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Sub 18 CP-Climate and Sustainability

The Chairman
Australian Auditing and Assurance Standards Board
PO Box 204, Collins Street West
Melbourne VIC 8009
Via email: enquiries@auasb.gov.au

3 May 2024

Dear Chairman

Re: AUASB Consultation Paper on Assurance over Climate and Other Sustainability Information

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise, but also employees, governments, regulators – and the wider community. KPMG welcomes the opportunity to respond to the Auditing and Assurance Standards Board (AUASB)'s Consultation Paper on Assurance over Climate and Other Sustainability Information (Consultation Paper).

Assurance plays an important role in enhancing the credibility of climate disclosures and KPMG strongly supports the adoption of globally consistent disclosure of sustainability-related financial information and alignment with the proposed International Standard on Sustainability Assurance (ISSA) 5000.

The consultation paper is seeking feedback on the possible development of an Australian assurance pronouncement to supplement ISSA 5000 on matters specific to the Australian reporting framework. We understand that a pronouncement could take different forms. Whilst we are supportive of the concept, rather than developing a standalone Australian standard, we propose the AUASB prioritise the creation of FAQs and AUASB Bulletins as they provide immediate responses to assurance practitioners. We are supportive of the development of a Guidance Statement for potential Australian-specific matters, but only after considering whether there are matters of substance that have not been able to be addressed by non-authoritative materials and consultation with a Project Advisory Group or specialist panel. This approach would also have sufficient ability to adapt, change, and maintain international alignment as the international standard is updated over time.

In KPMG's experience assisting multinational companies, having a standalone Australian 'wrap around' assurance standard in addition to the international equivalent will result in a higher compliance burden, with 'bridging documents' having to be prepared to navigate through multiple standards. This added workflow contributes to cost and complexity. Any new Australian standard would need to demonstrate that the benefits of additional assurance requirements exceed any benefit through a regulatory impact statement.

KPMG welcomes ASIC's recent statements[1] around its role in administering the mandatory climate reporting regime, including that it will develop and issue regulatory guidance that will include a new, regulatory guide and additional resources on ASIC's website for both those who prepare and use sustainability reports. It is important for the broader market to have a clear understanding of what the AUASB and ASIC roles are in relation to providing guidance to assurers and preparers.

In relation to the proposed assurance roadmap and timeline for climate disclosures, we support the Treasury proposal outlined in the *Climate-related financial disclosure: Second consultation*. We agree with the approach commencing with limited assurance and transitioning to reasonable assurance over time. In the context of climate disclosures, this transition would offer a robust degree of credibility and accuracy, supporting informed decision-making in the sector. Although we support the proposed assurance roadmap, it would be beneficial to have the same timeline for phasing of assurance over disclosure topic areas across group 1, 2 and 3 entities so that entities have the same amount of time to prepare to move from limited to reasonable assurance.

In relation to KPMG and the sector more broadly meeting the resourcing requirements set out in the proposed assurance roadmap, KPMG is largely on track to meet the resources needed, given the size and maturity of our Audit and Assurance and Climate and Sustainability specialist practice. However, we do consider there is a need for appropriate visa-related concessions for people who specialise in external sustainability assurance given that Treasury's draft legislation will exacerbate demand for this skillset amongst clients, assurance practitioners, and regulators. It will be critical that 'external auditors' remain on the Draft Core Skills Occupations List (CSOL) and that guidance is released that clarifies that this role extends to external assurance of non-financial information as well as financial information. KPMG will be responding separately to the Department of Home Affairs review of the CSOL. In addition, an industry campaign may be required to ensure enough assurers have the appropriate skills and experience to meet future assurance requirements across the broader industry.

Further to the above, it will be essential for firms to be able to utilise sustainability assurance experts, much like how experts are engaged for a financial statement audit when the engagement leader sees a need. We acknowledge that the consultation paper does not directly touch on this matter. However, if firms are obliged to use a climate assurance subject matter expert who is also a Registered Company Auditor, it could pose significant challenges. The timing of reporting will also be challenging as

[1] Start preparing now: Early ASIC guidance on the mandatory climate disclosure regime | ASIC

the assurance will occur at the same time as the financial statement audit and a transitional period may be required for the first year of reporting.

Finally, we would support the AUASB having a project advisory group or specialist panel where issues can be raised quickly and possible FAQs can be developed to assist professionals.

Please find detailed responses to the consultation questions set out in the Consultation Paper at the Appendix of this letter.

Should you wish to discuss these issues or proposals further, please do not hesitate to reach out.

Yours sincerely,

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KPMG Australia

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<u>Appendix</u>: KPMG response to consultation 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.*
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.*
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?*

KPMG Response Q1-3

Possible assurance phasing model

As stated in our KPMG submission on *Climate-related financial disclosure: Second consultation*, we support the preferred policy parameters for climate disclosure assurance outlined in the consultation paper. We support requiring limited assurance and moving to reasonable assurance over time. Overall, we believe the market needs certainty for entities to develop and implement their strategies and overall readiness.

We note the proposed roadmap excluded Governance from the assurance requirements in year 1 for Group 1 entities. We would support the inclusion of Governance requiring assurance in year 1, noting that Treasury's proposal is appropriately driving a lot of entities to review their governance processes over sustainability reporting. We would be supportive of starting with reasonable assurance over Governance as we do not believe that there will be a substantial difference in the level of work required between limited and reasonable assurance for this pillar given it is largely a qualitative disclosure.

We believe that there needs to be a logic to the grouping of disclosures subject to assurance. For example, we recommend that Scope 3 should be subject to assurance either at the same time or before Strategy is assured because Scope 3 emissions are part of an entity's climate strategy. This logic is already reflected in the proposed roadmap for Group 1 but not for Group 2 or 3 and we suggest this is taken into consideration in the final roadmap. For simplicity, we would propose that the same phasing of assurance applies to the disclosure topic areas across Group 1, 2 and 3 entities.

Resourcing of assurance engagements

We consider that we will be able to appropriately resource engagements under the roadmap as we have a mature sizeable Audit and Assurance and Climate Change and Sustainability specialist practice, and our strategy includes training our Audit and Assurance practice. Importantly, we have many clients who would be seeking a private opinion before assurance is mandated and note that adherence to the ISSA 5000 standard will undoubtedly drive improved quality and consistency in our approach to assurance.

The timing of reporting will be challenging as the assurance will occur at the same time as the financial statement audit. KPMG supports the reporting of climate-related information at the same time as the financial statements. However, we acknowledge the practical challenges for entities to achieve this – including the availability of data, using metrics and third-party data that is not yet final, and relying on estimates. In response to this KPMG recommends alignment with the temporary and optional transition relief provided by the IFRS Sustainability Disclosure Standards to allow entities to report sustainability-related financial disclosures after their financial statements for the first year of application. The IFRS Sustainability Disclosure Standards allow for aligning the publication of sustainability information with interim reporting requirements, specifically Q2 earnings announcements, for the first year of reporting only. After the transition period, entities would need to report sustainability information at the same time as the financial statements.

In relation to resourcing, it is critical that 'external auditors' remain on the Draft Core Skills Occupations List (CSOL) and that guidance is released that clarifies that this role extends to external assurance of non-financial information as well as financial information. The clearer guidance also needs to acknowledge that the 'Environmental consultant' role does not reflect the activities of a person engaging in external sustainability assurance. The key role of an external sustainability assurer is providing external assurance over non-financial information.

Ensuring that external sustainability assurers can access a skilled migration pathway is critical for the achievement of the Government's proposed climate-related financial discourse assurance road map. To accompany resources from overseas, we also support an industry campaign aimed at attracting more individuals into the profession to meet future resourcing requirements.

Readiness of systems and processes of entities

In our experience, there are some challenges within Australian organisations for readiness in accordance with the proposed assurance phasing model in Attachment 1 in areas such as:

- Climate resilience and scenario analysis;
- Transitional and physical risks;

- Quantification of impacts on financial statements; and
- Determining Scope 3 financed emissions.

These challenges are likely to become more pervasive for Group 2 and 3 entities; however, the assurance phasing is designed with this in mind by providing these groups with more lead time.

Overall, our experience indicates that some clients find data management challenging due to:

- Lack of data governance for ESG purposes – governance that is applied for other purposes isn't sufficient to address the needs of ESG data;
- Quality issues – data being relied upon for financed emissions estimates is often not fit for purpose – a good example is the lack of accuracy of ANZSIC codes attached to clients and assets, which means portfolio estimates are less accurate; and
- Heavy reliance on manual data entry – much of the data sourced externally is processed and used manually.

APRA's Climate Vulnerability Assessment (CVA) found that while inputs and estimates essential to modelling a transition to a lower emissions economy scenario remain a significant challenge, these data limitations do not provide a justification for delaying initiatives to better understand climate risk. The CVA also noted that financial institutions can adopt a staged approach to climate risk assessment, leveraging available data while building their internal capacity, and incorporating modelling and data developments over time.

There may be some concerns around capacity and skillsets in understanding data within smaller organisations and we suggest that greater resources and capacity building programs may be required. We consider that following the timeframes determined by the ISSB for this supplementary data will provide entities the appropriate time to ensure their resources, data, technical know-how and capabilities are in place to enable reliable reporting on some of these more complex areas.

We believe that as a result of these challenges, there will be modified assurance conclusions for some entities and that the market will need to be prepared for this as each group commences mandatory assurance.

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.*

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?*
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?*
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?*

KPMG response Q4-7

KPMG supports Australia adopting the International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements* to ensure global consistency in the delivery of assurance and we believe developing Australian-specific requirements should be limited where possible. We support the application of ISSA 5000 to both assurance mandated by the *Corporations Act 2001*, including early adoption, and any voluntary assurance over any other sustainability information.

KPMG is not aware of any major impediments that would prevent the application of ISSA 5000 in the Australian context.

We would not support the AUASB identifying parts of ISSA 5000 that they consider not relevant to assurance of disclosures under the mandatory reporting framework in Australia as this would be inconsistent with the established approach in all IAASB/AUASB Standards where an assurance practitioner is not required to comply with a requirement where it is conditional, and that condition does not exist.

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?*
9. *Should the AUASB consider covering the matters identified in Attachment 2 in a possible local pronouncement?*
10. *Are there any matters identified in Attachment 2 that should not be addressed in a possible local pronouncement? Please provide reasons.*

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

KPMG response Q8-14

Our primary preference is for the AUASB to prioritise the creation of FAQs and AUASB Bulletins as they provide immediate responses to assurance practitioners. We are supportive of the development of a Guidance Statement for potential Australian-specific matters, but only after considering whether there are matters of substance that have not been able to be addressed by non-authoritative materials and consultation with a Project Advisory Group or specialist panel. We would also recommend that the AUASB work with other key stakeholders including the AASB, ASIC and the Professional Accounting Bodies to establish a more flexible process where preparers and practitioners can raise practical challenges as they emerge and for those issues to be dealt by the appropriate party with clear and consistent messaging to all stakeholders.

As mandatory assurance is phased in, new issues are likely to emerge. Forecasting all potential challenges that a pronouncement might address before mandatory assurance could be premature. Current perceived issues may not retain their significance in the future. There are, however, matters listed in Attachment 2 that we believe would benefit from further discussion and prioritisation in a project advisory group or panel including:

- Scenario analysis and transition plans – when is there significant uncertainty or a limitation on scope and considerations for assessing when uncertainties impact opinion in relation to forward-looking information;
- Example modified assurance reports to achieve the principle of consistency;
- Varying levels of disclosure related to Scope 3. The level of detail provided may vary greatly between businesses. Some may opt for comprehensive disclosure while others may only provide minimum requirements; and

- Considerations for the use of information from third party data sources. We would recommend that this also includes guidance for third party organisations on obtaining assurance over controls relevant to the user entity's climate reporting to meet the needs of user auditors. This will be particularly important for organisations who use third party data providers as part of their Scope 3 emissions.

Drafting a standard in place of a guidance statement or non-authoritative guidance could significantly hinder AUASB's responsiveness to practical issues as they occur and may not serve practitioners' best interests. We also believe that having a standalone Australian standard as a wrap-around to ISSA 5000 will result in higher compliance burdens with 'bridging documents' having to be prepared to navigate through multiple standards adding to increased cost and complexity. We therefore do not endorse the creation of a Standard to address the issues outlined in Attachment 2, as we believe that if the FAQs and bulletins are not sufficient - a Guidance Statement offers more flexibility and the ability to adapt over time to updates in international standards and emerging Australian issues.

We kindly advise the AUASB to note that several matters in Appendix 2 pertain more to the reporting framework than to assurance issues. This could potentially lead to ambiguity for both preparers and assurance practitioners, particularly if guidance on these matters is released by the AUASB. For instance, paragraph 4.71 of the Explanatory Memorandum to the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 indicates that voluntary information may be presented along with the information required by the proposed s296A of the Corporations Act 2001 but the voluntary information is presented in a separate statement and the AASB has proposed to address the cross-referencing of information in their Exposure Draft Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information. We also note that ASIC plans to release a Regulatory Guide as well as additional resources for preparers.

We have not identified matters to date that should be addressed in addition to those identified in Attachment 2. However, this is likely to evolve over time and we would welcome the opportunity to participate in a future forum or group to discuss as they are identified.

Matters raised in questions 12 and 13 could be easily addressed in FAQs rather than a local pronouncement which could be a neat way of handling those issues.

We believe that any possible local pronouncement should have its scope limited to assurance over climate-related matters and should not cross into prescribing requirements for the audit of 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?

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?*
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?*

KPMG response Q15-17

Clean Energy Regulatory requirements

The National Greenhouse and Energy Reporting (NGER) Scheme has assurance requirements (Scope 1 and 2), and recent Safeguard legislation has moved this to reasonable assurance over emissions for >1m tonnes emitters. Current Safeguard Mechanism reporting requires reasonable assurance over 5 years for Scope 1 emissions but only in relation to historic years from FY18 to FY22.

We would note that the mandatory assurance requirements under the CER regime are relatively specific and, in some cases, limited to historical information that will not be directly relevant to the climate-related financial disclosures required under the draft Standards. However, we would encourage the AUASB to liaise directly with the CER in relation to how any future mandatory CER assurance may be leveraged in relation to assurance over the climate-related financial disclosures in the draft Standards. We would note, however, that this discussion should also be conducted in the context of the measurement hierarchy contained in the draft Standards, which will permit, under certain circumstances, measurement other than under the CER's NGER Scheme (for example, [Draft] ASRS 2.Aus31.1]).

International considerations

We do not have any specific international factors that we would like to the AUASB to consider at this time other than supporting the guiding principle of international alignment.

Other matters

We do not have any suggestions or other matters that the AUASB should consider in relation to assurance over climate-related financial disclosures and sustainability reports at this time. However, we recognize that this is likely to change in the future and would welcome the opportunity to continue our engagement with you.