

Friday, 3 May 2024

Mr. Doug Niven
Chair, Australian Auditing and Assurance Standards Board
Level 20
500 Collins Street
Melbourne 3000

Via website: www.auasb.gov.au/projects/open-for-comment/

Dear Doug

Consultation Paper – Assurance over Climate and Other Sustainability Information

As the representatives of over 300,000 professional accountants globally, CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) welcome the opportunity to provide a submission on the AUASB's Consultation Paper *Assurance over Climate and Other Sustainability Information* (the CP). We make this submission on behalf of our members and in the public interest.

In developing our response to this Submission, CPA Australia and CA ANZ have conducted outreach initiatives with our members, leveraging on questionnaires, and have also sought input from wider communities, including stakeholders within the sustainability reporting and assurance ecosystem, through social media polls. In addition, the AUASB's roundtable discussions have provided valuable opportunities to gather insights from stakeholders on this consultation.

We found the possible phased approach to assurance regarding climate and other sustainability information useful to facilitate the consultation. Feedback received underscores the importance of striking a balance between sustainability assurance ambitions and practicalities. At this nascent time in sustainability reporting in Australia, a phased approach to assurance is critical to provide the broader corporate reporting ecosystem the necessary time to prepare for reporting of reliable climate data that can be subject to effective assurance.

There is overwhelming support for ISSA 5000 *General Requirements for Sustainability Assurance Engagements* (ISSA 5000) to be adopted as the overarching assurance standard for climate and other sustainability information in Australia. Although, there is recognition that establishing a comprehensive global baseline for sustainability assurance will take time and may be iterative.

In addition, there will be a need for the AUASB to develop a local pronouncement to supplement ISSA 5000 focusing on matters specific to the Australian sustainability reporting framework and the implementation of ISSA 5000 in the Australian context. We note that the AUASB intends to issue an exposure draft of any local pronouncement in July or August 2024. We look forward to participating in this further consultation in due course.

The accounting profession's main concern relates to the requirement for all Group 3 entities to undergo an audit even if they have no material climate risks or opportunities. While it is not within the AUASB's mandate, the legislation, as currently drafted, would result in a large skills and capacity gap which the AUASB would need to be cognisant of in determining the assurance phasing. Furthermore,

if the Bill is finalised as currently drafted then auditors will need guidance from the AUASB on conducting a reasonable assurance engagement and providing an opinion over what is effectively a negative statement by the entity. We have expressed our concerns to the Senate Economics Legislation Committee in our [joint submission](#) to the Senate Economics Legislation Committee.

The role of the accounting profession in sustainability assurance will evolve in the years ahead. As a result, it is challenging to future-proof strategies five to seven years in advance, as market expectations are likely to evolve rapidly. Building professional capacity and capability to support implementation, and ongoing collaboration globally between regulators, standards setters, policy makers, professional bodies, and other key players within the sustainability assurance ecosystem, will be of key importance. CPA Australia and CA ANZ are committed to supporting the work of the AUASB by developing relevant educational programs and resources that promote professional capacity and capability in sustainability assurance.

Our responses to the specific questions raised in the CP are included in the **Appendix** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Tiffany Tan (CPA Australia) at tiffany.tan@cpaaustralia.com.au or Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Sincerely,

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Appendix

Responses to specific questions

Part I – Demand for Assurance and Ability to Meet that Demand

- 1. Consideration should be given to the relative importance of each type of disclosure and the cost of assurance over that information. In that context, do you believe that limited assurance or reasonable assurance should be required earlier or later for any disclosures in the possible assurance phasing model in Attachment 1? Please provide reasons.**

We reiterate our support for a phased approach to assurance, however, the possible assurance phasing model in Attachment 1 of the CP appears ambitious. In our view, to allow for a more realistic target:

1. The commencement of mandatory assurance should be deferred for at least one year compared to the possible assurance phasing outlined in the CP where possible. In some cases, we acknowledge this will not be possible (e.g., scope 1 and 2 emissions).
2. It would be optimal to commence mandatory assurance with 'limited' rather than 'reasonable' assurance in all topic areas, for all groups, rather than commencing with reasonable (e.g., governance, and scope 1 and 2 emissions for groups 2 and 3).

Our reasons for this are as follows:

- The relevant reporting pronouncements, namely the enabling legislation and the Australian Sustainability Reporting Standards (ASRS) are yet to be issued and will have to be implemented within very short timeframes.
 - Our social media poll found many reporting entities currently lack readiness to prepare climate statements. Specifically, 43 percent indicated they are not prepared, with an additional 30 percent expressing uncertainty.
 - If mandatory assurance is required before reporting entities are ready, it may lead to an unusually high number of modified assurance opinions which is not in the public interest as it would undermine the policy objectives of the regime.
 - Any type of modified assurance opinion on the climate report, which may be the 'other information' as defined in ASA 720 *The Auditor's Responsibilities Relating to Other Information*, could have unintended consequences for the auditor's opinion on the financial report.
 - Having a shorter mandatory assurance period prior to 2030 would enable reporting entities to have a 'readiness assessment' or a 'dry-run' of assurance and the opportunity to rectify any deficiencies.
- 2. We are seeking information on the expected ability of audit firms to resource assurance engagements using partners and staff with appropriate competence, skills expertise, as well as their own internal or external experts. If you are an auditor, do you consider the possible assurance phasing in Attachment 1 could be adequately resourced by your audit firm for entities whose financial reports are audited by your firm? If not, please identify any pressure points in the model and reasons.**

Substantial capacity building efforts are underway within the audit profession. Larger audit firms serving groups 1 and 2 are substantially progressed toward the capacity needed to meet the demand

for assurance arising from the legislation, but the capacity to serve group 3 is likely to be far more limited. While there is a growing cohort of small and medium audit practices (SMP auditors) building sustainability practices to serve this segment, the capacity available by 2027-2030 is not likely to equate to all of the entities in group 3. Therefore, the legislation, as currently drafted, would result in a large skills and capacity gap which the AUASB would need to be cognisant of in determining the assurance phasing.

3. Do you consider that the systems and processes of entities in Groups 1, 2 and 3 will be developed, implemented and sufficiently reliable to facilitate the assurance processes as outlined in the possible assurance phasing model in Attachment 1?

As referred to in our response to question 1, there is a general consensus that many reporting entities currently lack readiness to prepare climate statements and they will need more time to produce quality data that is capable of being assured. This is for a variety of reasons, including but not limited to the fact that the sustainability reporting requirements are not yet finalised, and when they are, entities will have limited time to implement them. We understand that entities in group 1 are more prepared than entities in groups 2 and 3. Auditor readiness is very much contingent on preparer readiness, so this is a key concern.

Part II – Adoption of ISSA 5000 General Requirements for Sustainability Assurance Engagements

4. Do you agree that, subject to seeing the final standard, ISSA 5000 should apply to assurance over:

- a) **For climate disclosures under the Australian reporting framework;**
 - i. **Assurance mandated by the final phasing model developed by the AUASB; and**
 - ii. **Any earlier voluntary assurance or adoption of reasonable assurance than mandated by the AUASB’s assurance phasing; and**
- b) **Voluntary assurance over any other sustainability information in annual or other periodic reports, including climate disclosures that are not required by the final AASB reporting framework.**

We support a global approach to the development of sustainability assurance standards. We believe the goal should be a globally consistent, comparable, and reliable assurance framework for sustainability reporting. In our view, the IAASB’s framework-neutral profession-agnostic overarching standard for assurance on sustainability reporting; ISSA 5000, General Requirements for Sustainability Assurance Engagements (ISSA 5000) is the critical next step towards a global baseline for assurance on sustainability reporting. We recognise that establishing a comprehensive global baseline for sustainability assurance will take time and maybe iterative.

Applying ISSA 5000 to both mandatory and voluntary assurance engagements would help ensure consistency and comparability of assurance practices across Australia. This consistency would contribute to high-quality assurance outcomes and bolster the reliability and credibility of climate and sustainability reporting for investors and other stakeholders.

5. Should any parts of ISSA 5000 that may not be relevant to assurance of disclosures under the mandatory climate reporting framework in Australia be identified in guidance in a local pronouncement?

Identifying aspects of ISSA 5000 that are not relevant to Australia, such as the concept of double materiality and the "at least as demanding" test, will be important. However, the preference is for this to be done within the Australian version of ISSA 5000 as opposed to a separate local pronouncement to minimise complexity.

6. Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed equivalent of ISSA 5000?

At this stage, no such information has been brought to our attention.

7. Are there principles and practices considered appropriate in maintaining or improving assurance quality in Australia that may, or do, prevent or impede the application of the proposed equivalent of ISSA 5000, or may conflict with the proposed standard?

At this stage, no such information has been brought to our attention.

Part III – Possible Local Pronouncement

8. Should the AUASB develop and issue a local pronouncement to supplement the final ISSA 5000 dealing with assurance matters under the Australian climate and sustainability reporting framework? Please provide your reasons. Do you agree with the reasons for developing a local pronouncement in paragraph 45?

From paragraphs 6(c), 24 and 32 of the CP, we understand that a mandatory local pronouncement will be necessary that sets out the assurance phasing at a minimum.

We acknowledge there may also be a need for a non-mandatory local pronouncement, for example in the form of a Guidance Statement (GS). A non-mandatory local pronouncement will allow the AUASB to provide additional guidance that is tailored to the Australian context to ensure consistency and comparability when applying the final ISSA 5000 in Australia. We agree with the reasons provided in paragraph 45 of the CP for developing a local pronouncement.

9. Should the AUASB consider covering the matters identified in Attachment 2 in a possible local pronouncement?

We appreciate the AUASB has taken a proactive approach in this consultation to identify possible matters for a local pronouncement to accompany the final ISSA 5000. However, it is difficult for us to identify areas where guidance is needed before the final ISSA 5000 is issued. Gaps that were identified during the consultation phase of ED-ISSA 5000 may be addressed by the IAASB in the final pronouncement, or in accompanying guidance materials that can be leveraged by the AUASB. Therefore, we recommend the AUASB prioritises assurance matters that are specific to the Australian sustainability reporting framework. Of the topics areas suggested in Attachment 2 of the CP, the most pressing matters in our view are:

- 8. Entity states climate risks and opportunities are not material – The *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* imposes a requirement for all Group 3 entities to undergo an audit even if they have no material climate risks or opportunities. This requirement appears to have been imposed on an assumption that the costs would be negligible or nil, or that it would be possible to ‘lighten’ the requirements of an audit with a locally developed standard. We caution that any departure from the assurance framework or ‘lowering of the bar’ aimed at lessening the costs involved would be adverse to the credibility and integrity of Australia’s auditing standards and international standing overall. If the Bill is finalised as currently drafted then guidance will be needed on this, especially how to obtain sufficient appropriate evidence over the completeness assertion.
- 25. Auditor’s report(s) – During the assurance phasing period there will be a mix of limited and reasonable assurance within a single assurance engagement. Illustrative assurance reports to support this phase would be well received.

We recommend the AUASB and the AASB work collaboratively to develop guidance to support both preparers of climate-related disclosures and assurance practitioners. Guidance in areas where there are judgements and assumptions in the disclosures – such as materiality assessments, choice of industry metrics and assumptions for scenario analysis will be important as users will rely on independent external assurance to enhance the credibility of these more complex areas of climate-related disclosures.

10. Are there any matters identified in Attachment 2 that should not be addressed in a possible local pronouncement? Please provide reasons.

Matters that are covered by the IAASB will not need to be addressed in a local pronouncement.

11. Are there any matters that should be addressed in a possible local pronouncement in addition to those identified in Attachment 2?

Guidance that illustrates the delineation of the differences in work effort between limited and reasonable assurance engagements when adhering to the requirements outlined in the final ISSA 5000 standard would be welcomed.

12. To assist the auditor in considering the adequacy of disclosures, should any local pronouncement include material on applying aspects of the reporting framework in addition to that available in sustainability standards and material from other standard setters or regulators? For example, should the auditor be reminded about their obligations under ASA 720 to consider omissions of material non-climate sustainability risks and opportunities in the Operating and Financial Review? If so, should guidance be provided on reporting frameworks that could be referred to in that regard?

No comment.

13. Should guidance be provided on materials that might be referred to by the auditor in assessing disclosures (e.g. standards on Financed Emissions, Facilitated Emissions and Insurance-Associated Emissions at The Global GHG Accounting and Reporting Standard for the Financial Industry)?

No comment.

14. Should any local pronouncement cover considerations about the impact of climate and sustainability risks and opportunities on recognition, measurement and disclosure in the financial report (e.g. impairment of assets, provisions)?

We note that this is a developing topic area that is on the IASB's work plan; [IFRS - Climate-related and Other Uncertainties in the Financial Statements](#). We recommend that the AUASB works with the AASB on recognition, measurement and disclosure topics pertaining to the financial report.

Part IV – Other Matters

15. The Clean Energy Regulator (CER) has assurance requirements for some of the entities that will be covered by the climate reporting requirements under the Corporations Act. These include obtaining external assurance on Scope 1 and 2 emission intensity determination pursuant to section 17 of the Safeguard Mechanism Rule. Are there any aspects of the CER's current reporting and assurance regime that the AUASB should consider when developing pronouncements on assurance over climate-related financial disclosures and other sustainability information?

No comment.

16. Some entities that will be subject to the mandatory proposed climate reporting requirements have cross-border activities or operations. Are there any international factors that the AUASB should consider when developing its proposed pronouncements relating to assurance over climate-related financial disclosures and other sustainability information?

No comment.

17. Do you have suggestions on any other matters that the AUASB should consider in relation to assurance over climate-related financial disclosures and sustainability reports?

There will be a need for education of users and broader stakeholders to understand the assurance being provided over the sustainability reporting and key concepts being used. This will require coordinated approach by all participants in the corporate reporting ecosystem, including the AUASB.