Office of the Auditing and Assurance Standards Board: Assurance Over Climate & Other Sustainabiltiy Information: March 2024 Consultation Paper comments

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Introduction

Over the course of its almost 200-year history, Bureau Veritas has established a global reputation for being a reliable and impartial 3rd party in the areas of quality, health, safety, environment, and sustainability across every industry. Our independence and ethics are exemplary in building trust.

Globally and in Australia – we have a strong history in providing voluntary and regulatory assurance (Non-Financial Reporting Directive) of Sustainability Reports using either AA 1000, ISAE 3000, or ISAE 3410 against a variety of schemes and protocols such as the global reporting initiative (GRI), SASB, and industry specific schemes and as a result also sit on the IAASB Sustainability Taskforce for ISSA 5000.

We repeat the comments previously made to the Treasury during earlier consultation processes, which now become even more credible given the current senate enquiries into greenwashing and ethics within the accounting profession over the past 12 months. We fundamentally disagree with the proposed design and approach in relation to Assurance Providers and their professional requirements

- We strongly believe that it is in the interest of the Australian Economy to allow sustainability assurance to be led by non-accounting service providers **and** financial accountants to create a fair market.
- We strongly support the IAASB and their approach to adopt a neutral framework and assurance practitioner approach. We note that the consultation paper states AuASB also has this desire – but given the overarching amendments to the Corporation Act require that the sustainability assurance engagement is led by a financial auditor, the regulation prevents this from occurring in practice.
- We also note that the AuASB Research Report #10 – bases its conclusions on the role of non-accounting practitioners on references from 2011 and does not reflect the exponential change in this market globally in the past decade.
- We also believe Australia should not diverge from international norms in relation to what is reported, and who provides assurance and their competency, quality management and ethical standards[1].
- The existing register of Greenhouse & Energy Auditors established under the NGER scheme and maintained by the Clean Energy Regulator (CER) is known to be flawed and has not kept pace with international best practice nor is it aligned to the Paris Agreement (and therefore the subsequent commitments made by the Australian government). The CER acknowledges this, and it is currently under public consultation and is connected to the ACCC Green Claims Code and Climate Active scheme.
- The risk of only using financial auditors to lead TCFD verification and assurance engagements risks further concentration of the audit market, which may threaten auditors' independence and lead to increases in audit fees, or sustainability reporting compliance charges.
- Failure to fix the competence process for auditors of climate related topics (and future ESG topics) will cause a shortage of qualified assurance practitioners / verifiers leading to a slower adoption of the needed targets and ultimately to delays in altering the trajectory of corporate GHG emissions. This will increase the cost of the economic transition for the Australian economy and make it a laggard in the G20.

[1] Internationally, our competency, quality and ethical procedures are verified by accreditation societies against ISO 17029:2019 Conformity assessment – General principles and requirements for validation and verification bodies.

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

Bureau Veritas has participated in the public roundtables to voice our opinion with peers on this subject matter.

Question

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.

In our experience, most companies obtain a limited level of assurance, this is validated by IFAC research globally, and within Australia[2]. We agree with the proposed phasing of assurance levels for scope 1 and scope 2 outlined in Attachment 1 of the consultation paper.

The transition from limited to reasonable assurance will be challenging journey for the other disclosure topics, and the cost-benefits need to be considered, and the ability for the assurance market to meet the demand.

- There will be an increase in sampling, and increased interactions required from the assurance team and the entity (increase in time and cost).
- We note that the current assurance phasing is aligned to the EU's CSRD, but a key difference is the maturity of the market in ESG reporting in comparison to Australia. As a result, we suggest that a slight delay in the phasing be implemented of approximately 12 / 24 months.
- Reasonable Assurance on Scope 3 is a challenge as it relies on data often outside the entities control. We suggest keeping scope 3 as limited, or focusing on key subcategories where data is easier to measure and capture. We believe that there should be more focus on providing mixed engagements – where some information is subject to reasonable and others to limited.
- In feedback provided directly to IAASB – we believe that the current ED 5000 although helpful in explaining the difference between limited and reasonable assurance it does not provide enough detail about the analytical and sampling procedures. There is a HUGE difference between the amount of data that needs to be reviewed. In particular the consideration of site visits and when and where it may be appropriate and required (considering the entities operations). Currently there is a lack of guidance on this cause variance in industry practice by different practitioners. We recommend more detailed clarification with quantified guidance.

Question

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.

[2] https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/state-play-sustainability-assurance

We anticipate 2028 to be a difficult year given the current phasing for Group 1 moving to Reasonable assurance across all metrics and the addition of the Group 2 entities for mandatory disclosures and Group 3. In our experience any time that an organisation is getting assured for the first time the level of education and interaction is high, this increases when we transition also from limited to reasonable assurance for an existing client. Educational resources for the market will be important, as will the need for readiness assurance activities, and the use of phased assurance (for example reviewing data quarterly to correct systemic issues, rather than relying on an annual pinch point / reporting process).

Question
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?

No comment.

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

Bureau Veritas has been active in the working group for setting the standards via the IAASB Sustainability Taskforce for ISSA 5000 and fully support its adoption locally in Australia.

Question

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

- For climate disclosures under the Australian reporting framework;
  - Assurance mandated by the final phasing model developed by the AUASB; and
  - Any earlier voluntary assurance or adoption of reasonable assurance than mandated by the AUASB's assurance phasing; and
- 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.

Yes, we agree ISSA 5000 should apply, and outlines when ISAE 3410 should apply for GHG related assurance. We also understand that the IAASB plans to provide more detail on the approach for assurance for estimates and forward-looking information which is helpful to assurance practitioners.

We have no comment for Q5, Q6, and Q7.

Part III – Possible Local Pronouncement

We have no comment for Q8, Q9, Q10, Q11, Q12, 13 and Q14.

Part IV – Other Matters

We have no comment for Q15

Question
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?

The only consideration is the phasing of reporting against international standards. In our opinion the EU CSRD holds additional requirements for disclosure than those currently outlined for mandatory disclosure and assurance. There are 80 disclosure (qualitative and quantitative) requirements, which relate to hundreds of data points. This will create additional demand on assurance practitioners who may need to do global fieldwork as part of the assurance engagement.

Question

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?

Selection of Experts

During the public consultations and roundtables, it was noted that the lead practitioner for sustainability assurance will need to have preliminary knowledge about sustainability information (which is aligned to ISSA 5000). Clarification is required on how the engagement leader will decide that the knowledge of the assurance team is sufficient and appropriate.

For example, the sector experience related to sustainability matters, and when to use an internal or external expert, and the qualification and the independency of the roles, how to classify an expert, when it is needed, what skill set they use in the assurance engagement, and how to evaluate the quality of their work.

Materiality

Where there is a group that has entities with different sector operations, there may will be a need for the entity materiality to be considered for each part of its group rather than at whole group level. Practitioners should be aware of this as it will feed into the entity materiality review process.

In our experience assurance practitioners often have different interpretations of performance materiality for both qualitative and quantitative data. Therefore, providing guidance on benchmarks and expectations would be helpful in driving consistency across practitioners.

Conclusion

We hope these views are helpful inputs for further consideration and we look forward to actively engage in further dialogue together on the evolution of standard setting for ESG topics. If you have any questions on this letter, please contact the following representatives.

Sincerely,

Andrew Mortimore
Chief Executive, Pacific Region
Bureau Veritas

Julie-Anna Smith
Director of Strategy & Growth
Bureau Veritas

APPENDIX 1 – Assurance Providers & Professional Requirements – Note this has previously been submitted to the treasury under previous public consultation processes

1. **Entities other than financial auditors <u>should</u> be permitted to lead the assurance of GHG emission disclosures**.
    a. Sustainability assurance professionals have both the requisite professional qualifications and knowledge of assurance processes **AND** technical expertise to assure climate-specific elements (and other ESG KPIs such as nature, inequality & diversity, and ethics which are anticipated in the future, and which will also require mandatory assurance)
    b. Consumer choice is important. When appointing independent third-party verifiers, it is important they understand the organisation, its type of business, and its emissions. **The verifier/assurance practitioner's knowledge and experience are more important than the type of organisation that they are from.**
    c. Globally professional accountants conduct 57% of ESG assurance assignments, with specialist non-accountancy service providers (such as Bureau Veritas) performing the remaining 43%.[3] It is internationally proven that what matters for climate disclosure auditors is that they are competent, independent, have suitable ethics, and quality management processes in place (as per ISAE 3000 & 3410 or the proposed ISSA 5000).
    d. The option to 'delegate' assurance tasks to experts fails to acknowledge that contractual markup will occur delivering profits to financial auditors as opposed to technical specialists - this stifles brand awareness of alternate providers and limits their ability to invest in job creation to meet the market demand. This 'delegate' proposal will absolutely fail to encourage new market entrants and will inhibit competition. Instead, this will create competition for already scarce resources rather than collaborating and building greater skilled capacity – which is what is needed to accelerate the transition.
    e. The proposed approach is not scalable to meet future market needs, or the evolving scope for ESG assurance. It is widely acknowledged that soon the scope of ESG disclosure and mandatory assurance will increase and include additional environmental, social and governance KPIs (materials, pollution, nature, diversity & inclusion, modern slavery etc)
        i. Financial auditors are not competent to correctly identify all relevant sustainability risks – sustainability audits are typically more complex and challenging than financial auditing. This is because they require the auditor to assess a wide range of factors, and must consider impacts of reputational risks, supply chain risk, regulatory risks which are not normally captured by financial audits and involve qualitative judgement which moves away from the traditional approach accountants are accustomed to
    f. Limiting the permission to only have financial auditors lead sustainability assurance engagements would be counterproductive in seeking transparency, integrity, and accountability. Instead, it creates the risk of market distortions allowing the oligopoly of accounting firms to dominate and overcharge for their services.
        i. Constraining access to the market in this way is misaligned with ISSB's new global assurance processes.
        ii. Accounting firms have demonstrated time and again that they are unable to manage inherent conflicts of interest that their oligopoly situation creates
        iii. The recent senate inquiry has also shined a light on competency management practices when they extend into topics outside of financial audit – eroding trust,

[3] https://www.responsible-investor.com/professional-accountants-fall-out-of-favour-on-esg-assurance/

and integrity of ESG data which is critical for organisations and investors to make the changes required by the transition.

g. Risks of conflict of interest arise both from the influence of consulting activities on the audit, and from the influence of financial issues on sustainability. In corporate strategy, financial and sustainable performance can sometimes be contradictory. Therefore, how can we ensure a real independence of the sustainability elements within the company if the sustainability audit remains an accessory of the financial audit? This proposed approach limits the importance of sustainability and the long-term thinking required to deliver the transformation required to meet the Australian Government's Emission reduction targets and therefore the planetary targets.

h. In summary we assess that the Australian Treasury faces a significant implementation risk, if "certification bodies" are excluded from the market. Opening the assurance service market to non-financial audit firms is necessary in Australia to bring advantages such as: consumer choice, stronger technical expertise, rigour, independence, absence of conflict of interest and better rates.

2. Reviewing the competence arrangements for GHG assurance auditors for climate related financial disclosures and NGER and for future ESG topics

a. The systems should be aligned, but they require significant reform to prevent further divergence from international competency norms which build the trust and credibility expected on this data and therefore impact Australia's ability to trade and attract investment.

b. The NGER scheme (and its competency requirements) are no longer fit for purpose, challenging to scale up for increased demand and volume and no longer aligned to international expectations compromising Australia's reputation and ability to attract future investment if no action is taken on this. Examples of specific well known and documented weaknesses include

    i. The institute for Energy Economics and Financial Analysis (IEEFA)[4] and the International Energy Agency[5] both highlight discrepancies with under reported emissions for methane (as an example) and will have a material impact on Australia's GHG reduction targets and achievements

    ii. The emission threshold is high meaning that a significant number of emissions are not being captured by the scheme and driving change

    iii. Do not require field-based sampling during verification which can identify key issues and drive faster reduction trajectories

    iv. Rely on self-reporting – which increases the risk of errors and omissions in the data limiting the need for assurance (and therefore maintenance of competency of auditors is challenged by a low level of utilisation)

[4] https://ieefa.org/resources/gross-under-reporting-fugitive-methane-emissions-has-big-implications-industry

[5] https://www.iea.org/data-and-statistics/data-tools/methane-tracker

Appendix 2:

The following section explains how our accreditations are linked to the competency of our sustainability auditors and assurance practitioners.

Competency requirements, education, training and examination

Our accreditations require us to be able to link the right competence to the right task. Therefore, competence requirements, education, training, and examination are laid down in the management system and related documents. The academic prerequisites (education) are determined by subject area. They will typically include possession of a master's degree or equivalent in one of several scientific fields, engineering, business administration or law and / or a certain number of years' worth of work experience. When approved verifiers (or assurance practitioners) are trained for new areas; they undergo an internal or external training courses ending with a test of understanding and a certificate of achievement. After that, the employee in question will be a trainee who must continue doing on the job training working together with an experienced "lead verifier" on tasks covered by the accreditation. The candidate concerned must pass through a series of professional approval processes that end with a "witnessed audit". Their competence will be checked to see that he or she demonstrates an understanding of the project, client, and management of the verification team as well as technical questions from a third, independent "lead verifier". Within sustainability, a broad discipline, verifiers will typically be approved for a sub-area, e.g. climate, environment, social conditions, human rights, etc. There is also a requirement for continuous ongoing training and competence checking for the individual.

Professional ethics, independence, objectivity, confidentiality and professional secrecy

The accreditation has detailed requirements for impartiality and confidentiality. There will be differences in how individual competent bodies ensure independence and integrity under their accreditation. It is customary to have an "Impartiality" policy which all employees must follow. Risk assessments of the commitment are carried out at the start of each assurance engagement, including addressing impartiality and threats to impartiality from self-interest, self-assessment, confidentiality, and risk of intimidation. Conflict of interest analysis, etc. is carried out. It is a process that is continuously evaluated and improved. All employees are trained at intervals in this. Professional secrecy is also a requirement unless otherwise agreed with a customer.