Sub 5 CP-Climate - Sustainability

30 April 2024

Mr Doug Niven
Chair, Australian Auditing and Assurance Standards Board
600 Bourke Street
Melbourne Vic 3000

Dear Doug

Australian Equivalent to ISSA 5000 - Submission by Deakin University Integrated Reporting Centre

Thank you for the opportunity for us as leaders of the Deakin University Integrated Reporting Centre to make a submission on this important consultation. We believe in sustainability reporting assurance given its benefits for preparers, investors and other stakeholders, and thereby its contribution to the public interest.

We refer to our submission to the AUASB of November 2023 in relation to the AUASB's submission to the IAASB on the exposure draft of its ISSA 5000 and re-iterate its key points and recommendations.

Our submission to the IAASB referred to the changed and changing external reporting and external reporting assurance environment at the international level. The same is true in Australia.

The Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 has now had its first and second readings in the House of Representative. Royal Assent in relation to the Bill such that it becomes an Act later this year should clear the way for the AASB to issue Australian Sustainability Reporting Standards 1 and 2.

This will build on the existing body of sustainability reporting in Australia which is significant. The body of this submission has background information on that matter.

In this environment the AUASB can be confident in pursuing an internationally aligned Australian equivalent of ISSA 5000. Australia is part of an evolving market practice around the world which is already moving towards a more integrated approach to assurance.

<u>Assurance of the Descriptions of an Organisation's Business</u>

Assuring descriptions of a business[1] (a central feature of assurance of disclosures under the Australian equivalents of IFRS Sustainability Disclosure Standards S1 and S2 and integrated reporting assurance) as

[1] When we refer to 'the business' in this submission, we have in mind descriptions of an organisation's business which will result from applying the IFRS Foundation's International Integrated Reporting Framework and the type of business which will result from applying the Foundation's Integrated Thinking Principles. Broadly such a description results from applying the fundamental concepts of integrated reporting as set out in the Framework:

- Value Creation – the *what* of the business – the strategy, risks and opportunities.
- The Capitals – the *with* of the business – its resources and relationships.

part of this evolution is important given existing and growing market practice around the world. It is also the major focus of this submission. Voluntary instances of integrated reporting assurance continue to appear around the world, with the trend seemingly being driven by competitors or reporting peers in a jurisdiction following others in the jurisdiction also obtaining integrated reporting assurance. Integrated reporting assurance is mandated in Brazil and assurance of the description of the business is mandated in Spain, Italy and France. The body of this submission has background information on the state of integrated reporting assurance.

The integrated reporting assurance pioneer in Australia was Cbus. CPA Australia was a fast follower. Both Cbus and CPA obtain integrated reporting assurance from KPMG. Like ABN Amro, CPA Australia has gone on to obtain reasonable assurance of the description of its materiality determination process.

IFRS Sustainability Disclosure Standards S1 and S2, which became effective internationally on 1 January 2024, require a partial description of 'the business'. They require a description of the organisation's governance, strategy and risk management in relation to climate and other sustainability-related matters.

As IFRS Sustainability Disclosure Standards are mandated through local jurisdictional equivalents, we expect this will be matched by assurance mandates in relation to this partial description of the business. Australia is a relevant example, and the mandate is not being limited to disclosing the partial description of the business. The mandate requires assurance of these partial business descriptions, starting with limited assurance and progressing to reasonable assurance by 2030.

<u>The Assurance Challenge in Relation to Descriptions of The Business</u>

We believe that a trend towards the description of the business to be a comprehensive description will be in the interests of investors and other stakeholders. We also believe that this will be a driver towards achievement of the objectives of the Australian Financial Reporting System as set out in section 224 of the ASIC Act. These objectives relate to confidence in Australian capital markets, international competitiveness of Australian companies in international capital markets, and the cost of capital, all of which should be enhanced by more effective corporate reporting; and to international competitiveness of Australian companies and cost of capital improvements driven by higher productivity, both of which should be enhanced by the benefits of more integrated thinking which typically follow integrated reporting adoption[2].

On this basis, there will be benefits to the Australian Financial Reporting System from having comprehensive or partial descriptions of the business subject to independent external assurance, which should enhance the credibility of the reports.

Assurance of reporting under the sustainability reporting mechanisms, standards and frameworks discussed above requires the assurance practitioner to *evaluate* the description of the business. Complex assurance practitioner judgements are typically required to evaluate such qualitative disclosures which reflects business judgements by Boards of Directors and management teams. As practice in these areas is rapidly expanding, dedicated assurance standards and guidance are urgently required.

- Value Creation Process – the *how* of the business – its business model, which is comprised of key business processes including the board's governance process, management's strategic management process (where opportunities are pursued), the stakeholder relationship management process, the materiality determination process, the risk management process, and the reporting process.

The process of integrated reporting is founded on integrated thinking. An integrated report provides a window into the quality of an organisation's integrated thinking. An independently assured integrated report will enhance the credibility of the business story being communicated by the integrated report in the eyes of investors and other stakeholders.

[2] Relevant papers include Dimes, R and de Villiers, 'Hallmarks of Integrated Thinking', The British Accounting Review, 101281 (2023); Vitolla, A, Striopoulos, T, Alvino, F and Palladino, R, 'Integrated thinking and reporting – towards sustainable business models: a concise bibliometric analysis,', Meditari Accountancy Research, 29(4), 671-719 (2021); Vitolla, F, Marrone, A and Raimo, N, 'Integrated reporting and integrated thinking: a case study analysis; Corp Own, 18, 281-291 (2020); Dimes, R, De Villiers, C and Chen, Li, 'Journal of Management Accounting Research, Vol 35, Issue 3, pages 75-90 (2023); Bridges, CM, Yeoman, M and Harrison, J, 'Integrated thinking or integrated reporting, which comes first?', The Routledge Handbook of Integrated Reporting, pages 241-20, Routledge (2020).

The knowledge, skills, experience and assurance procedures required to make such evaluations and obtain relevant evidence are quite different to those required for assuring quantitative metrics and associated narratives, which typically relate to *measurement* rather than *evaluation* assurance procedures.

In our view, the proposed ISSA 5000 provides suitable standards for assurance practitioners in relation to assuring metrics and associated disclosures. However, the guidance and examples in the *proposed* ISSA 5000 relate almost exclusively to the *measurement* of metrics as compared to guidance and examples related to *evaluating* qualitative disclosures such as the description of an organisation's business required by certain sustainability reporting mechanisms, frameworks and standards. All of the procedure-specific examples in the proposed ISSA 5000 relate to metrics and associated disclosures.

This gap comes from the very definition of 'sustainability matters' in the proposed ISSA 5000, where the business is not a *sustainability matter*, and a description of the business is not *sustainability information*. Under the proposed ISSA 5000, the business is an *aspect* of a sustainability matter. The reality is that the description of the business is *not* an aspect of a topic. It is *the* topic in numerous forms of reporting, including integrated reports and shortly, Sustainability Reports in Australia. Aspects of the business include the various sustainability risks and opportunities that arise *because* of the business.

We submitted to the IAASB that we believe that a solution can be achieved by adding examples and making a relatively simple change to the definition of 'sustainability matters' in ISSA 5000. This would clarify that all matters relating to enterprise value, a whole-of-business financial concept[3], and the focus of IFRS Sustainability Disclosure Standards, are sustainability matters under ISSA 5000.

With these targeted adjustments, the IAASB's proposed global sustainability assurance standard has the potential to become the comprehensive global standard that enhances trust and confidence across capital markets and society. Our November 2023 submission to the AUASB explained our view on how the final ISSA 5000 needs to address these points.

The above theme permeated our submission to the IAASB. We recommended that the IAASB add examples to guide assurance practitioners in making the often-complex evaluation judgements on qualitative descriptions of the following as parts of sustainability information:

a) a comprehensive or partial description of an organisation's business.

b) whether the pre-conditions for assurance have been met.

   In particular, whether the existing description of an organisation's business will pass the test of 'assurance readiness' and so be able to pass the test of pre-conditions for assurance. We are not proposing that the evaluation of pre-conditions needs to go beyond documentation that already exists. Non-existent or deficient documentation is likely to suggest non-readiness and the need for remediation before assurance is pursued.

c) the Basis of Preparation and Presentation including the description of the organisation's materiality process.

   The same is true of forms of reporting requiring a Basis of Preparation and Presentation (BoPP) to be included in the relevant report as well as a description of the business. It is the BoPP that provides the suitable criteria for assurance.

d) internal control and assurance evidence – evaluation when part of sustainability information.

[3] Equivalent to the net present value of future cash flows. Ocean Tomo, an intangible asset management consultancy, has for many years conducted research on the relationship between market capitalisation and net assets recorded under IFRS Accounting Standards. Ocean Tomo found that net assets had fallen to around 10% of market capitalisation of the S&P 500 in its most recent research. Everedge, a competitor to Ocean Tomo, does similar research. Its point of difference is that it focuses on enterprise value (using the market value of equity and debt as a proxy) rather than market capitalisation. It finds that net assets represent about 15% of enterprise value. Accordingly, the results of the work of Ocean Tomo and Everedge are comparable.

Obtaining and concluding on evidence as to the *operation* of the business and internal controls therein as set out in the documentation, as to its *design* as set out in the description of the business. Assurance practitioners will be required to evaluate whether the board's governance, and management's strategic management and the reporting processes among others are operating as designed and documented. This will require the auditor to 'go inside' the boardroom and c-suite to obtain the required evidence.

On the basis of the above, we are largely supportive of what the AUASB is proposing – having maximum international alignment with additional material tailored to Australian conditions. If the final ISSA 5000 does not adequately address these matters, we believe that the AUASB should incorporate the above four matters (a to d) in the Australian equivalent of ISSA 5000 and associated guidance.

Attachment 2 to the AUASB's Consultation Paper, 'Assurance Over Climate and Other Sustainability Information' is the key reference point for our attached submission, which contains our responses to the questions asked by the AUASB and which are focused on the above topics.

<u>DIRC Offers of Support to the AUASB</u>

The Deakin University Integrated Reporting Centre offers to draft definitions and examples for the AUASB if our recommendations are not taken up by the IAASB.

The above four topics can be drawn together in the Australian equivalent of ISSA 5000 or associated guidance. Deakin University offers to be contracted by the AUASB to draft a guide for practitioner evaluations of the description of the business in forms of reporting requiring such descriptions – Sustainability Reports, Operating and Financial Reviews and Integrated Reports.

We can also undertake on behalf of the AUASB any evidence collection and research required in relation to sustainability reporting assurance. For example, refer to our response to Question 12.

<u>The Deakin University Integrated Reporting Centre</u>

The Deakin University Integrated Reporting Centre (DIRC) is an independent thought leadership centre with deep connections into academia, accounting and assurance standard-setting, and the business world. It provides leadership across three pillars of excellence in integrated reporting: thought leadership and engagement, education and training, and research, both pure and applied.

The DIRC also provides the Secretariat for the Australian Business Reporting Leaders Forum (BRLF). The BRLF is a discussion forum. It is the IFRS Foundation's designated Integrated Reporting Community for Australia and is a reporting stakeholder to the Financial Reporting Council (FRC). Accordingly, it has direct international connectivity and a strong local voice. Its mission is to drive better business reporting with a focus on integrated reporting and integrated reporting assurance, and producing support research, thought leadership and education in integrated reporting and integrated reporting assurance.

This consultation is core to the missions of both the DIRC and BRLF given the importance of integrated reporting and integrated reporting assurance to well-functioning capital markets, well-informed stakeholders and the public interest within a better business reporting context. We make this submission on behalf of the DIRC and offer any required assistance to the AUASB.

Yours faithfully

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Deakin Submission to AUASB

The Appendix to this submission contains background Information of relevance to sustainability reporting assurance in Australia, covering the state of integrated reporting assurance around the world; existing sustainability reporting in Australia; and DIRC's submission to Treasury on its proposed climate disclosure legislation Following are our responses to the AUASB's questions.

Responses to AUASB's Questions

Question One

In our view, the assurance phasing in model in relation to the final Australian equivalent of ISSA 5000 should be completely aligned with the reporting phasing in model which will be required by the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Act 2024 when passed. There should be no delay on assurance.

The possible assurance phasing in model set out in the AUASB's Consultation Paper appears to be aligned with Treasury's January 2024 *Consultation Draft* of the Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024, when it was expected that the first reporting date for Group One entities would be for years ending 30 June 2025.

The *actual draft Bill* of April 2024 proposed a first reporting date for Group One entities as being for years beginning 1 January 2025, with the first cohort of Group One entities subject to its requirements being entities with years ending 31 December 2025. Effectively this means a six month delay overall from the Consultation Draft and partial application at the first reporting date of 31 December 2025.

The majority of ASX 300 entities have a balance date of 30 June. The first reporting date for Group One entities with 30 June balance dates will be for years ending 30 June 2026. For March balancing entities it will be 31 March 2026 and for September balancing entities, 30 September 2026.

The point is that 31 December-balancing entities will have little time to get ready for first time reporting as the legislation has not been passed and ASRS 1 and 2 have not been published. The same is true of the Australian equivalent of ISSA 5000. However, this is no reason for delaying the first date for assurance for 31 December balancing Group One entities beyond their first-time reporting. They have been on notice for some time and have solid information with which to prepare. A delay would not be in the interests of investors, including international investors, and Australian capital markets.

We recognise that the actual effective date depends on whether the Bill receives Royal Assent by 3 December 2024. Royal Assent after that date will delay the effective date of the legislation.

We agree with Attachment 1 in it differentiating between disclosure topic areas in terms of whether assurance will start on a reasonable (governance and scope one and two emissions) or limited assurance (strategy including risks and opportunities, quantitative scenario analysis, climate resilience assessments, transition plan and climate-related targets, scope three emissions) basis.

However, we recommend that the table in Attachment 1 be adjusted to fall into line with the Bill that has now been read for the first and second times in the House of Representatives. It may be possible for the exposure draft on the Australian equivalent to ISSA 5000 to reflect the final legislation depending upon when it passes through the Senate.

The first-year phasing for Group One entities would then be as follows:

Disclosure topic area	**Years commencing 1 January 2025**	**Years commencing 2 January 2025 to 30 June 2026**
Governance	None	Reasonable
Strategy (including risks and opportunities)	None	Limited
Qualitative scenario analysis	None	Limited
Quantitative scenario analysis	N/A	N/A
Climate resilience assessments	None	Limited
Transition plan and climate-related targets	None	Limited
Risk management	None	Limited
Scope 1 and 2 emissions	Limited	Reasonable
Scope 3 emissions	N/A	N/A
Other metrics and targets (excluding appropriateness of metrics)	None	Limited
Other metrics and targets (appropriateness of metrics)	None	None
Industry-based metrics	N/A	N/A

Question Two

The Deakin Integrated Reporting Centre is not an audit firm. However among its team members is a former Big 4 audit firm partner. We make a qualitative comment on that basis. We believe that audit firms, particularly larger and better resourced firms, will be better prepared for assurance of quantitative disclosures on metrics measuring the performance and prospects of a business and associated disclosures. Deakin research[4] demonstrates that 81% of ASX 300 Group One entities are audited by Big 4 accounting firms. These firms likely to be better resourced and able to assist their clients in getting reporting and assurance ready. There is no reason that these entities and firms would not be ready for the AUASB's proposed phasing.

However, we believe that these firms will be less well prepared in terms of partners and staff with appropriate competence, skills and expertise, as well as their own internal or external experts, for assurance of the qualitative components of reporting frameworks and standards requiring the description of all (integrated reports) or part (reports containing S1 and S2 disclosures or disclosures required by Article

[4] Comprising an unpublished desktop scan of a listing of the ASX 300 obtained from the ASX website and a search of the annual reports of these companies and other sources for revenue, asset and employee numbers.

19(a) of the EU CRD) of an organisation's business: its strategy, risks and opportunities, resources and relationships and business model / value chain. This is a new area for the vast majority of financial statements auditors even though they must understand the business in planning their audits under ASA 315, 'Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and its Environment'. The description of the business becomes 'sustainability information' rather than just planning information.

Various topics identified in Attachment 2, 'Possible matters for local pronouncement', and in relation to each topic area, are matters that might be covered in a local pronouncement (subject to final legislation, final AASB standards, the final ISSA 5000, and any IAASB guidance) are directly related to evaluating the description of an organisation's business:

Topic Area		**Matters that might be covered in a local pronouncement**	**DIRC Comment**
2	Reporting may include climate statements under AASB standards, Operating and Financial Review (OFR) …	Different users; materiality; ASA 720 / OFRs	Also sustainability reports / climate statements under new legislation and integrated reports.
3	Consistent disclosures and assumptions across documents (audited and unaudited)	ASA 720 considerations in relation to unaudited OFRs.	This would be extended to sustainability and integrated reports in local pronouncement
5	Competency of engagement partner:	Matters such as • Whether to provide guidance on the competency that the engagement partner needs to appropriately identify and engage experts and to challenge experts etc • Extent to which competency needs to be specific to entity's circumstances	Under the proposed new legislation, the financial statements auditor will assure the sustainability report. Financial statements auditors have always been required to understand the business underlying the financial statements. However, this understanding was obtained in relation to planning the financial statements audit, not as underlying subject matter and subject matter information (the description of the business) for the assurance engagement. Financial statement auditors should have the necessary competency required. Guidance is likely to be required in relation to the transition of the description of the business from audit planning information to subject matter information (sustainability information under ISSA 5000).
8	Entity states climate risks and opportunities are not material	Need to address materiality even if risks and opportunities would not have been subject to assurance if disclosed	A key component of describing the business is its business model, including the materiality determination, stakeholder

Topic Area		Matters that might be covered in a local pronouncement	DIRC Comment
			relationship, governance and strategic management processes, and their performance and prospects. In the current environment, the Board and management's consideration of climate risks and opportunities will feature in these processes, and so investors and other stakeholders will understand the company's reasoning about climate risks and opportunities, and the Board will be subject to the modified liability regime in the proposed legislation.
10	Value chains	Providing and receiving assurance through value chains. Response to lack of reliable information.	The description of the business model includes a description of its value chains. Local guidance will be needed in this area.
11	Disclosures on governance processes and controls and procedures to monitor, manage and oversee climate-related risks and opportunities	Not assurance about whether governance is adequate but whether disclosures about existing governance arrangements are factual (documentary evidence, knowledge of business, inquiry).	Need clarity that assurance is not about the business, it is about the fairness of the description of the business.
12	Disclosures on an entity's strategy for managing climate-related risks and opportunities	Documentary evidence etc. Effectiveness of strategy relevant to scenario analysis and transition plans.	Part of the description of the business
13	Strategy – risks and opportunities	Considering whether risks and opportunities disclosed are complete and accurate. Extent of work on risks and opportunities throughout value chain.	Part of the description of the business
14	Strategy – other	Current and anticipated effects of climate-related risks and opportunities on business model and value chain – does the entity have a business strategy? Auditor to understand business model and how it may be impacted. Documentary evidence. Resilience. Risk management.	Part of the description of the business

These topics can be drawn together in the Australian equivalent of ISSA 5000 or associated guidance. Deakin University offers to be contracted by the AUASB to draft a guide for practitioner evaluations of the description of the business in forms of reporting requiring such descriptions – Sustainability Reports, Operating and Financial Reviews and Integrated Reports.

Question Three

We believe that the systems and processes of entities in Groups One, Two and Three will be less developed, implemented and often less sufficiently reliable to facilitate the assurance processes in the topic areas commented upon in our response to Question 2. While our response to Question Two mainly related to smaller Group One entities, our response to this question is likely to also apply to all Group One entities.

A significant number of Group One entities are fairly well progressed on sustainability reporting through making disclosures under the four pillars of the TCFD Recommendation, preparing integrated reports or separate sustainability reports, or making online data repositories and Scope 1 and 2 information available, although some have a way to go. Group Two and Three entities are not progressed.

Question Four

a) (i) We believe that achieving international alignment with IAASB sustainability assurance standards should be the primary design principle for Australian sustainability reporting assurance standards.

The Australian equivalent of ISSA 5000 should apply to assurance of reports and disclosures mandated by the final phasing model developed by the AUASB. This will achieve international alignment.

The AUASB should encourage the use of the Australian equivalent of ISSA 5000 for all sustainability reporting assurance.

ii. Any earlier voluntary assurance or adoption of reasonable assurance than mandated by the AUASB's assurance phasing?

The Australian equivalent of ISSA 5000 should apply to voluntary assurance or adoption of reasonable assurance earlier than mandated by the AUASB's assurance phasing. This will achieve consistency and comparability in sustainability reporting assurance in Australia.

The Australian equivalent of ISSA 5000 should apply to voluntary assurance over any other sustainability information in annual reports (for example, Operating & Financial Reviews, Corporate Governance Statements or other periodic reports, including climate disclosures, that are not required by the final AASB reporting framework). This will achieve consistency and comparability in sustainability reporting assurance in Australia.

Sustainability Reports will not be dealt with by the final AASB reporting Framework. Sustainability Reports will be required by the new legislation. Assurance of Sustainability Reports under the new legislation will be mandated and will be covered by the Australian equivalent of ISSA 5000.

Question Five

We cannot envisage any parts of ISSA 5000 that may not be relevant to assurance of disclosures under the mandatory climate reporting framework in Australia (including Sustainability Reports) and so no local pronouncement on this topic should be needed.

Question Six

We are aware of no laws or regulations that may, or do, prevent or impede the application of, or may conflict with, the proposed Australian equivalent of ISSA 5000.

Question Seven

We are aware of no principles or practices considered appropriate in maintaining or improving assurance quality in Australia that may, or do, prevent or impede the application of the proposed Australian equivalent of ISSA 5000, or may conflict with the proposed standard.

Question Eight

Subject to the final contents of ISSA 5000, the AUASB may need to develop and issue a local pronouncement to supplement the final ISSA 5000 in dealing with assurance matters under the Australian climate and sustainability reporting framework in respect of descriptive disclosures such as a description of the business as set out in our responses to Questions Two and Three requiring the application of evaluation rather than measurement assurance techniques.

We agree with the reasons for developing a local pronouncement set out in paragraph 45.

Question Nine

The AUASB should consider covering the matters identified in Attachment 2 in a possible local pronouncement. Refer to our responses to Questions Two and Three.

Question 10

No. Refer to our response to Question Two where we discuss specific topic areas related to assurance of a description of an organisation's business.

Question 11

No. Refer to our response to Question Two where we discuss specific topic areas related to assurance of a description of an organisation's business.

Question 12

A local pronouncement may need to deal with evaluation of descriptions of an organisation's business as set out in our responses to Questions Two and Three.

To assist the auditor in considering the adequacy of disclosures, the local pronouncement should include material on applying aspects of the reporting framework requiring a comprehensive or partial description of the business in addition to that available in sustainability standards and material from other standard setters or regulators. Refer to our response to Questions Two and Three.

it would be helpful if the AUASB outlines how ASA 720 is going to apply once the AASB publishes the final ASRS 2 on climate disclosure. The inclusion of sustainability information in a sustainability section of annual reports is an issue in relation to ASA 720 now. With the advent of sustainability reports, we will see another assurance report appearing in annual reports. This matter will require research and guidance to provide clarity for assurance practitioners.

Question 13

We have no comment to make on this question.

Question 14

We see no need for coverage of such considerations in any local pronouncement.

Question 15

IAASB is designed as a reporting framework-neutral general assurance standard.

When developing pronouncements on assurance over climate-related financial disclosures and other sustainability information, the AUASB should consider providing guidance on the distinction between assurance of Sustainability Reports containing Climate Statements including disclosures resulting from the application of the Australian equivalents of the ISSB's S1 and S2. S1 and S2 use the lens of 'financial materiality' which focuses on matters which will be of interests to investors (refer page 5 and footnote 7 above).

Assurance of reports under reporting frameworks such as the CER's reporting requirements may be well aligned with assurance under ASRS 1 and 2. This may not be the case under standards stakeholder and impact focused GRI Standards without the financial materiality lens, which will be different to assurance of Sustainability Reports prepared with the investor-focused lens of financial materiality.

Assurance practitioners will need guidance on evaluating whether a particular metric falls within the financial materiality lens of S1 and S2 or relates to other matters of importance to other stakeholders. Reporting other matters of importance to other stakeholders which are not financially material are not part of the legislative requirement for a Climate Statement. They must be included in the Sustainability Report outside the Climate Statement and specifically flagged as being voluntarily provided. We believe this will be a new area for financial statements auditors requiring specific guidance.

Question 16

Refer to our response to Question One on the need for international alignment and Question 15on the need to provide guidance on the distinction between climate-related financial disclosures (financial materiality, investor needs) and other sustainability information (no financial lens).

Question 17

We have no other suggestions.

Appendix - Background Information of Relevance to Sustainability Reporting Assurance in Australia

The state of integrated reporting assurance around the world

We estimate that, in 2023, around 5,000 company reports around the world contained a comprehensive or partial description of a business which was being independently assured on either a mandatory or voluntary basis without the benefit of a dedicated assurance standard[5]. That number is expected to grow to over 20,000 in 2024 and beyond with:

- the advent of the EU Corporate Sustainability Responsibility Directive becoming effective[6] being the main driver of the increase for 2024.
- More Brazilian companies opting in to the security regulator's integrated reporting assurance mandate[7]. This mandate was only issued in 2021 for first adoption in 2022 reporting, with early adoption allowed in 2021 reporting. There was a strong body of early adoption in 2021, with an increase in 2022. The results in relation to 2023 reporting will not be known for some months but a further increase is expected.
- Jurisdictions mandating assurance of reports containing disclosures under local equivalents of IFRS Sustainability Disclosure Standards S1 and S2 (or simply the disclosures themselves). In Australia this will be Group One entities from years ending 31 December 2025. Deakin estimates that this will cover around 20% (or 60) ASX 300 entities.

The pioneer of voluntary integrated reporting assurance was ABN Amro, a listed Dutch bank. It obtained limited integrated reporting assurance from EY. ABN Amro has gone on to obtain reasonable assurance of the description of its materiality determination process from EY. One of ABN Amro's competitors, Rabobank, now also obtains integrated reporting assurance from PwC.

The pioneer in India was Cipla, a large, listed pharmaceuticals company. Tata Chemicals, a member of the Tata Group, now obtains integrated reporting assurance from KPMG.

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[5] Based upon IFAC research ('The State of Play: Sustainability Disclosure and Assurance – 2019-2022 Trends & Analysis, February 2024), these engagements have typically been performed under the more general ISAE 3000 (Revised), 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information.'

[6] Article 19(a) requires large entities to include a clearly identified "brief description of the undertaking's business model and strategy" and "how the undertaking's strategy has been implemented with regard to sustainability matters …" in the Management Report. In Spain, Italy and France, the transpositions of the assurance mandate in relation to these disclosures must be supported by limited assurance from the financial statements auditor.

[7] "The President of the Brazilian Securities Commission (CVM) adopted Resolution 14: "Article 1 - Makes 'CPC Guideline 09 – Integrated Report', issued by the Accounting Pronouncements Committee - CPC, attached to this Resolution, mandatory for publicly-held companies that decide to prepare and disclose the Integrated Report. Article 2 - The Integrated Report shall (or must) be subject to limited assurance by an independent auditor registered with the CVM in accordance with the rules issued by the Federal Accounting Council (CFC)."

We envision a trend emerging for the description of the business to be a comprehensive description along the lines of that required by the Integrated Reporting Framework and not only a description in relation to climate-related financial matters. This will be driven by the addition of further topic-specific sustainability-related standards, and entities preparing sustainability reports, or integrated reports, under the new legislation.

With the ISSB deciding to undertake projects on further sustainability topic standards (on biodiversity and ecosystem services, and human capital) in advance of doing a project on integration in reporting, it is expected that the ISSB and IASB will recommend continued adoption of the Integrated Reporting Framework in its current form.

Jonathan Labrey, Chief Connectivity and Integrated Reporting Officer at the IFRS Foundation, made the following remarks about the bright long-term future of the Integrated Reporting Framework at the IFRS Foundation at the Deakin University Integrated Reporting Centre / Deakin Law School's *Embracing Integrated Thinking Forum* on 22 April 2024:

"When I talk about adoption of the Framework, some people, because a lot of attention over the last year has been on getting S1 and S2 through the door, somehow adoption of integrated reporting has stalled. What we heard in Japan last week was testament to thinking through how to adopt S1 and S2 and the Framework in combination. This can have a big effect. In Japan over 1,000 companies are adopting the Integrated Reporting Framework.

So we are a team that started at 14 people in the IIRC, that today is part of a team of 400. Integrated reporting and integrated thinking are strategic assets of the IFRS Foundation. If we really see this vision of a fully integrated global reporting system as being in the public interest it is impossible to see it without integrated reporting and integrated thinking.

So the message cannot be clearer – the Integrated Reporting Framework is here to stay. It is fit-for-purpose. The Integrated Reporting Framework and Integrated Thinking Principles should continue to be adopted. And they have been harnesses and already used in the ISSB Standards. The Integrated Reporting Team, as well as integrated reporting and integrated thinking, have a bright future within the IFRS Foundation. So if you are thinking about starting to adopt the Integrated Reporting Framework, please do so. If you are already adopting, keep doing so. If you are planning to stop, please don't.

We will be releasing a Getting Started Guide very soon. This will help companies adopt integrated reporting and be cognizant of ISSB Standards for the first time. This guide will be the first integrated reporting materials released by the IFRS Foundation since it acquired the Value Reporting Foundation in 2022, and with that the Integrated Reporting Framework, Integrated Thinking Principles and integrated reporting team.

We will conduct an advocacy campaign on integrated reporting and integrated thinking later this year. This will involve public statements as to that continued commitment.

Integrated reporting has been institutionalised in different ways around the world. There is no one-size-fits-all model. This is far from a barrier to progress. On the contrary, it helps. It provides options – corporate governance codes, stock exchange listing rules, academic advocacy, market initiatives and investor demand."

Existing sustainability reporting in Australia

Deakin[8] and IFAC research[9] demonstrates that sustainability information in Australia and other places is increasingly being located in annual reports or separate integrated reports, with less being located in standalone sustainability reports:

- In relation to the annual report, we identified 252 ASX companies that will be Group One. 85.3% are already disclosing climate-related information in the annual report, with 47.2% making TCFD references.
    - Either in the annual report or on other locations, we found that 36.8% are describing aspects of their business in in accordance with the four pillars structure of the TCFD Recommendations.
    - 26.2% published sustainability assurance reports with Big 4 assurance practitioners making up 85% of the assurance market.
    - Out of 66 sustainability assurance reports we identified for Group One entities in 2022, 44 (66.7%) chose their incumbent financial auditor as the sustainability assurance service provider. For Groups Two and Three, this falls away dramatically as we only identified only two sustainability assurance reports for Group Two and Three respectively, with one each for the same provider.
- Examples of sustainability reporting standards and frameworks already used in Australia requiring some form of a description of an organisation's business include Operating and Financial Reviews[10] prepared under ASIC's regulatory guidance, RG 247. RG 247 recommends disclosure about an organisation's business model as well as the areas discussed above (governance, strategy and risk management).

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[8] Simnett, R, Tan, Y, You, J and Zhou, S. (2024) "Australian listed companies' preparedness for mandatory reporting and assurance of climate-related disclosures" Deakin University Working Paper.

[9] The IFAC State of Play report referenced in Footnote 1 stated, "In 2022, we saw significant changes in where companies reported on ESG. Only 30% of disclosures reviewed were in stand-alone sustainability reports – a decline from 57% in 2019. Most companies (40%) included sustainability information in the annual report, but ESG disclosures in integrated reports also increased." In relation to Australia, IFAC noted that sustainability disclosure in separate sustainability reports declined to 8% in 2022, down from 64% in 2021. The inclusion of sustainability information in integrated reports increased from 12% in 2021 (global: 21%) to 20% in 2022 (global: 27%), emphasising the need for the AUASB to provide the guidance suggested in this submission on practitioners evaluating descriptions of an organisation's business.

[10] Equivalent regulatory report names in other jurisdictions include the 'Yuuka Shoken Hokoku Ho' ('Yuu-ho' in short) in Japan, Management Discussion & Analysis in the USA, Management Report in the EU, Strategic Report in the UK.

DIRC Submission to Treasury on Proposed Climate Disclosure Legislation

Our submission to Treasury on the proposed legislation was to require the inclusion of disclosures under the Australian equivalents of S1 and S2 in an integrated report. Treasury chose to draft legislation requiring a Sustainability Report, with the only content at this stage being a Climate Statement containing disclosures required by the Australian equivalents of S1 and S2. We believe that it will be in the interests of investors and other stakeholders for Sustainability Reports to include an integrated report on a voluntary basis to provide context for the disclosures in the climate statement, to connect those metrics to accounting and other business-critical metrics, and to provide 'top up' disclosures from those contained in the Climate Statement to enable the entity to claim full (not 'climate-only') compliance with IFRS Sustainability Disclosure Standards S1 and S2.