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Office of the AUASB  
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Submitted electronically via: <https://www.auasb.gov.au/projects/open-for-comment/>

## EY Submission on consultation paper assurance over climate and other sustainability information

Ernst & Young (“EY”) welcomes the opportunity to comment on the Auditing and Assurance Standards Board’s (“AUASB”) Consultation Paper (“CP”) Assurance over Climate and Other Sustainability Information. Our views have been informed by our extensive experience in supporting the growth of climate and sustainability-related reporting, frameworks as well as our strong expertise in providing audit and assurance.

### Overall comments

EY is very supportive of the AUASB’s proposal to develop assurance standards in line with the International Auditing and Assurance Standard Board (“IAASB”)’s final standard. It will fulfill a need for issuance of a standard on sustainability assurance considering the proposed timeline Australia is moving towards sustainability disclosure and will ensure Australia maintains relevance and comparability with global reporting standards.

We emphasise the importance to align with the IAASB so that assurance performed for an Australian entity that complies with AUASB Standards could simultaneously also comply with ISSA Standards. This approach aligns with AUASB’s International Strategy Mission to contribute to the development of a single set of auditing and assurance standards and guidance for world-wide use, thereby lowering the cost of capital for Australia entities and calibrating the process such that it is evident to the global capital markets that the assurance provided over financial statements, including sustainability related information, of Australian companies, including Australian subsidiaries of multinational companies, comply with the international baseline.

Therefore, we believe that any local pronouncement developed by the AUASB should only be in the form of supplementary guidance tailored to Australian scenarios. It should not be additional local standards that go beyond the IAASB’s final standard.

We are supportive of the proposed pathway for phasing in assurance requirements with consideration of our comments within.

We acknowledge that the development of the draft AUASB standards is an atypical process in standard setting because the proposed standard is being developed in a contemporaneous fashion to the proposed amendments to the Corporations Act 2001, sustainability reporting standards made by the Australian Accounting Standards Board (AASB) and is subject to the IAASB’s final ISSA 5000 General Requirements for Sustainability Assurance Engagements (ISSA 5000). Nonetheless, we

believe ISSA 5000 will be fit for purpose as an overarching standard providing a global baseline for sustainability assurance and we applaud the AUASB's efforts to issue an Australian equivalent of the standard in a timely manner.

Our responses to the specific questions on which the AUASB is seeking feedback are set out below.

Should you wish to discuss our comments further, please contact me at [glenn.carmody@au.ey.com](mailto:glenn.carmody@au.ey.com) or on 03 9288 8467.

Yours sincerely



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## Part I - Demand for Assurance and Ability to Meet that Demand

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

We agree that a phased approach, whereby progressively more disclosures will be subject to assurance and that the nature of assurance will progress from limited to reasonable assurance over time, is appropriate. We believe this will enable entities to enhance their climate disclosure processes in a practical and sustainable way, and also allow for any internal assurance and/or readiness activities so that entities are suitably prepared for external assurance. Considering the sustainability report becomes part of an entity's annual report, both company directors and external stakeholders may harbor concerns about the lack of assurance over such publicly disclosed information. Hence, ensuring a robust and phased assurance process is integral to build trust and confidence in these disclosures.

We believe the proposed tiering of the three Groups, starting with very large entities in the 2024-25 financial year and for all entities in 2027-28 financial year is also appropriately designed to the assurance phasing model. We also agree to ultimately require all climate-related financial disclosures to be subject to reasonable assurance so that investors can place greater reliance on that information, by FY31. However, we recommend that the timeframe for reaching reasonable assurance on disclosures of Scope 3 emissions and quantitative scenario analysis should be extended so that the timeframe is consistent with the requirements in comparable jurisdictions such as Europe (this is discussed further below).

We believe bringing forward the timing on assurance phasing of certain disclosure topic areas, specifically, Governance, Risk Management, and Strategy, is important for an effective phasing in of sustainability reporting and assurance. We believe these components are integral building blocks to the early stages of developing sustainability reporting. In terms of assurance on these topic areas, we agree the work effort between limited and reasonable assurance might not be significantly different. For these reasons we believe an early emphasis on attaining reasonable assurance over these disclosure topics is important.

We believe the current phase-in of Scope 1 and Scope 2 emissions is appropriate considering the relative high importance from stakeholders for assurance over this information. Our observation is larger companies and National Greenhouse and Energy Reporting Scheme ("NGER") reporters currently have relatively mature practices in reporting these metrics and equally assurance procedures over Scope 1 and Scope 2 emissions are relatively well-established. Additionally, establishing mature processes over the Scope 1 and Scope 2 calculations is a foundational step upon which companies can develop processes and systems to address the more complex disclosure topic areas.

There are other disclosure topics for which we believe the timeline is ambitious, and potentially inequitable for small and mid-sized entities. Larger entities, or those in Group 1, with established resources and data reporting practices may find transitioning to sustainability reporting less impactful compared to Group 2 and 3 entities. The following are comments with this principle in mind:

We believe that Group 2 and 3 entities should initially attain limited assurance before phasing to reasonable assurance for Scope 1 and Scope 2 emissions.

We support a phased approach to assurance, beginning with qualitative scenario analysis before proceeding to quantitative scenario analysis. However, the current phase-in plan for Group 1 appears to directly transition from no assurance to reasonable assurance over quantitative scenario analysis from years

starting 1 July 2027. We believe an intermediate step introducing limited assurance would provide a beneficial learning and adaptation period for both companies and assurance practitioners.

In the context of disclosing Scope 3 emissions, Group 1 entities will have easier access to higher quality information when other entities commence reporting Scope 1 and Scope 2 emissions and also when those disclosures are subject to assurance. For that reason, a smoother transition for all parties may be achieved by deferring the reasonable assurance over Scope 3 emissions disclosures for Group 1 to the year commencing 1 July 2028 which aligns with the year following reasonable assurance phase-in of Scope 1 and Scope 2 emissions for all entities. This timeline also aligns with comparable jurisdictions such as Europe, ensuring global consistency in sustainability-related financial disclosures.

We also note that transitioning to reasonable assurance for disclosures involving forward-looking information or assumptions, like Scope 3 emissions and Scenario Analysis, may also have practical implications.

The intricacies in assuring Scope 3 emissions can vary greatly, contingent on entities' methodologies for estimating these metrics. While reasonable assurance over industry-average emission factors is relatively straightforward, obtaining reasonable assurance over refined estimation methods - such as Supplier-Specific Factors, Hybrid Life Cycle Assessments, or Direct Measurements - can exponentially increase the complexity of assurance procedures. That said, we see within various aspects of financial reporting, the utilisation - and disclosure - of accounting estimates, assumptions and judgements is commonplace. It is also accepted as appropriate to enable an entity to measure and disclose certain impacts based on the best available information at a particular point in time to support users of general-purpose financial reporting, for example, in making valuations of unlisted assets.

Taking these complexities into account and the potential disparity in the maturity levels of entities' reporting approaches, we recommend extending the phased-in timeline for obtaining reasonable assurance over Scope 3 emissions and other forward-looking disclosures such as scenario analysis and climate resilience assessments. For clarity, we believe reasonable assurance across all disclosure topic areas for all Groups should still be achieved by years commencing 1 July 2030 onwards.

This adjustment, aligning with our emphasis on bringing forward Governance, Risk Management, and Strategy topic areas outlined above, provides a smoother pathway to manage the evolution of sustainability reporting and assurance practices effectively.

We would also like to emphasise a specific area of complexity within the estimation of Scope 3 emissions. Particularly for financial institutions, the task of measuring 'financed' emissions under Category 15 of the Greenhouse Gas (GHG) Protocol presents significant challenges involving complex methodologies, high-resolution data, significant use of judgements and a higher degree of estimation uncertainty. The combination of these elements tends to result in these disclosures being more cumbersome to prepare than other disclosure topic areas. Furthermore, due to their inherent complexity, the process of assuring these disclosures could involve considerable time and resources, making it a considerably costly endeavour. Given the distinct challenges presented by this specific area, we believe it merits additional consideration and localised guidance towards achieving assurance.

We also propose to adjust the timeline for introducing assurance over industry metrics. We believe it would be beneficial to implement a phase in of limited assurance for the year commencing 1 July 2029, preceding the currently proposed reasonable assurance from years commencing 1 July 2030 onwards.

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.

We are supportive of the proposed assurance phase-in timeline, subject to the modifications suggested in our previous response.

We have been actively investing in upskilling both our non-financial assurance teams and financial statement auditors to meet these expectations within the timeframes suggested.

We emphasise the diverse skill set required to effectively execute assurance over disclosures that involve forward looking information or assumptions, such as Scope 3 emissions, climate resilience assessments and scenario analysis. Competent knowledge of scenario analysis is crucial for both the formation and execution of effective audit strategies and will require a maturing of expertise in assurance, accounting, and engineering expertise fields alike.

Another challenge lies in the scale of the resourcing demand, both from the companies and from the perspective of assurance practitioners.

In light of this, we emphasise the suggestions raised in our response to question 1 which will provide entities and assurance practitioners with the necessary time to develop robust processes and assurance expertise over climate-related disclosures.

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?

Although the time and effort required to implement these disclosure requirements and be assurance ready could be substantial for some entities, we consider the proposed assurance phase-in timeline, factoring for our comments in Question 1, represents an appropriate balance between providing entities with sufficient time for an orderly and effective implementation and providing the market with assurance over the information it needs to understand and assess climate-related risks and opportunities. Establishing the timeline as soon as possible will provide entities with clarity of their requirements and sufficient time to enhance their climate disclosure processes in a practical and sustainable way. It will also support with undertaking any internal assurance and/or readiness activities so that entities are suitably prepared for external assurance activities.

Recent experience with implementing new accounting standards has indicated that deferring the effective date of a new standard to allow entities more time for implementation has the unintended consequence of many entities subsequently deprioritising their implementation efforts in favour of other priorities. For that reason, if many respondents request a deferral, we question how effective a deferral decision would be. In our view, a better approach would be to limit adjustments to those outlined in our response to question 1, aimed at smoothing the phase-in at an optimum pace for companies and assurance practitioners to mature.

We also expect in initial years, it is likely that companies will be working towards establishing systems, processes and controls. This will mean early assurance is likely to be derived from substantive procedures conducted at or near year-end (vs. control reliance approaches). This may put pressure on timelines for executing audits and potentially affect the delivery of annual reports in the initial years. In light of this, we emphasise the suggestions of smoothing the assurance phase-in model as raised in our response to question 1 which will provide entities and assurance practitioners with the necessary time to develop robust processes, IT environments, and assurance expertise over climate-related disclosures.

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

4. Do you agree that, subject to seeing the final standard, ISSA 5000 should apply to assurance over: a) For climate disclosures under the Australian reporting framework; i. Assurance mandated by the final phasing model developed by the AUASB; and ii. Any earlier voluntary assurance or adoption of reasonable assurance than mandated by the AUASB's assurance phasing; and b) Voluntary assurance over any other sustainability information in annual or other periodic reports, including climate disclosures that are not required by the final AASB reporting framework.

We support the framework-neutral nature of the proposed standard, particularly as it extends its applicability to assurance over voluntary disclosures or those adopted early. We believe that a consistent approach in executing assurance procedures enhances the credibility, reliability and scalability of the assurance process.

In line with this, we do not see any reason why an engagement to report on any sustainability related subject matter (voluntary or non-voluntary) should be conducted differently than an engagement to report on mandatory climate disclosures. A key objective of the AUASB should be to enable assurance practitioners to maintain consistency in practice across different frameworks, subject matter and criteria.

We agree with the AUASB's view that there may be confusion where a practitioner undertakes an engagement under both ISAE 3410, ISAE 3000 and ISSA 5000, for example if a practitioner is requested to provide assurance on GHG information that is both included with other sustainability information and in a separate statement. This can also result in duplication of effort. We understand the IAASB is considering providing further guidance for such scenarios and also may revise ISAE 3410 and 3000 to reflect the principles of ISSA 5000 so that these standards can sit under the umbrella of ISSA 5000. We are supportive of this outcome.

For example, we believe ISSA 5000 should apply to other local sustainability reporting requirements such as the Clean Energy Regulator ("CER")'s mandated assurance over NGER.

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?

Given the final ISSA 5000 standard has not yet been released, it is challenging to accurately determine which parts may not be relevant for the assurance of disclosures under Australia's mandatory climate reporting framework. Based on our understanding of the discussions surrounding the ISSA 5000, we believe it is likely to be tailored and fit for purpose. Therefore, we emphasise the importance of ensuring the Australian equivalent standard aligns as closely as possible with the final ISSA 5000 standard.

The AUASB may consider providing specific guidance tailored to Australian scenarios, such as the application of the NGER. We have highlighted additional topics which we believe deserve particular attention and guidance in our response to question 10.

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?

To the best of our knowledge, there are no existing laws or regulations that may prevent, impede, or conflict with the application of the proposed standard or the Australian equivalent of ISSA 5000.

However, as mentioned earlier, it could be worthwhile considering updates to clarify that the CER fall under the Australian 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?

We strongly believe that practitioners that undertake the Australian equivalent of ISSA 5000 should be required to comply with ethical requirements that are equivalent to the IESBA International Code of Ethics for Professional Accountants (including International Independence Standards) ("IESBA Code") and comply with requirements regarding the firm's system of quality management that are equivalent to the IAASB's ISQM 1.

The international standards are fundamental to serving the public interest and are key to the performance of consistent quality assurance engagements. However, we acknowledge the challenges raised by participants to the IAASB roundtables on ISSA 5000 (e.g., the fact that the IESBA Code and ISQM 1 use



concepts that are familiar to accountants, while it may be difficult for persons outside the accounting profession to understand and implement them) that likely face assurance practitioners that are not professional accountants to comply with these requirements. As such, we strongly suggest that the AUASB develop further implementation guidance for non-accountant assurance practitioners that choose to apply ASQM 1 or an equivalent.

### 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 or not developing a local pronouncement in paragraphs 43 and 44?

We believe any local pronouncements from the AUASB should serve as supplementary guidance to ISSA 5000 and should not amend the international standard. This approach ensures that Australia's assurance landscape remains comparable and aligns with the global baseline, promoting international coherence in assurance practices. Application guidance should point to ISSA guidance where possible.

We strongly support the framework neutrality of the standard and recommend that the AUASB avoids introducing framework-specific application guidance. For example, addressing different user groups such as investors versus social users when assessing materiality under different frameworks should be left to the assurance practitioner's judgement in accordance with the principles of the standard. This framework neutrality has been a vital feature of practitioners' application of similar assurance standards such as ASAE 3000 and ASAE 3410 across a broad spectrum of frameworks, subject matter and criteria.

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

We refer back to our response to question 8 stating that any local pronouncements by the AUASB should act as supplementary guidance to the ISSA 5000, ensuring that Australia's assurance practices align with the global standards.

We understand that the IAASB is expected to develop further guidance in several areas consistent with those outlined in Attachment 2 of the Consultation Paper. We strongly recommend the AUASB to consider and reference this forthcoming IAASB guidance wherever applicable, promoting consistency and coherence in assurance practices.

Further, we acknowledge the evolving nature of methodologies in this field presents a significant challenge in ensuring local pronouncements remain current and effective. The rapid evolution in this field could render specific guidance outdated or divergent to other jurisdictions after its issuance. It also provides clarity and stability for entities and assurance practitioners.



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

We strongly affirm the stance that while localised guidance can be beneficial, it is imperative to avoid creating guidance specific to any single framework to ensure the ongoing applicability and neutrality of the guidance across different reporting frameworks.

The following topics deserve particular attention and priority in any guidance provided:

Metrics and targets – Scope 1 and 2 emissions: Auditors should be reminded that while the NGER calculation methodology is adopted for ASRS, it pertains to the entity and its controlled entities which may differ from the facility level emissions calculated for CER purposes.

Metrics and targets – Scope 3 emissions: Guidance should cover the reasonableness of assumptions in estimates. This includes key assumptions to disclose, considerations for using third-party data sources, data availability, and conditions where there is significant uncertainty or a limitation on scope.

Scenario analysis: Guidance should cover the appropriateness of scenarios, assumptions, disclosures, accuracy of key assumptions, and situations of significant uncertainty or scope limitations.

Strategy – Transition plans: Guidance should cover the appropriateness of disclosures and assumptions such as future technology advancements.

Value chains: How to apply group audit and service organisation auditing standards, dealing with assurance provision and receipt through value chains, and responding to a lack of reliable information.

Other metrics and targets (appropriateness of metrics): Guidance on challenging the “appropriateness of metrics” and definitional clarification of industry metrics versus climate metrics will be beneficial.

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

We have not identified any additional matters that should be addressed in a potential local pronouncement.

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?

We are supportive of guidance that addresses the linkage between the sustainability report and the other sections of the annual report. For example, the scope of an ongoing EFRAG Research project<sup>1</sup> is focused *on enhancing the consistency and coherence between the information in the front and back ends of the annual report during the communication of the story of entities' value creation by*

- *To influence the ongoing Sustainability Reporting [SR] and Financial Reporting [FR] standard setting including on the expected standard setting by the IASB and ISSB, notably on Management Commentary and Integrated Reporting. The research findings could be considered when addressing conceptual issues related to SR and serve as input to the forthcoming IASB narrow-scope project on climate-related risk in financial statements.*
- *to contribute to research/thought leadership on the topic of connectivity, which is a nascent and high-priority area for stakeholders.*
- *to support practice through identified good reporting practices. Examples that will be identified during the research can enable companies to benchmark themselves and improve their reporting practices.*
- *to serve as an educational resource for a diverse range of stakeholders concurrent to ongoing significant developments in SR and its connection with FR.*

We believe a similar project would be beneficial to assisting Australian assurance practitioners in their understanding of the interconnectedness of these documents and expectations could further enhance the quality of assurance across the entirety of the annual report.

Similarly, given that the information in the sustainability report will cover disclosures of varying assurance, there lies a concern about a user of the information to readily and reliably distinguishing the information subject to different levels of assurance both within the sustainability report and the related assurance report. We are supportive for the AUASB to develop guidance to assist practitioners specifically in this area.

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

We concur that providing guidance on possible reference materials for the auditor while assessing disclosures, such as standards on Financed Emissions, Facilitated Emissions, and Emissions at The Global GHG Accounting and Reporting Standard for the Financial Industry, would be beneficial. However, we also acknowledge that maintaining the currency of this guidance might be challenging due to the evolving nature of methodologies in this field. Therefore, it is crucial to ensure that the guidance is regularly updated to reflect the most recent methodologies and techniques.

<sup>1</sup> [Link: efrag.org](https://www.efrag.org)

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)?

No. These matters are already being addressed by the IASB.

#### 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?

It is crucial to note that the assurance requirements under the Safeguard Mechanism Rule by the CER pertain to information at the facility level and not at the entity level. Depending on the structure, companies may voluntarily choose to obtain assurance over Scope 1 and 2 emissions at the controlling corporate level, which sometimes coincides with the entity level. The CER may also conduct a mandatory audit at this level which would synergise with a company's reporting requirements under ASRS.

As per the CER's guidelines, reasonable assurance is required over historical data, with limited assurance needed for forward-looking information, including assumptions and forecasts. Although this bifurcation might make sense at this point in time, we believe the phase-in to reasonable assurance across all disclosure topic areas remains appropriate for the reasons already stated.

Additionally, it may be important to highlight potential differences in the boundaries between CER reporting and other reporting regimes such as ASRS. Addressing these boundary differences could enhance the clarity and reliability of 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?

The existence of international factors including cost of capital, calibrating the process across global capital markets and mandatory reporting requirements in other jurisdictions serves as the primary reason against developing Australia-specific standards. In our opinion, adopting the global standard should be a core aspect of the AUASB's plan when creating its proposed local pronouncements relating to assurance over climate-related financial disclosures and other sustainability information and any pronouncements should be guidance and not amendments to the international standard.

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?

We do not have any specific additional matters to suggest for the AUASB.