

EXPOSURE DRAFT

ED 02/24
(September 2024)

**Proposed Australian Standard on
Sustainability Assurance ASSA 5010
*Timeline for Audits and Reviews of
Information in Sustainability Reports under
the Corporations Act 2001***

Comments Due: 16 November 2024 (60-day comment period)

Issued for Comment by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Commenting on this Exposure Draft

Comments on this Exposure Draft should be received by no later than 16 November 2024.

Comments should be addressed to:

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Formal Submissions

Submissions should be lodged online via the “Projects-Open for Comment” page of the Auditing and Assurance Standards Board (AUASB) website ([auasb.gov.au/projects/Open-for-comment](https://www.auasb.gov.au/projects/Open-for-comment)) as a PDF document and Word document.

A copy of all non-confidential submissions will be placed on public record on the AUASB website: www.auasb.gov.au

Obtaining a Copy of this Exposure Draft

This Exposure Draft is available on the AUASB website: www.auasb.gov.au

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PREFACE

Reasons for Issuing ED 02/24

The AUASB issues exposure draft ED 02/24 of proposed Australian Standard on Sustainability Assurance ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* as required by s1707E(2) of the *Corporations Act 2001* (the Act).

The AUASB is an independent non-corporate Commonwealth entity of the Australian Government, established under section 227A of the *Australian Securities and Investments Commission Act 2001*.

Proposal

This Australian Standard on Sustainability Assurance (ASSA) specifies the timeline for information in a sustainability report for a financial year prepared in accordance with Chapter 2M of the Act to be subject to audit and/or review.

Proposed Operative Date

It is intended that this proposed standard be operative for financial years commencing from 1 January 2025 to 30 June 2030.

New Standard on Assurance over Sustainability Information

This proposed standard is a new pronouncement of the AUASB and does not supersede a pre-existing standard.

Request for Comments

Comments are invited on this Exposure Draft by no later than 16 November 2024.

Important Note and Disclaimer

This Exposure Draft, in itself, does not establish or extend the requirements under existing AUASB Standards and is not intended to be a substitute for compliance with the relevant AUASB Standards with which auditors are required to comply when conducting an audit. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

EXPLANATORY MEMORANDUM

Introduction

1. Schedule 4 of the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 (Cth)* (the Bill) proposes a new mandatory climate disclosure framework for larger entities that prepare financial reports under Chapter 2M of the *Corporations Act 2001* (the Act).
2. Among other matters, the draft Bill proposes to require that:
 - (a) certain entities that prepare annual financial reports under Chapter 2M of the Act must prepare an annual sustainability report to accompany the financial report; and
 - (b) the AUASB must specify the extent to which sustainability reports prepared in accordance with the Act for financial years commencing on or before 30 June 2030 must be audited and/or reviewed (assurance phasing).

Legislation and other standards

3. This exposure draft was issued on 17 September 2024 and refers to a working draft of the Australian Accounting Standards Board's (AASB's) Australian Sustainability Reporting Standard AASB S2 *Climate-related Disclosures* (AASB S2), which was discussed at an AASB meeting on 26 August 2024.¹ ASSA 5010 is subject to the final standard and will be updated as necessary for any changes in the final versions of:
 - (a) The legislation. At the time of issuing this exposure draft, the Bill had been passed by both Houses of Parliament and was awaiting Royal Assent; and
 - (b) AASB S2.

Background

Australia's Mandatory Climate Disclosure Regime

4. Under the Bill:
 - (a) Entities that prepare financial reports under Chapter 2M of the Act and meet certain minimum size thresholds and/or have emissions reporting obligations under the National Greenhouse and Energy Reporting (NGER) Scheme, will be required to prepare annual sustainability reports containing climate-related disclosures.
 - (b) Reporting will be phased in over time, beginning with the largest entities:
 - (i) For Group 1 entities – the first financial year commencing on or after 1 January 2025 (if the Bill receives Royal Assent before 1 December 2024);
 - (ii) For Group 2 entities – the first financial year commencing on or after 1 July 2026;
 - (iii) For Group 3 entities – the first financial year commencing on or after 1 July 2027.

Assurance over Sustainability Information

5. Under the Bill:

¹ See *Working draft of AASB S2 Climate-related Disclosures (Agenda paper 3.2.4 M207)*.

- (a) Sustainability reports for financial years commencing on or after 1 July 2030 must be audited.²
- (b) For financial years commencing before 30 June 2030, the AUASB is to make auditing standards that specify:
 - (i) The extent to which the sustainability report must be audited, or
 - (ii) The extent to which the sustainability report must be reviewed.³

Information Gathering and Consultation Process

6. In developing the proposed timeline for an audit or review of sustainability reports, the AUASB endeavoured to obtain an understanding of the likely future demand for assurance and the expected ability of auditors and their experts to meet that demand. This involved:
 - (a) Obtaining information informally from larger auditing firms on the likely future demand for assurance for Group 1 and Group 2 entities and the expected ability to meet that demand;
 - (b) Obtaining data from several external sources on the population of entities in Groups 1, 2 and 3;
 - (c) Reviewing submissions to Treasury's First and Second Consultation Papers on climate-related financial disclosures; and
 - (d) Considering academic research on the current level of assurance over climate-related financial disclosures in Australia.⁴
7. The AUASB issued Consultation Paper *Assurance over Climate and Other Sustainability Information* (Consultation Paper) on 20 March 2024 which sought feedback from auditors, experts, directors, preparers and users on the following:⁵
 - (a) The likely demand from users and directors for assurance over climate-related financial information in annual reports of entities in each of Groups 1, 2 and 3;
 - (b) The likely maturity of entity systems, processes and information sources, including the availability of any necessary assurance over information from value chains; and
 - (c) The likely ability of auditors and their experts to meet that demand.
8. The Office of the AUASB held roundtables in Sydney, Melbourne, and Perth, as well as online, to facilitate discussion on the Consultation Paper. Twenty-nine written submissions (including two confidential submissions) were received from various stakeholders representing audit firms, non-accounting assurance practitioners, preparers, professional accounting bodies, investors, users, regulators and academics.
9. The overall feedback was:
 - (a) Assurance should begin with limited assurance for a period of time before progressing to reasonable assurance.
 - (b) Some considered the possible model in the Consultation Paper too ambitious.
10. In light of the feedback received, the AUASB has developed an assurance phasing model for public exposure, taking into account the likely:
 - (a) maturity of entity systems and processes;
 - (b) demand for assurance over climate disclosures; and
 - (c) capacity and capabilities of auditors and their experts during the initial years of reporting.

² section 301A of the Act

³ section 1707E of the Act

⁴ See [AUASB Research Report 10: Deakin-AUASB Sustainability Assurance Research Workshop](#)

⁵ The Consultation Paper was updated on 4 April 2024 following the announcement on 27 March 2024 of a revised proposed first year for mandatory climate reporting by Group 1 entities, to 1 January 2025 (previously 1 July 2024).

Key Proposals

11. The proposed ASSA 5010⁶ specifies the extent to which the information in sustainability reports for financial years commencing between 1 January 2025 and 30 June 2030 must be audited and / or reviewed.
12. ED 02/24 proposes the following levels of assurance (see also diagrammatic representation in the Appendix to ED 02/24):
 - (a) Limited assurance over Scope 1 and 2 emissions from the first year of reporting, progressing to reasonable assurance in the second year of reporting;
 - (b) Limited assurance over governance and strategy (risks and opportunities) from the first year of reporting, progressing to reasonable assurance in the fourth year of reporting; and
 - (c) Limited assurance over all other disclosures from the second year of reporting, progressing to reasonable assurance in the fourth year of reporting.
13. Considerations in developing the proposed model in this exposure draft include:
 - (a) Commencing with limited assurance only over scope 1 and scope 2 emissions in the first reporting year would reflect the existing experience in assurance over such emissions under the National Greenhouse and Energy Reporting Scheme and would be consistent with policy outlined in the Government's Policy Position Statement⁷;
 - (b) Subject to paragraph 14 below, requiring limited assurance over disclosures on governance and climate-related risks and opportunities would have regard to feedback from some stakeholders that:
 - (i) Assurance over governance disclosures would encourage entities to establish robust governance processes to support the matters covered by other disclosures; and
 - (ii) Identifying climate-related risks and opportunities is fundamental to an entity's strategy and other disclosures;
 - (c) A statement that there are no material risks or opportunities would be subject to the same level of assurance as identified climate-related risks and opportunities;
 - (d) Having consistent levels of assurance over disclosures would recognise the interconnectivity of disclosures, and simplify the audit report for users;
 - (e) Commencing limited assurance over other disclosures from the second year of reporting would give entities and auditors more time to prepare;
 - (f) It would seem appropriate to adopt a consistent phasing in of assurance for Groups 1, 2 and 3;
 - (g) Commencing reasonable assurance over all disclosures from the fourth reporting year, noting that the fourth reporting year for Group 3 entities is the first year commencing on or after 1 July 2030 when the Act would mandate reasonable assurance over all disclosures; and
 - (h) Where an entity joins a Group part way through the assurance phasing timeline, it would be subject to the same assurance requirements as other entities in the Group for the relevant reporting year. This would be analogous to the situation in which a proprietary company becomes a large proprietary company and is subject to the financial reporting requirements of the Act without any transition relief.

⁶ ASSA 5010, *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001*

⁷ See [Mandatory climate-related financial disclosures - Policy position statement \(treasury.gov.au\)](#)

14. Most AUASB members supported the approach in subparagraph 13(b) above. Other members were of the view that there should only be assurance in the first year for scope 1 and scope 2 emission information having regard to the cost of assurance and the preparedness of entities for assurance.
15. The AUASB anticipates that the final standard will be approved in December 2024. This timeline is subject to the passage of legislation and the finalisation of both the AASB's mandatory climate reporting standards and the IAASB's ISSA 5000.⁸

Request for Comments

16. The AUASB requests comments on all matters covered in ED 02/24, but specifically on the questions in the 'Exposure Draft Questions' section below. In this regard:
 - (a) Comments should be sufficiently detailed and include whether or not stakeholders agree with the proposals.
 - (b) Stakeholders may address only specific questions relevant to them or raise matters not specifically addressed by a question.
 - (c) The AUASB regards both supportive and critical comments as essential to a balanced review of the proposed Standard.
 - (d) Comments will be most helpful when they refer to specific paragraphs, include the reasons for the comments and, when appropriate, make specific suggestions for any proposed changes to wording.

Exposure Draft Questions

17. The AUASB is seeking comments from stakeholders on the following questions:

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

⁸ ISSA 5000, *General Requirements for Sustainability Assurance Engagements*

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)?

7. Do you agree with the approach to assurance over comparative information?
8. Have applicable laws and regulations been appropriately addressed in the proposed Standard?
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.
10. Are there any other significant public interest matters that you wish to raise on the proposals in this exposure draft?

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CONFORMITY WITH INTERNATIONAL STANDARDS

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) makes this Standard on Sustainability Assurance ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* as an auditing standard pursuant to section 227B(1)(a) of the *Australian Securities and Investments Commission Act 2001* and subsection 1707E(2) of the *Corporations Act 2001* (the Act) for the purposes of s336 of the Act.

Conformity with International Standards

This standard has been made to specify the timing of audits and reviews of information in sustainability reports as required by Australian legislation. There is no equivalent International Auditing and Assurance Standards Board (IAASB) standard.

**AUSTRALIAN STANDARD ON SUSTAINABILITY ASSURANCE
ASSA 5010**

***Timeline for Audits and Reviews of Information in Sustainability Reports
under the Corporations Act 2001***

Application

1. This standard applies where an entity prepares a sustainability report for a financial year under Chapter 2M of the *Corporations Act 2001* (the Act).

Operative Dates

2. This standard is operative for annual financial reporting periods commencing from 1 January 2025 to 30 June 2030.

Introduction

Contents of Sustainability Report

3. The Act⁹ requires certain entities that prepare annual financial reports under Chapter 2M of the Act to also prepare an annual sustainability report to accompany the financial report.
4. The sustainability report for a financial year consists of:
 - (a) the climate statement for the year required by the Sustainability Standards;
 - (b) any notes to the climate statements required by the Sustainability Standards or a legislative instrument made by the Minister under subsection 296A(4);
 - (c) any statements and notes relating to other financial matters concerning environmental sustainability required by a legislative instrument made by the Minister under subsection 296A(5); and
 - (d) the directors' declaration about the statements and the notes.¹⁰
5. Paragraph C3 in Appendix C of the Australian Sustainability Reporting Standard AASB S2 *Climate-related Disclosures* (AASB S2)¹¹ provides that an entity is not required to provide comparative information in the first annual reporting period that it applies that standard.

Audit/review of Information in Sustainability Report

6. The Act requires:
 - (a) Sustainability reports for financial years commencing on or after 1 July 2030 to be audited.¹²
 - (b) The Auditing and Assurance Standards Board (AUASB) to make auditing standards for financial years commencing before 1 July 2030 that specify the extent to which information in the sustainability report must be audited and/or reviewed.¹³

⁹ Based on Schedule 4 of the *Treasury's Laws Amendment (Financial Market Infrastructure & Other Measures) Bill 2024*, which is yet to be passed.

¹⁰ subsection 296A(1) of the Act

¹¹ AASB S2 had not been issued at the time that this exposure draft was issued. References in this exposure draft are to a working draft of AASB S2 which was discussed at a AASB meeting on 26 August 2024.

¹² section 301A of the Act

¹³ section 1707E of the Act

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*

7. This standard uses the terms auditor, audit and review which are consistent with the Act. For the avoidance of doubt, the following terms used in the AUASB's Standards are to be read as having the same meaning as the terms used in the Act shown in the table below when conducting an audit or review of information in a sustainability report:

Term(s) in this standard	Term(s) in AUASB Standards
Review (noun)	Limited assurance engagement
Audit (noun)	Reasonable assurance engagement
Audit (noun) or review (noun), as applicable.	Sustainability assurance engagement

Objective

8. The objective of the auditor is to conduct an audit and/or review of information in the sustainability report as specified in this standard.

Definitions

9. Unless otherwise stated, terms used in this standard have the same meaning as those terms have for the purposes of Chapter 2M of the Act. The following terms have the meanings attributed below:
- (a) AASB S2 - Australian Sustainability Reporting Standard AASB S2 *Climate-related Disclosures*.
 - (b) Auditor – the audit firm, audit company or individual auditor of the entity for the purposes of Chapter 2M of the Act.
 - (c) Group 1 entities – entities to which paragraph 1707B(1)(a) of the Act applies.
 - (d) Group 2 entities - entities to which paragraph 1707B(1)(b) of the Act applies.
 - (e) Group 3 entities - entities to which paragraph 1707B(1)(c) of the Act applies.
 - (f) First year of reporting –the first financial year commencing:
 - (i) For Group 1 entities – from 1 January 2025 to 30 June 2026;¹⁴
 - (ii) For Group 2 entities – 1 July 2026 to 30 June 2027;
 - (iii) For Group 3 entities – 1 July 2027 to 30 June 2028.
 - (g) Second year of reporting –the first financial year commencing:
 - (i) For Group 1 entities – 1 July 2026 to 30 June 2027;
 - (ii) For Group 2 entities – 1 July 2027 to 30 June 2028;
 - (iii) For Group 3 entities – 1 July 2028 to 30 June 2029.
 - (h) Third year of reporting –the first financial year commencing:
 - (i) For Group 1 entities – 1 July 2027 to 30 June 2028;
 - (ii) For Group 2 entities – 1 July 2028 to 30 June 2029;
 - (iii) For Group 3 entities – 1 July 2029 to 30 June 2030.
 - (i) Fourth year of reporting – the first financial year commencing on or after:
 - (i) For Group 1 entities – 1 July 2028;

¹⁴ 1 July 2025 if the legislation commences between 3 December 2024 and 1 June 2025; the first 1 January or 1 July to occur 29 days or more after commencement if the legislation commences on or after 2 June 2025. There would also be changes to the definitions of 'Second year of reporting', 'Third year of reporting' and 'Fourth year of reporting'.

- (ii) For Group 2 entities – 1 July 2029;
- (iii) For Group 3 entities – 1 July 2030.
- (j) Sustainability Report – A sustainability report required under section 292A of the Act (see section 9 of the Act).
- (k) Sustainability Standards – those standards made for the purposes of the Act pursuant to section 336A of the Act.

Requirements

10. Subject to paragraph 11, information in the sustainability report shall be subject to audit and / or review as follows:
- (a) For the First Year of Reporting the auditor shall conduct a review over the disclosures (including related general disclosures in Appendix D to AASB S2) relating to:¹⁵
 - (i) Governance in accordance with paragraph 6 of Draft AASB S2;
 - (ii) Strategy (risks and opportunities) in accordance with subparagraphs 9(a) to (d) and paragraphs 10 to 21 of AASB S2;
 - (iii) Scope 1 and Scope 2 greenhouse gas emissions in accordance with subparagraphs 29(a)(i)(1) to (2) and 29(a)(ii) to (v) of AASB S2; and
 - (iv) Any statement that there are no material risks or opportunities relating to climate and how that applies to the entity under s296B(1)(c) and (d) of the Act or any similar statement otherwise made in the sustainability report.
 - (b) For the Second and Third Year of Reporting, the auditor shall conduct an audit of Scope 1 and Scope 2 greenhouse gas emission disclosures in accordance with subparagraphs 29(a)(i)(1) to (2) and 29(a)(ii) to (v) (including related general disclosures in Appendix D to AASB S2), and review all other disclosures in the sustainability report.
 - (c) From the Fourth year of reporting onwards the auditor shall conduct an audit over all disclosures in the sustainability report.
 - (d) The auditor is not prevented by (a) and (b) from:
 - (i) conducting an audit of any information in the sustainability report for a financial year in which a review of that information is otherwise required; and/or
 - (ii) conducting an audit or review of any information in the sustainability report for a financial year in which an audit or review of that information is not required.
11. Where the sustainability report is required to, or does, include comparative information and, subject to the provisions of other ASSAs on comparative information:
- (a) That information was not required to be, and was not, subject to assurance for the purposes of a publicly available report for the previous financial year, that comparative information is not required to be subject to assurance in the current year; and
 - (b) That information was required to be, or was, subject to limited assurance for the purposes of a publicly available report for the previous financial year, that comparative information is not required to be subject to reasonable assurance in the current year.

* * *

¹⁵ References to provisions of AASB S2 are to a working draft discussed by the Australian Accounting Standards Board on 22 August 2024 and will be updated to the final AASB S2, if necessary.

Appendix

(Ref: Para. 10)

Diagrammatic Representation of Assurance Phasing

Reporting Year ->	1st*	2nd	3rd	4th	5th	6th**
Governance	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Strategy – Risks and Opportunities ***	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate Resilience Assessments / Scenario Analysis	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Transition Plans	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Risk Management	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Scope 1 and 2 Emissions	Limited	Reasonable	Reasonable	Reasonable	Reasonable	Reasonable
Scope 3 Emissions	N/A	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate-related Metrics and Targets	None	Limited	Limited	Reasonable	Reasonable	Reasonable

* Group 1 – Years commencing 1 January 2025. Group 2 – Years commencing 1 July 2026. Group 3 – Years commencing 1 July 2027.

** Group 3 is to be subject to reasonable assurance across all disclosures by years commencing 1 July 2030.

*** The phasing for assurance on Statements where there are no material climate-related financial risks and opportunities is the same as for ‘Strategy – Risks and Opportunities’.