

15 November 2024

Sub 12 - ASSA5010

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

Dear Doug,

AuASB Exposure Draft ED 02/24 Proposed Australian Standard on Sustainability Assurance ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001

We are pleased to respond to the above Exposure Draft (the ED).

We do not support the proposals in the ED, and strongly believe the proposals are flawed, and will:

- Significantly delay users of sustainability reports being provided with reliable information as to an entity's climate related risks and opportunities
- Allow greenwashing to go undetected
- Cause users of sustainability to be confused as to what assurance is being provided and potentially misled
- Delay entities implementing the adequate processes and systems to provide reliable information in their sustainability reports
- Delay audit firm's allocating appropriate resources to be able to provide assurance on sustainability reports.
- Cause preparers to undervalue the costs of providing assurance on a sustainability resource

We believe that the premise that a practitioner may be able to provide limited assurance, on potentially unreliable and supportable information, that they would not be able to provide reasonable assurance on to be fundamentally flawed.

The difference between reasonable and limited assurance, rests solely on the degree of audit evidence obtained. If an auditor would not be able to obtain sufficient appropriate audit evidence to provide reasonable assurance, because that evidence was not available, including the preparer lacking the processes and controls to provide such evidence, the auditor cannot provide limited assurance.

Limited Assurance is not, as it would appear the ED suggests, a version of a modified audit opinion relating to a limitation of scope. If an entity is not able to provide the auditor with sufficient appropriate audit evidence, that the sustainability report is in accordance with the requirements of

AASB S2 and the Corps Act to enable the auditor to provide reasonable assurance on, then the auditor would be unable to provide limited assurance.

We believe the investor community, the auditing profession and the Australian taxpayer would be better served by the AUASB:

- Requiring reasonable assurance to be provided on sustainability reports prepared as a requirement of the Corporation's Act
- Providing guidance as to which aspects of sustainability reports prepared in accordance with the Corps Act an auditor will be likely to be unable to provide assurance on
- Liaising with the AASB, as to which aspects of AASB S2, require clarification on, and guidance so as to be 'auditable'.

The difference between limited assurance and reasonable assurance rests on the quantum of work performed and the amount of audit evidence obtained. If the entity's processes and systems are inadequate to allow reasonable assurance to be achieved, then similarly limited assurance should not be provided. Limited assurance is not useful if it means 'the information is most likely wrong, but I have not performed any procedures to definitely conclude it is wrong'. Limited assurance is not an alternative to a modified audit opinion.

If an entity has not put in place adequate processes and systems to produce information that is reliable for inclusion in its sustainability report or is unable to provide the auditor with sufficient appropriate audit evidence to allow the auditor to provide reasonable assurance, then all parties including the directors of the entity would be better served by that being clearly communicated to management and those charged with governance, rather than glossed over by way of an unmodified limited assurance report.

The preparation of Sustainability Reports under the Corporations Act 2001 will require companies to put in place appropriate processes and systems to ensure information provided to users is reliable. The phasing of the requirement to prepare Sustainability Reports under the Corporations Act 2001, is designed to allow adequate time for such processes to be established. Therefore, there is no need to allow a further 3 year phasing in of requiring reasonable assurance.

Our responses to the questions in the ED are set out in the attached Appendix.

We hope that you will find our comments and observables helpful. If you would like to discuss any of them further, please contact Wayne Basford at 0404 008703 or by email at wayne@basfordconsulting.com.

Yours sincerely

Basford Consulting Pty Ltd



Wayne Basford
Managing Director

Appendix

Question 1 —

1. Do you agree that the audit and review requirements for disclosure topics in the proposed AASB S2 are appropriate, taking into account:

- a. Their relative importance of assurance to users of the information;*
- b. Their interconnectivity;*
- c. The likely cost of assurance; and*
- d. The readiness of Group 1, 2 and 3 entities' systems and processes.*

We disagree with the proposals and instead we

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Response

We do not agree that the audit and review requirements for disclosure topics in the proposed AASB S2 are appropriate.

We believe that users of the information contained in the sustainability report, need information that is reliable, produced using the appropriate processes and systems. The provision of reasonable assurance on this information significantly assists users and directors of the entity issuing the report in determining whether this information is reliable and has been prepared using the appropriate processes and systems.

The proposed 3 year delay in providing reasonable assurance means that users and the directors of the entity issuing the report, may be presented with information that is not reliable, and the entity may delay for 3 years implementing the appropriate processes and systems .

The cost issue would appear to have been confused with the cost of the entity implementing the appropriate processes and systems to prepare information that is reliable and in accordance with the requirements of AASB S2, and some how relates to an argument that there can be cost savings for delaying the implementation of appropriate processes and systems to prepare information that is reliable. If an entity has not implemented appropriate processes and systems to prepare information that is reliable, then the auditor issuing a modified audit opinion reporting that fact to users, will be very inexpensive.

The nature of performing assurance procedures will mainly involve using a controls based approach and is likely not to involve a great deal of substantive testing . For an auditor to be able provide limited assurance on the sustainability report, they will have to have the appropriate understanding of the entity's process and controls over preparing the sustainability report, therefore if the review is performed appropriately there will be lithe difference in costs between reasonable assurance and reasonable assurance.

In respect of the readiness of Group 1, 2 and 3 entities' systems and processes, the legislation has allowed reasonable phasing for entities to implement the appropriate systems and processes. If entity's have failed to implement adequate systems and processes to provide users with reliable information, this should be clearly reported by the auditor.

To somehow suggest that limited assurance can be provided even though the entity's systems and processes are inadequate to provide users with reliable information is a completely flawed proposition. A sustainability report that contains unreliable information , generated by inadequate processes and systems , with an auditor's unmodified review report, has no value to users, and is potentially very misleading. We can see no basis for suggesting a 3 year window, where this situation exists.

Question 2—

2. If you are an auditor, do you consider that your firm could adequately resource the audit and review requirements over sustainability information for entities whose financial reports are audited by your firm?

Response

We support a number of mid-tier audit practices, which will be able to provide assurance over sustainability information for entities whose financial reports they audit.

Recruiting and training the assurance teams will incur costs to these firms, and therefore it is imperative there is sufficient volume of fees to justify these costs. Training a team to provide limited assurance , will take just as long as training a team to provide reasonable assurance, similarly training 4 auditors will cost nearly the same as training 10 auditors. The proposals in the ED will likely mean audit firms will have to recover the same costs from providing limited assurance as they would providing reasonable assurance.

Question 3—

. 3. Do you consider that governance disclosures and disclosures of risks and opportunities should be subject to review in year 1?

Response

Yes

Question 4—

. 4. Do you agree that any statements that there are no material risks or opportunities should be subject to the same level of assurance as identified risks and opportunities for any given financial year?

Response

Yes

Question 5—

5. Do you agree that assurance phasing requirements for Group 1, 2 and 3 entities should commence with the same settings and progress at the same pace?

Response

We disagree with the phasing of assurance and are of the opinion that users of sustainability reports deserve and require reasonable assurance. A modified audit opinion is far more useful to users than an unmodified review report. Where the provision of limited assurance would clearly be misleading to users.

Question 6—

6. Do you agree that entities that enter a Group after the first reporting year for that Group (e.g. due to an increase in their size) should be subject to the same assurance requirements as other entities in the Group for the relevant reporting year (i.e. they would not be subject to the assurance levels for the first reporting year for the group)?

Response

Yes

Question 7—

7. Do you agree with the approach to assurance over comparative information?

Yes, noting that unaudited comparative information, should be clearly labelled as such.

Question 8—

8. Have applicable laws and regulations been appropriately addressed in the proposed Standard?

The proposal appears to be based on the premise and acceptance that entities preparing Sustainability Reports under the Corporations Act 2001, will not have implemented adequate processes and systems to allow reasonable assurance to be provided for 3 years after they first prepare such a report. Such an approach would appear to condone noncompliance with the Corporations Act 2001

Question 9—

9. What are the costs and benefits of the proposals, whether quantitative or qualitative and whether financial or non-financial? The AUASB is particularly seeking information on the nature and, where possible, estimated amount of any expected incremental costs of the proposals.

We believe that the proposal may have serious costs to the Australian economy and ultimately Australia's journey to a more sustainable environment.

The Eds proposal will:

- (a) Delay entities implementing adequate processes and systems for 3 years

- (b) Delay will potentially lead to entity's not identifying and reacting to climate related risks and opportunities
- (c) Cause confusion and mistrust from users and investors
- (d) Allow potential greenwashing, that would be identified by an audit
- (e) Cause costs to audit firms in respect of loss of economies of scale in training and hiring audit teams
- (f) Very likely lead to entities incurring similar costs for limited assurance as they would for reasonable assurance, but getting a far less useful product

Question 10—

10. Are there any other significant public interest matters that you wish to raise on the proposals in this exposure draft?