methodologies to ensure compliance as Australia is effectively two years earlier than the rest of the world. This speed, along the early adoption of the IESBA ethical standards ahead of the rest of the world, has not allowed for the usual robust process for public consultation nor has it given firms the usual time frames to create robust quality management systems locally and internationally, including breach reporting (e.g. TPB reporting).

Although these requirements are specifically applicable to Australian assurance engagements, they have international applicability. The transitional provisions are most likely to affect entities within Group 1 and there are many entities in Group 1 with international operations that will be included within the boundaries for Australian sustainability reports.

Many of the audit firms providing assurance to Group 1 entities will be part of an international network, like Grant Thornton, which have been preparing conflict and independence systems and processes for the international application date of Part 5 of the IESBA Code.

The earlier adoption date in Australia of Part 5 of the IESBA Code via ASSA 5000 means that many Australian practitioners that are part of an international network, are unlikely to have had global systems in place to manage the requirements of Part 5 of the IESBA Code from 1 January 2025 under ASSA 5000 across their international network.

Early adoption in only one jurisdiction will, in absence of global systems, require education and change management amongst teams and additional procedures, outside of the standard international procedures, to ensure compliance. Variations to standard process and manual systems increase the risk of inadvertent breaches. We consider the amendment to "Aus18.1 (b) (ii) b. the engagement was contracted and work commenced before 1 January 2025 or inadvertently contracted and work commenced before 1 July 2025", goes some way to alleviating the risks that may arise from inadvertent breaches, nothing that the "commencement of the engagement" date of 1 January 2025 is ahead of the issuance of ASSA 5000, so there is a short time frame where firms may have already inadvertently breached requirements, as it is unlikely firms will have anticipated that the AUASB would early adopt given the international application date. However, as outlined above we consider deferral of the application date of the entire Part 5 of the IESBA Code to 1 January 2026, with the current APES 110 applying in full in the meantime, to be a superior option that should be considered further to fully alleviate the above concerns and improve investor confidence.

2. Do you agree with the proposal to change the start date for applying ASSA 5000 to engagements other than engagements for assurance over information in sustainability reports under Chapter 2M?

We agree with the proposed amendments to the operative date because the current wording of ASSA 5000 brings into scope voluntary reports earlier than we believe was anticipated in the case where the voluntary report discloses metrics as at and during the period.

3. In the alternative, are you of the view that the AUASB should not make the amendments referred to in Questions 1 and 2 above?

We agree that the amendments in Questions 1 and 2 should be made. Without these amendments, firms may face significant challenges in complying with the new requirements, potentially leading to inadvertent breaches, quality issues and inconsistencies in assurance practices. The transitional provisions and adjusted start dates are essential for a smooth and effective implementation of the new standards, however, as outlined in our response to question 1 and further in our response to question 4, we consider complete deferral of the adoption of Part 5 of the IESBA code, to align with international adoption may be a better solution.

4. Are there any other options that should be considered by the AUASB?

We consider Option 3 included in Table 3, which suggests a deferral of the application of the entire Part 5 of the IESBA Code to 1 January 2026, with the current APES 110 applying in full in the meantime, to be a superior choice, and request the AUASB to consider this further.

The proposed transitional provisions will alleviate some of the practical issues for accounting firms by aligning with international standards and reduce the risk of inadvertent non-compliance.

We understand the need to align and adopt ISSA 5000 and we understand that feedback was positive from consultation that it be adopted in full. We agree with the need for international alignment and we understand that one of the key reasons this option was not considered is because there is a view that Part 5 of the IESBA code should be adopted together with ISSA 5000, however, we make the following observations.

The major difference between Part 5 and the existing APES 110 requirements relate to independence of experts and the value chain independence requirements which are less likely to be relevant in the first year of mandatory assurance.

ISSA 5000 is an international standard and will be adopted in jurisdictions where assurance can be provided by assurance providers other than the registered company auditor. The legislation requirements in Australia that the registered company auditor is the appointed assurance practitioner alleviates in part, the risk attached to not adopting IESBA Part 5, as the practitioners are already required to comply with APES 110, including Part 4a and are already expected to apply with ISQM1, meeting the requirements of ISSA 5000 paragraphs 6 and 7. Specifically paragraph 6a) reads *"This ISSA is premised on the basis that: (Ref: Para. A5) (a) The members of the engagement team and the engagement quality reviewer (for those engagements where one has been appointed) are subject to the provisions of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) related to sustainability assurance engagements, or professional requirements, or requirements in law or regulation, that are at least as demanding; and (Ref: Para. A6–A7, A58–A64)".* We consider that the current APES 110 requirements meet the "at least as demanding" requirements until the IESBA is fully adopted by the APESB. Using this approach, we would expect that the APESB would and should utilise the international transitional provisions similar to how other IESBA changes have recently been applied.

In our view this would overcome the concerns over the mismatch between Australian and International independence and conflict checking processes in audit firms and minimise inadvertent breaches by allowing firms appropriate time to implement quality management system changes.

Option 3 would also simplify the proposed amendments to the assurance reports by alleviating transitional provision disclosures. The current proposed amendments require the assurance practitioner to call out in the assurance report if transitional provisions have been applied and the services to which they relate. We consider the requirement to disclose that transitional provisions have been applied and the services to which they relate to be onerous and unnecessary, not consistent with previous practice when transitional provisions have previously been applied in APESB adoption in the past and is likely to create confusion for users of the report. Overcoming these concerns will likely result in increasing investor confidence.

Our consideration of the other options included in Table 3 of the Exposure Draft is summarised below:

No.	Option	Response and Comments
1	Not amend ASSA 5000 to provide transitional relief on NAS and external experts.	This option does not address the risk and issue of possible inadvertent breaches because practitioners and experts may not have considered the requirements of Part 5 of the IESBA Code from 1 January 2025 (unexpected retrospective adoption) and therefore may not have had time to update quality management systems. Additionally, firms will be required to report inadvertent breaches to ASIC which could result in enforcement action, particularly given the current regulatory environment and public attitudes towards auditor independence. This in turn could reduce investor confidence and affect the desirability of the profession.
2	Not defer application of Part 5 of the IESBA Code for assurance over information voluntarily reported in annual reports (other than voluntary information in a mandatory sustainability report).	The deferral of Part 5 of the IESBA Code for assurance over information voluntarily reported in annual reports (other than voluntary information in a mandatory sustainability report) in our view is appropriate. As outlined above, deferring Part 5 for mandatory reports to align with international timelines is our preferred option.
4	Do nothing.	Similar to option 1 above, this option does not address the risk and issue of inadvertent breaches because practitioners and experts may not have considered the requirements of Part 5 of the IESBA Code from 1 January 2025. It is possible practitioners may not have had time to update quality management systems. This in turn could reduce investor confidence.

5. If you agree with amending ASSA 5000, do you agree that the AUASB should amend ASSA 5000 as soon as possible to provide certainty to assurance practitioners and assured entities? In the alternative, should the AUASB wait for the APESB to issue a revised APES 110 before making any amendments to ASSA 5000?

The standard is already in application, so any amendments to the AUASB should amend ASSA 5000 as soon as possible. Immediate amendments will provide the necessary certainty and clarity to assurance practitioners and entities, allowing them to prepare and comply with the new requirements in a timely manner. Waiting for the APESB to issue a revised APES 110 could delay the process and create uncertainty, which may hinder the effective implementation of the new standards.

6. Do you agree with the proposal to clarify the application of AUASB standards for assurance engagements on information reported to the Clean Energy Regulator?

We agree that clarifying the application of AUASB standards for engagements on information reported to the Clean Energy Regulator is important. This ensures that practitioners are aware of the specific standards that apply to these engagements, thereby promoting consistency and compliance. It also helps to minimise any confusion or misinterpretation of the requirements, which could impact the quality and reliability of the assurance provided.

7. Do you have any comments on the proposed amendments to the illustrative assurance reports in ASSA 5000, taking into account the requirements of subparagraphs 190(d)(iv) and (v) of that standard?

We agree that breaches should be reported by the auditor pursuant to paragraph 190 of ASSA 5000 and in the auditor's independence declaration under Chapter 2M. This ensures that the reports accurately reflect the ethical requirements and any transitional provisions applied. This transparency is crucial for maintaining the credibility and reliability of the assurance provided.

We consider the addition of the requirement to outline the specifics of whether the transitional provisions apply, and the services is unnecessary and could be confusing to users of the assurance reports thereby undermining investor confidence. The adoption of new IESBA requirements often includes a transitional period and that has never previously been called out in independence declarations or assurance reports. Further, assurance firms are already applying APES 110 and we consider a statement of compliance by the auditor to be clear to investors that they appropriately considered and applied the independence requirements, including consideration of any transitional provisions that may apply.

We further consider the wording "except that" in the assurance report could be confusing to investors and may be read similar to "except for". If read as an "except for" reports could be misinterpreted by users to be a form of qualification of the report, further undermining investor confidence.

As outlined in question 4 above, we consider APES110 to meet the at least as demanding requirements of ISSA 5000, therefore we do not think a statement of non-compliance with Part 5 in the assurance report is necessary, and in fact, this may further confuse users of the sustainability reports. Users of reports who are not assurance practitioners do not have a detailed understanding of independence rules or the differences between the various parts of the IESBA or APES independence codes, adding detail that investors may not understand could lead to confusion and may undermine investor confidence.

We recommend a simplification in the illustrative assurance reports at the end of ASSA 5000 to state that the assurance practitioner complies with the independence and the broad ethical requirements that have been applied.

8. Are there any matters that the AUASB should be aware of in connection with the proposal to amend ASA 102 to adopt the proposed revised APES 110 for non sustainability assurance engagements with effect from financial reporting periods commencing on or after 1 January 2026?

We are not aware of any other matters to raise with the AUASB.

9. What are the costs and benefits of the proposals, whether quantitative or qualitative and whether financial or non-financial?

Costs:

- Financial and reputational costs of any inadvertent breaches if the proposed amendments or the proposal in option 3 is not adopted and assurance practitioners are required to report inadvertent breaches.
- There is a risk of confusion in the marketplace with a two-tier independence system for Chapter 2M versus voluntary reporting
- Risk of confusion in the marketplace over the detail relating to independence in the assurance report being perceived as a qualification which may decrease investor confidence where the exceptions noted are read by users as a qualification or breach.
- Increased compliance costs for firms due to the need for additional training, system updates, and adjustments to methodologies sooner than originally planned through international networks and the costs of creating manual processes. These costs are higher if the proposed amendments or the proposal in option 3 is not taken, due to the international education and system changes that would be required to bridge the gap in timing.
- Time and resources required to implement the new requirements and train staff. These costs are higher if the proposed amendments are not passed or option 3 is not taken, due to the education and system changes that would be required to bridge the gap in timing across international jurisdictions.

- Costs of compliance for firms will likely be passed on to preparers of the sustainability report and increase the cost of compliance for preparers of the sustainability report.

Benefits:

- Enhanced consistency with international standards, improved quality of sustainability assurance engagements, and increased confidence in sustainability information reported by entities, particularly if option 3 is considered. Improved compliance with international standards, increasing trust and confidence among stakeholders.
- Strengthened credibility and reliability of sustainability reports, contributing to better decision-making by stakeholders and promoting greater transparency and accountability in sustainability practices.
- The greater benefit would be to implement Option 3 as it would result in enhanced consistency with international standards, improved quality of sustainability assurance engagements, and increased confidence in sustainability information reported by entities.

10. Are there any other significant public interest matters that you wish to raise on the proposals in this exposure draft?

Other matters that we wish to raise are summarised as:

- We understand that there are differences in approach by accounting firms with regards to assurance readiness assessments over sustainability reports, which is also a precondition to accepting an assurance engagement over the sustainability report. We would welcome guidance as to whether these be treated as non-assurance services prior to the assurance engagement, or should they be treated as an extension of assurance services to meet the required preconditions and if so, recommendations of how these should be engaged.
- We would also welcome independence guidance over non-assurance services provided for readiness (i.e. agreed upon procedures or gap analysis) in order to address self-review threat considerations and how this will be considered by the regulator following recent communications to audit partners and firms and the findings from the PJC report (Parliamentary Joint Committee on Corporations and Financial Services) released in November 2023 over the extent of non-assurance services provided by assurance practitioners.
- We recommend clarification on the definition of the “first year” for partner rotation considerations. Should the “first year” be defined as the first reporting period applicable under ASSA 5000? Or should historical assurance services on voluntary sustainability information count towards the years before rotation for both the engagement lead and the engagement quality reviewer?



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