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Sub 5 ED 01/25

Mr Doug Niven
Chair, Auditing and Assurance Standards Board
PO Box 204, Collins Street West
Melbourne VIC 8007

1 May 2025

Dear Mr Niven,

KPMG response: Auditing and Assurance Standards Board (AUASB) Exposure Draft 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

KPMG Australia (KPMG) welcomes the opportunity to comment on the proposed revisions set out in the Exposure Draft. KPMG is supportive of the AUASB's intent to clarify the independence requirements for sustainability assurance engagements.

KPMG has been actively involved in recent consultation processes on the topic of climate and sustainability disclosures, including the December 2024 submission to ASIC on *Consultation Paper 380*, November 2024 submissions to the AUASB on the *Proposed Australian Standard on Sustainability Assurance* and *Prohibiting Sustainability Assurance Practitioners from using Direct Assistance by Internal Auditors*, May 2024 submission to the AUASB on *Assurance over Climate and Other Sustainability Information*, and 2023 submissions to Treasury on *Climate-related financial disclosure*.

In these responses KPMG has consistently supported the adoption of a globally consistent disclosure of sustainability-related information, accompanied by a robust assurance regime.

We note that the Accounting Professional & Ethical Standards Board (APESB) is also currently consulting on two exposure drafts in the area of sustainability reporting, which KPMG will respond to separately. Given the overlapping regulatory areas and need for consistency, it would be beneficial for AUASB, APESB and ASIC to work collaboratively to issue clear guidance on key issues in order to ensure consistent interpretation and application of the regime.

In this submission, we make a number of comments and suggestions where we believe the Exposure Draft should be clarified or strengthened.

Response to the exposure draft

Whilst we note the intent to align with international standards and the efforts to introduce transitional arrangements, there are still challenges arising from the retrospective effective date of 1 January 2025 and the introduction of independence requirements that are not yet fully integrated into the APES 110 Code of Ethics for Professional Accountants (APES 110 Code). KPMG has provided a number of observations below, and responses to the exposure draft questions at the Appendix.

In this response, mandatory reporting refers to entities that are required to prepare a sustainability report by law under the Corporations Act 2001, and voluntary reporting refers to any other environmental, social and governance (ESG) assurance engagement within the scope of ASSA 5000.

Effective date

The retrospective effective date of 1 January 2025 has created uncertainty for practitioners and assurance providers during the transitional period. To address this, KPMG recommends that the AUASB reconsider Option 3 in Table 3 of the ED for mandatory engagements, which was considered

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by the AUASB but not adopted in ED 01/25. Option 3 defers the application of the entire Part 5 of the IESBA Code to 1 January 2026, with the current APES 110 Code applying in full in the meantime.

Typically, there are two years between the issuing of new independence requirements and the effective date, plus transitional provisions. For example, the effective dates for both ISSA 5000 and Part 5 of the IESBA Code are 15 December 2026, providing sufficient lead time to deal with any implementation challenges.

In addition, the proposal outlined in Table 2, No. 1, Proposed approach (a) imposes retrospective independence requirements for work commenced after 1 January 2025, as prohibited non-assurance engagements may continue provided that *"the engagement was contracted and work commenced before 1 January 2025 or was inadvertently contracted and work commenced before 1 July 2025"*. KPMG proposes that this is amended to state *'the engagement was contracted and work commenced before the start of the entity's first financial period for mandatory reporting'.*

The use of the term 'inadvertently' should also be reconsidered. There is no clear definition of or guidance on how 'inadvertently contracted' should be interpreted, and KPMG suggests that either clarification is provided or the term removed to prevent confusion. Clarity should also be provided as to whether the proposed wording means that firms cannot provide non-assurance services to Group 2 and Group 3 entities from 1 January 2025.

Illustrative assurance reports

Appendix 3 of the ED amends illustrative audit reports consistent with the changes to the definition of 'relevant ethical requirements'. If Option 3 is not adopted as per our preferred option above, KPMG suggests that the proposed wording in the illustrative audit reports be revised to avoid complex and confusing disclosures. In our view, the proposal will cause confusion for investors who may not understand or follow the detailed disclosure requirements, simply whether the auditor is independent or not.

Attestation engagement versus assurance engagement

Paragraph 18(b)(ii) of the ED mentions 'attestation engagements'. KPMG requests further clarification on what is considered an attestation engagement and how this differs from an assurance engagement. Further, it would be beneficial to clarify what the impact is on the ASSA 5000 when using 'attestation' as opposed to 'assurance'.

Additionally, paragraph 18(b)(ii)(b) requires independence for Part 4B of the IESBA Code. The AUASB should consider changing this to reference Part 4B of the APES 110 Code in order to apply local Australian requirements that are either equal to or more restrictive than the IESBA Code. This drives consistency in practice and streamlines application of the Codes.

Mandatory rotation requirements

Paragraph 21(b) relates to mandatory rotation requirements applicable to the engagement leader and engagement quality reviewer.

Whilst we note this is not directly a matter for the AUASB, we would support AUASB's collaboration with ASIC to clarify that these requirements apply only to mandatory reporting engagements under the Corporations Act 2001 (s324DA), starting from the first year of signing the mandatory assurance opinion. This clarification will help ensure that the rotation requirements are appropriately targeted and do not impose unnecessary burdens on voluntary engagements.

For voluntary engagements, KPMG suggest that only the APES 110 Code applies rather than the Corporations Act 2001 requirements.

Other issues

KPMG believes that example assurance report templates are essential for ensuring consistent communication of conclusions on mandatory sustainability assurance under the Corporations Act 2001. The AUASB is the appropriate body to publish these templates and guidance materials. KPMG would be happy to participate in a project advisory group to expedite this process and help develop these together with the AUASB and other technical assurance practitioners.

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KPMG appreciates the opportunity to provide feedback and looks forward to continued engagement on the sustainability reporting and assurance regime. Should you wish to discuss the contents of this submission further, please do not hesitate to reach out.

Yours sincerely,

Shaun Kendrigan
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KPMG Australia

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Appendix: Response to ASSA 5000 exposure draft questions

Question	KPMG response
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.**	Whilst KPMG welcomes the efforts to introduce transitional provisions, there are still challenges arising from the retrospective application of ASSA 5000 and Part 5 of the IESBA Code. KPMG's preferred option would be to reconsider Option 3 in Table 3 of the ED for mandatory engagements. Option 3 defers the application of the entire Part 5 of the IESBA Code to 1 January 2026, with the current APES 110 Code of Ethics for Professional Accountants (APES 110 Code) applying in full in the meantime. If ASSA 5000 refers to the APES 110 Code instead of the IESSA then no further updates are required to ASSA 5000 when APES 110 Part 5 is available. Additionally, there will be no need for disclosures in the audit report indicating that the auditor departed from the IESSA, and no amendments to ASA 102 will be necessary.
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?	KPMG supports changing the start date of ASSA 5000 for voluntary engagements, however suggest considering aligning the date with the international timeline for greater consistency. Further, The ED proposes that ASSA 5000 would apply to both mandatory and voluntary assurance engagements (18 (b)). KPMG does not support this application and proposes that it should apply only to companies that must comply with mandatory reporting as and when phased in. The transitional provisions should follow the APES 110 Code.
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?	Please see responses to Questions 1 and 2 which outline KPMG's recommendations in relation to these proposals.
4 Are there any other options that should be considered by the AUASB?	As per the response to Question 1, KPMG recommends that the AUASB reconsider Option 3 in Table 3 of the ED – to defer the application of the entire Part 5 of the IESBA Code to 1 January 2026, with the current APES 110 Code applying in full in the meantime.
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	In the interests of clarity and consistency, KPMG suggests that the AUASB wait for the APESB to issue a revised APES 110 Code before making amendments to ASSA 5000.

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	alternative, should the AUASB wait for the APESB to issue a revised APES 110 before making any amendments to ASSA 5000?	The revised Code will integrate new sustainability-related provisions, which may remove the need for confusing transitional arrangements.
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?**	KPMG supports the proposal to clarify the application of the AASB standards and required independence on information reported to the CER.
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?**	In KPMG's view, the proposed amendments to the illustrative assurance reports will cause confusion for investors. Investors may not understand the detailed disclosure requirements, which could lead to an implication of non-compliance. KPMG suggests revising the requirements to avoid this issue. If independence is measured against compliance with IESSA or the APES 110 Code (paragraph (a)) and as permitted under ASSA 5000 (paragraph (b)), then the auditor is independent, and there should be no need to provide the detailed disclosure outlined in (b)(i) and (b)(ii).
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?**	KPMG suggests that the AUASB wait for the revised APES 110 Code to be finalised prior to making amendments to ASA 102.
9	**What are the costs and benefits of the proposals, whether quantitative or qualitative and whether financial or non-financial?**	KPMG supports a strong assurance regime and appropriate independence requirements. This delivers substantial benefits in ensuring investment grade information for investors and stakeholders. There are, however, significant costs associated with the short timeframe associated with the proposals, that puts pressure on practitioners to be upskilled appropriately across the new requirements, as well as an increased threshold on ethics and independence.
10	**Are there any other significant public interest matters that you wish to raise on the proposals in this exposure draft?**	*Transitional relief for external experts and assurance engagements* The proposals in Table 2 No. 2 and 3 relate to transitional relief for external experts and assurance engagements. KPMG welcomes the release of the APESB exposure draft for consultation which proposes transitional provisions for the independence

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	provisions concerning the use of external experts, and we will be providing feedback on this separately In relation to assurance engagements, whilst Table 3, Option 3 is KPMG's preferred option, if this is not implemented then we would support the transitional relief outlined in Table 2 No. 3. This would change the commencement dates for engagements to apply to as at a specified date engagements on or after 31 December 2025 and for reporting periods ending on that date. This means that the IESSA (or APES Part 5 Final Pronouncement) will apply from 1 January 2026 to such engagements. In this case, clarity should be provided on whether Part 4B of the APES 110 Code would continue to apply for engagements prior to 1 January 2026.