19 May 2025

Mr Channa Wijesinghe
Chief Executive Officer
Accounting Professional & Ethical Standards Board Limited
Level 11, 99 William Street
Melbourne VIC 3000

By email: sub@apesb.org.au

Dear Channa

APESB ED 01/25 *Proposed Australian Ethics Standards for Sustainability Assurance (including Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting*

The Institute of Public Accountants (IPA) welcomes the opportunity to provide comments on the above Exposure Draft (ED).

Overall, IPA supports the proposals in ED 01/25 to amend the APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) to incorporate new ethical standards for Australian sustainability assurance practitioners and professional accountants relating to sustainability reporting and assurance.

We also commend the APESB, in developing the standard for application in Australia in a short timeframe. To assist the APESB in finalising the standard for issuance, we have confined our comments to the substantive matters in the ED and offer overarching comments on the proposals below, with more details of our views in Attachment 1.

(1) IPA supports the same high ethical requirements for sustainability as those for financial reporting and assurance

To maintain public trust and confidence in sustainability information, sustainability practitioners involved in sustainability reporting and their assurance should be subject to the same high ethical requirements as those for financial reporting. However, IPA notes that sustainability reporting and assurance are likely to be disproportionately onerous for SMEs.

(2) Monitor Groups 1 and 2 entities' implementations for possible amendments for Group 3 entities

For similar reasons as those outlined in Attachment 1 for point (1), IPA recommends the APESB monitor the application of ethical requirements for sustainability reporting and assurance of Groups 1 and 2 entities and make any necessary amendments to the Code for application by Group 3 entities. As the success of any standard is the ability of an entity to understand and apply the requirements without undue burden. We also recommend the APESB work closely with the AASB and AUASB to ensure that the sustainability reporting, assurance and ethical requirements are proportionate and workable without placing an undue burden on Group 3 entities.

(3) Concerns Part 5 proposals are profession agnostic and framework-neutral

IPA supports the proposed the same high ethical standards expected of all sustainability and financial reporting practitioners who are professional accountants (PAs). However, we have concerns if the Code is extended to practitioners who are non-professional accountants (NPAs). The reason for our concerns is that the Code is written for PAs and its compliance is regulated by the accounting bodies.

To attain and maintain the same high ethical standards of PAs, NPAs may potentially be required to significantly upskill. Additionally, in the absence of which entity/entities regulate(s) NPAs and the consequences for non-compliance with the Code will erode the public trust and confidence in PAs and NPAs sustainability practitioners. This in turn undermines the purpose of having ethical standards for sustainability reporting and assurance. Additionally, we are unsure which of the NPAs' professions would apply the Code that is written for PAs.

(4) Guidance and training

While the proposed new Part 5 for sustainability assurance incorporates ethics and independence standards that are equivalent to those applicable to audit engagements in Parts 1 to 4A of APESB 110, we think the requirements are likely to be challenging to apply in practice, especially in the more complex areas of sustainability reporting and assurance, and for the smaller entities in Group 3. As such, we recommend that the APESB work closely with the IESBA in developing supporting materials, including practical examples, to facilitate consistent application, along with other standard-setters such as the AASB, AUASB, ISSB and IAASB.

(5) Operative date

IPA supports the proposed effective date of all proposed provisions to be effective for sustainability assurance engagements on sustainability information commencing on or after 1 January 2026, except for the provisions in Sections 5405 and 5406, that deal with assurance work performed at value chain components (VCC). We also support that early adoption is permitted and encouraged.

However, we think the proposed effective date for the proposed provisions in Sections 5405 and 5406 relating to VCC can be delayed and aligned with the later effective date of the International Code *International Ethics Standards for Sustainability Assurance (including International Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting* (IESSA) for periods beginning on or after 1 July 2028. The delay would provide practitioners more time to skill up in the complex area of VCC.

For any questions relating to this submission, please contact Vicki Stylianou, Group Executive Advocacy and Professional Standards, Institute of Public Accountants at vicki.stylianou@publicaccountants.org.au.

Yours sincerely

[redacted]

Vicki Stylianou
Group Executive, Advocacy & Professional Standards
Institute of Public Accountants

Attachment 1 – IPA's detailed comments on ED 01/25

(1) IPA supports the same high ethical requirements for sustainability as those for financial reporting and assurance

Chapter 2M of the *Corporations Act 2001* as part of the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024* (the Act) prescribes the sustainability reporting and assurance requirements that substantially mirror those for financial reporting and assurance. To maintain public trust and confidence in sustainability information, sustainability practitioners involved in sustainability reporting and their assurance should also be subject to the same high ethical requirements as those for financial reporting. That is, a sustainability reporting and assurance practitioner should be required to comply with each of the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

However, IPA notes that sustainability reporting and assurance are likely to be disproportionately onerous for SMEs. We acknowledge that this disparity stems from the sustainability reporting and assurance standards issued by the Australian Accounting Standards Board (AASB) and Australian Auditing and Assurance Standards Board (AUASB) for which SMEs must comply. It is for these reasons that IPA has advocated for the:

- AASB to set a simplified sustainability reporting standard prescribing requirements that are proportionate to the size and complexities of Group 3 entities. This is a similar approach to the differential reporting framework of AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities* and the proposed standard "General Purpose Financial Statements – Not-for-Profit Private Sector Tier 3 Entities" that further simplifies the reporting requirements for Tier 3 smaller entities.
- AUASB to monitor the sustainability assurance implementations of Groups 1 and 2 entities and make any necessary amendments to the Australian Standard on Sustainability Assurance (ASSA) for application by Group 3 entities.

(2) Monitor Groups 1 and 2 entities' implementations for possible amendments for Group 3 entities

For similar reasons as those in (1) above, IPA recommends the APESB monitor the application of ethical requirements for sustainability reporting and assurance of Groups 1 and 2 entities and make any necessary amendments to the Code for application by Group 3 entities. As the success of any standard is the ability of an entity to understand and apply the requirements without undue burden. Accordingly, we recommend that the APESB work closely with the AASB and AUASB to ensure that the sustainability reporting, assurance and ethical requirements are proportionate and workable without placing an undue burden on Group 3 entities.

(3) Concerns Part 5 proposals are profession agnostic and framework-neutral

The ED states:

> "The Ethics Standards in Part 5 are … equivalent to the audit requirements in Parts 1 to 4 of the Code. The new Part 5 has also been developed in a profession-agnostic and framework-neutral manner, allowing the standard to be applied consistently by sustainability assurance practitioners of any profession and to support any reporting or assurance framework" (ED 01/25, page v).

IPA supports the proposed same high ethical standards expected of all sustainability and financial reporting practitioners who are professional accountants (PAs). However, we have concerns if the Code is extended to practitioners who are non-professional accountants (NPAs). The reason for our concerns is that the Code is written for PAs using concepts learnt through the ethics unit of each professional body's (IPA, CPA Australia, Chartered Accountants Australia and New Zealand) program, such as IPA's Program. This learning is consolidated and forms part of a PA's obligations in carrying out their functions as a member of a professional body. To maintain the integrity of the profession, each professional body regulates the non-compliance of the Code of its members, who are PAs.

This contrasts with NPA practitioners, who are likely to have ethical frameworks and related professional requirements that are expressed, understood and applied by their practitioners' profession. Consequently, to attain and maintain the same high ethical standards of PAs, NPAs may potentially be required to significantly upskill to attain the same level of understanding, interpretation and application of the Code as PAs. It is also unclear which entity/entities will monitor and regulate NPAs for non-compliance with ethical requirements. We are concerned that the absence of a regulator for NPAs and the consequences for non-compliance of the Code will erode the public trust and confidence in sustainability practitioners irrespective of whether they are PAs and NPAs. This in turn undermines the purpose of having ethical standards for sustainability reporting and assurance. Additionally, we are unsure which of the NPAs' professions would apply the Code that is written for PAs.

(4) Guidance and training

While the proposed new Part 5 for sustainability assurance incorporates ethics and independence standards that are equivalent to those applicable to audit engagements in Parts 1 to 4A of APESB 110, we think the requirements are likely to be challenging to apply in practice, especially in the more complex areas of sustainability reporting and assurance, and for the smaller entities in Group 3. As such, we recommend that the APESB work closely with the IESBA in developing supporting materials, including practical examples, to facilitate consistent application, along with other standard-setters such as the AASB, AUASB, ISSB and IAASB.

(5) Operative date

IPA supports the proposed effective date of all proposed provisions to be effective for sustainability assurance engagements on sustainability information commencing on or after 1 January 2026, except for the provisions in Sections 5405 and 5406, that deal with assurance work performed at value chain components (VCC). We also support that early adoption is permitted and encouraged.

However, we think the proposed effective date on or after 1 January 2027 for the proposed provisions in Sections 5405 and 5406 relating to VCC can be delayed and aligned with the later effective date of the *International Ethics Standards for Sustainability Assurance (including International Independence Standards) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting* (IESSA) issued by the International Ethics Standards Board for Accountants (IESBA) for periods beginning on or after 1 July 2028. The delay would provide practitioners more time to skill up in the complex area of VCC.

Additionally, we note that the proposed effective date commencing on or after 1 January 2026 means that practitioners of Group 1 entities that have already commenced sustainability reporting from 1 January 2025 would not have an Australian equivalent of Part 5 of IESSA for application and can only use the Australian equivalent if they early adopt the standard after it is issued in July 2025. In the interim, ASSA 5000 *General Requirements for Sustainability Assurance Engagements* requires entities, such as Group 1 entities to apply the existing APES 110 and Part 5 of IESSA. This convoluted work around is further complicated by AUASB 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*, which proposes retrospective amendments to ASSA 5000 to address practical issues on the initial adoption of certain provisions of Part 5 of IESSA. ED 01/25 was issued in April 2025 and considered at the AUASB May 2025 Board meeting.

We acknowledge the above application dates are less than ideal and are a consequence of the *Corporations Act 2001*'s mandatory climate reporting effective date for Group 1 entities commencing 1 January 2025 and that the APESB needed to wait for the finalisation of the IESSA in order to develop an Australian equivalent standard. However, we think in future, standard-setters and government/legislators need to work more closely to better co-ordinate the effective dates of standards, especially where it involves the introduction of a new reporting regime such as sustainability reporting. This would ensure that the issued standards do not create unnecessary uncertainties or undue burden on their application.

(6) Scope of Part 5

IPA supports the proposed scope of Part 5:

- To cover all sustainability assurance engagements provided by sustainability assurance practitioners and any other services that the sustainability assurance practitioner provides to the same sustainability assurance client and
- Does not cover other services and activities that the sustainability assurance practitioner provides to its other clients that do not require sustainability assurance engagements.

(7) Long association provisions

IPA supports the proposed independence requirements in Part 5 on long association provisions that mirror the requirements applicable to financial statements auditors, including setting specific time-on and cooling-off periods. These requirements are important as safeguards against familiarity and self-interest threats. We find the proposals clear and useful, in particular, the examples that illustrate practitioners must consider the time-on period across the combination of roles in the sustainability assurance engagement and the financial statement audit engagement (paragraph 5540.8 A1) and the rare cases where the practitioner may remain on the engagement for an additional year (paragraph 5540.9A1). This is despite the wording in some areas being quite lengthy, for examples, paragraphs R5540.10 and R5540.10a.

We also note that the ED does not explicitly state, in determining the cumulative years of the combined sustainability and financial statement assurance engagements, whether this includes prior services and/or assurance on voluntary sustainability reporting prior to the mandatory requirement for climate reporting. We think that for clarity, it would be useful to provide an example that as safeguards against familiarity and self-interest threats, such prior services should be considered in determining the cumulative years of services.

(8) Definitions

Overall, IPA supports the proposed definitions in the ED and emphasises the need, where possible, for the definitions to be consistent across all AASB, AUASB and APESB pronouncements. Consistency in definitions and terminologies is integral to the consistent understanding, interpretation and application of the requirements of a standard. Consequently, we recommend that the APESB work closely with AUASB/AASB to ensure consistencies across the sustainability report, assurance and ethical standards.

(9) Group Sustainability Assurance Engagements

IPA supports the proposed independence considerations for group firms, component firms and group sustainability assurance team members when performing group sustainability assurance engagements (paragraphs 5405.1 to R5405.37).

However, we note the requirements in this area are likely to be complex to apply. We therefore encourage the APESB to continue working closely with other standard-setters such as AUASB, IESBA and IAASB with the view to developing supporting materials to assist a consistent application and understanding of these complex requirements.

(10) Value chain component (VCC)

VCC is a concept and area that is challenging to understand and apply even for larger entities. We are therefore, concerned that these challenges would be even greater for Group 3 entities, such as those of IPA members. Accordingly, we recommend that the APESB monitor the application of the standards for Group 1 and 2 entities and make the necessary amendments and/or issue guidance to assist Group 3 entities.

(11) Non-Assurance Services (NAS)

IPA Group generally supports the approach taken by IESBA on providing non-assurance services to sustainability assurance clients.

(12) Public Interest Entities (PIEs)

IPA supports the proposed requirement (paragraph 5400.13) that entities are treated as PIE in Part 5 if they are deemed to be a PIE under the provisions in the existing Part 4A. This would ensure the consistent PIE classification for financial reporting and sustainability reporting. We also think a PIE should be consistently determined by laws and regulations as per paragraph 5400.13b. Consequently, we do not support the proposal in paragraph 5400.13a where a Firm performing the audit of an entity's Financial Statements might decide to voluntarily treat the entity as a PIE and another Firm performing a Sustainability Assurance Engagement does not necessarily need to treat that entity as a PIE for the purposes of the Sustainability Assurance Engagement.

We also support the proposed public disclosure of fee-related information by PIEs in paragraphs 5410.29A1 to R5410.32 for the reasons:

- As stated in paragraphs 5410.29A1 that:
  "In view of the public interest in the assurance of Sustainability Information disclosed by Public Interest Entities, it is beneficial for stakeholders to have visibility about the professional relationships between the Firm and the Sustainability Assurance Client which might reasonably be thought to be relevant to the evaluation of the Firm's Independence."
- The fee dependency disclosures relate to where laws and regulations do not require a Sustainability Assurance Client to disclose the fees and following consultation by the Firm/Network Firms and the Client does not make the relevant disclosures. In essence, the proposals compel the Client to disclose the fee dependency instead of the Firm and where this is not the case, the Firm will need to make the relevant disclosures.

(13) Consequential and conforming amendments

IPA supports the consequential and conforming amendments to Parts 1 to 4B of the existing APES Code.