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Sub 9 - CP5000 Direct Assistance

Your ref: Consultation on using assistance by internal auditors under ASSA 5000
Our ref: Comments from GHD's sustainability & climate assurance team

01 December 2024

The Chair
Auditing and Assurance Standards Board
PO Box 204, Collins Street West
Melbourne Victoria 8007
Lodged via auasb.gov.au/projects/open-for-comment

Consultation on prohibiting direct Internal Audit assistance

Dear Chair & members of the Board of the AUASB

Thank you for the opportunity to provide comments in respect of the consultation paper on *Prohibiting Sustainability Assurance Practitioners from using Direct Assistance by Internal Auditors* **-** a prohibition proposed for the coming Australian version of the new *International Standard for Sustainability Assurance 5000 General Requirements for Sustainability Assurance Engagements* (ISSA 5000).

As a leading provider of sustainability and climate assurance services in Australia, GHD's sustainability & climate assurance team (S&C assurance team) follows these new sustainability and climate assurance requirements closely. We believe we are well placed to provide informed comments to promote higher sustainability assurance quality – refer also Appendix A for our credentials as climate assurance providers.

We already support and are keen to continue to support credible sustainability and climate reporting through assurance. Given our credentials and capability we may play a significant role in addressing the significant capability and capacity gap that exists, noting:

– The framework for assurance under the new *International Standard for Sustainability Assurance 5000 General Requirements for Sustainability Assurance Engagements* (ISSA 5000) sets out an international framework whereby different disciplines are supposed to play a larger role in achieving credible and high-quality assurance outcomes over sustainability related information.
– In its consultation for the new mandatory assurance framework under the Corporations Act 2001 (Act), Treasury emphasised the importance of delegation and involvement of other providers with the following comments:

  > *Delegation to third party assurance providers increases the available pool of auditors and broadens the market, whilst maintaining professional, ethical and quality controls [by financial auditors leading].*
  >
  > *It is important that new players are encouraged to enter the market to build capacity and avoid entrenching a highly concentrated assurance market that inhibits competition.*

  Delegation to Registered Greenhouse and Energy Auditors (RGEAs) was particularly mentioned by Treasury as desirable to address the capability and capacity gap.
– We are not Registered Company Auditors (RCAs) under the Act, and it is silent on any role we may have in contributing to better assurance outcomes, e.g., aligned with Treasury's comments mentioned above. We look to the AUASB to make appropriate standards, pronouncements and/or guidance to enable the use of broader disciplines, including appropriate delegation to RGEAs, to achieve what ISSA 5000 suggests is necessary and Treasury has clarified as desirable to support sustainability assurance quality. We believe AUASB will have to make specific appropriate pronouncements in this

regard, as otherwise the RCA firms leading the new sustainability report audits may be reluctant to enable it as it may not be in their own commercial interest – which in turn will increase the significant capability and capacity gap that must be addressed to avoid significant risks that the new mandatory assurance required does not achieve appropriate assurance quality.

In this letter we provide our considered response to some of the questions made by AUASB for the consultation – whilst not commenting on other questions. In summary:

– **The proposal increases the risks to sustainability assurance quality** - prohibiting direct assistance by internal auditors is well-intentioned but not currently a good idea – this is due to much larger and substantial risks to sustainability assurance quality relating to the significant capability and capacity gap and unresolved assurance technical challenges. Using a parallel approach to the financial audit is misguided because the context and risks to assurance quality are significantly different.
– **Stronger internal audit functions reduce assurance engagement risk** – the substantial risks to sustainability assurance quality may reduce significantly from stronger internal audit functions. Stronger internal audits of climate statement controls reduce the control risk of the assurance engagement, which in turn may significantly reduce the engagement risk of inappropriate assurance conclusions.
– **Internal audit functions also have a capability and capacity gap to address** that Directors need to invest in addressing – this could involve hiring and training capable in-house internal auditors or engaging competent external providers to assist internal audit – e.g., competent RGEAs that may have specialised in specific aspects such as complex scope 1 emissions from coal mining or oil and gas sectors.
– **Prohibiting direct assistance discourages investment and may increase the capability and capacity gap** – Directors having increased confidence that investment in internal audit capability and capacity may benefit not only their own internal controls but also the quality and cost of the external sustainability report audit may increase the investment – which therefore over time will significantly increase both the quality of internal audit functions as well as the quality of sustainability report audits. Prohibiting direct coordination between internal and external audit may reduce the likelihood of achieving that benefit, which in turn may reduce the level of investment in improving relevant internal audit capability that Directors will approve – to the detriment over time of the quality of climate statements and sustainability report audit quality.
– **AUASB should focus on enabling all ISSA 5000 avenues to address the capability and capacity challenge** – instead of prohibiting one of the four ISSA 5000 avenues for other providers to assist with the new mandatory sustainability report audit, the AUASB should focus on enabling appropriate use of all 4 avenues as focussing on only some of them is likely insufficient to address the significant risk to assurance quality that the capability and capacity challenge poses. This should include further clarifying how companies appointing a competent RGEA firm to perform a relevant ISSA 5000 assurance engagement may enable the RCA firm's "use of another practitioner's work" – which could be relevant for a company that may have complex scope 1 emissions to be reported in the climate statement. It could also include the company appointing a competent RGEA firm to assist its internal audit functions review or testing of climate statement controls – in this case, direct coordination between the internal and external audits may be the best avenue to address the capability and capacity challenge.

Accordingly, we believe the proposed prohibition works against the public interest of achieving high-quality climate statements with high quality sustainability report audits over time.

1. Response to Q1 – should direct assistance by internal audit be prohibited for sustainability assurance

In short: No. We consider the proposed prohibition well-intentioned but not currently a good idea.

We understand the proposed prohibition is focussed only on coordinating assurance testing with internal audit functions as direct assistance to the external sustainability assurance per Australian version of ISSA 5000. That is, it will continue to allow the sustainability assurance practitioner to consider relevant work or testing that internal audit may have performed separately from any such coordination for direct assistance.

However, the risk to sustainability assurance quality the prohibition seeks to address is minimal compared to risks driven by the capability, capacity and technical challenges of mandatory sustainability report audits – and the proposed prohibition may exacerbate these more significant risks to sustainability assurance quality.

Refer further in our responses to Q2 and Q6 below.

We also note that ISSA 5000 sets requirements for using the work of internal auditors, including when working directly with internal audit – such as:

- Direct assistance by internal audit does not make it part of the engagement team - paragraph 42 of ISSA 5000 does not assume that direct assistance of internal auditors implies that they become members of the engagement team.
- Careful consideration of the nature and scope of internal audits planned work as appropriate to the external sustainability assurance is required – per paragraph A152.
- That the organisational status and relevant policies and procedures to support the objectivity of internal auditors (and level of competence) must be performed to determine whether the direct assistance is appropriate for the external sustainability assurance engagement – per paragraph A153.
- The various factors required to be considered in this respect, including existence and adequacy of internal audit's risk assessments, work programs, documentation and reporting, including whether there are appropriate quality controls in place.

Applying these requirements should enable appropriate safeguards for the risk that direct assistance by internal audit functions is not unduly impairing the objectivity and independence of the external sustainability assurance conclusions. However, if this is a concern for application in Australia we would suggest that a more appropriate avenue would be to clarify further requirements for how to safeguard against this risk when obtaining direct assistance from internal audit for sustainability assurance, given the significant contribution such assistance may have in addressing the more substantial risks to sustainability assurance quality that currently exist.– rather than prohibit it and thereby making it harder to address those more substantial risks to assurance quality.

Finally, we understand the primary concern the prohibition targets relates to the new mandatory sustainability report audit – however, the proposal would prohibit it in general for all sustainability assurance. It does not appear to be prohibited currently when performing such assurance using ASAE 3000 or ASAE 3410 – i.e., it does not seem to have been a significant enough risk to prohibit for existing sustainability assurance, and therefore difficult to understand why it now needs to be prohibited for all such assurance? If the primary concern relates to the mandatory sustainability report, then perhaps the prohibition should not be included for all assurance per the Australian version of ISSA 5000?

2. Response to Q2 – Should the AUASB consider the approach in ASSAs separately from the approach in ASA 610, and if so, why?

In short: Yes. Applying a blanket parallel requirement because it applies to financial audit may not be appropriate given the context, challenges and risks to assurance quality are significantly different across the two types of assurance. When considering the current specific challenges and risks to sustainability assurance we believe it is clearly not a good idea currently. We consider it may increase the overall risk to sustainability assurance quality, at least until the more pressing and challenging risks are addressed. We encourage the AUASB to focus on addressing those more substantial challenges that pose significant risks to sustainability assurance quality – the proposed prohibition only addresses a far lesser risk that may make it harder to address those bigger challenges and risks – refer also our response to Q6 below.

2.1 Context for financial audit implies limited or no adverse impact on financial audit quality

We understand the proposed prohibition for using direct assistance by internal auditors when performing sustainability assurance is parallel to an AUASB prohibition to use such direct assistance by internal auditors when performing financial audits – which is driven by a desire to address a potential risk to the quality of financial audits due to internal auditors not being capable of being truly independent of the audited body. Accordingly, we understand that the proposed prohibition is a desire to address the same potential risk to the quality of sustainability assurance.

However, we note that the prohibition made for financial audits are within a context of:

– **No significant capability and capacity gap for performing financial audits** and no such gap either for companies to design and operate their internal financial controls, and have those financial controls monitored and tested by internal audit functions.

– **Well-established and well-known frameworks, methods and tools for preparing financial reports** that meet the financial reporting criteria set in the relevant financial reporting standards, including how to design and implement internal financial reporting controls to support it.

– **Well-established and well-known frameworks, methods and testing protocols for auditing financial reporting controls and financial reporting** enabling both internal audits as well as external audits to be performed at high quality with suitably qualified people available to perform both the external financial audits and the internal audits.

This is a context that makes it possible to prohibit direct assistance by internal audit functions without any significant adverse impact from prohibiting the potential synergy that can arise from such direct assistance – synergies that may achieve both higher assurance quality or cost efficiencies, or both.

2.2 Context for sustainability assurance implies potential substantial adverse impact on sustainability assurance quality

None of these contextual parameters exist currently for sustainability reporting, including for the mandatory climate statements to be prepared per AASB S2:

– **There is a significant capability and capability gap** – both for preparing and for auditing sustainability reporting. The gap impacts both the preparation of the sustainability information to be audited, any internal audits that the Board or management wishes to implement to control it, and the external audits of the sustainability information – implying that there may be a three-way crunch on limited available capability and capacity.

– **There is significant uncertainty on how to prepare the new mandatory climate statement per AASB S2**, amplified by AASB S2 requiring significant discretionary judgements on the nature and extent of information to be included, including for forward-looking information – and limited practical experience in how to prepare and document the sustainability information and make and document the judgements required.

– **There are significant technical challenges and uncertainty in respect of how to perform the mandatory sustainability report audit** – whilst there is some experience to leverage for preparing the information for AASB S2 climate statements, there is limited or no experience to leverage for how to audit all the information in such statements. This includes no known experience on how to audit the forward-looking information within the climate statements. Whilst ISSA 5000 allows for the assurance of forward-looking information, it only covers assurance of specific projections, forecasts and future plans. However, this is insufficient considering there are other types of forward-looking information in the climate statements to be assured – e.g., narrative descriptions of material risks and opportunities and climate resilience assessments based on scenario analysis, which ISSA 5000 does not appear to provide any technical answers on how to assure?

Given the significant different context, coordinating testing appropriately with internal audit functions where they exist may be a significant approach to achieve higher assurance quality – and knowing it may provide this type of synergy would also provide additional encouragement / incentives for Directors of companies to approve further investments into the capability and capacity of internal audit functions to do this – refer also section 3.2 below.

2.3 Value of stronger internal audit functions for sustainability assurance quality

Noting, stronger internal audit of controls to prepare sustainability reports in support of Directors' monitoring and approval of the new mandatory sustainability report requirement is also in the interest of and benefit to the auditors performing the new mandatory sustainability report audit – yet the prohibition may well make it less likely that this can occur, given the significant capability and capacity gap – refer also response to Q6, in particular section 3.2 below.

3. Response to Q6 – Are there any principles and practices considered appropriate in maintaining or improve audit quality in Australia that may, or do, prevent or impede the application of the proposal, or may conflict with the proposal?

In short: Yes. The AUASB should consider the context, challenge and quality risks that are most relevant to sustainability assurance, including for the new mandatory sustainability report audit per the Corporations Act (effectively mandatory audit of a climate statement prepared per AASB S2) – refer our response to Q2 above.

We encourage the AUASB to focus on the more significant challenges and risks to sustainability assurance quality, in particular the risks relating to the substantial capability and capacity challenge, as well as risks relating to technical assurance challenges – refer sections 3.1 and 3.2 below.

3.1 Addressing the substantial capability and capacity challenge

Instead of looking at prohibitions on how to use available competent people to assist with sustainability assurance, the AUASB should focus on how more competent people can appropriately get involved in addressing this challenge - an "all hands-on deck" approach, rather than one that prohibits all hands-on deck.

This is particularly relevant given the substantial risk to sustainability assurance quality that the lack of competence poses – noting ISSA 5000 paragraph 26(b) prohibits the assurance practitioner from accepting or continuing the sustainability assurance engagement unless *those persons who are to perform the engagement collectively have the appropriate competence and capabilities, including having sufficient time to perform the engagement*. Additionally, considering engagement-level quality management, ISSA 5000 in paragraph 33(c) clarifies that the engagement leader *shall have sustainability competence sufficient to accept responsibility for the conclusions reached on the engagement*. In paragraph A82 it further clarifies that the required engagement leader competence includes *the ability to ask appropriate questions of a practitioner's expert and evaluate whether the answers are judged to be reasonable*, and *evaluate a practitioner's expert's work, to the extent necessary, to integrate it with the work of the engagement team as a whole*. ISSA 5000's paragraph A83 further clarifies that the engagement leader's required competence increases if the sustainability information to be assured is complex, lacks precise measurement, requires significant judgements in evaluating the criteria to be applied and in determining whether the scope of information is appropriate, and where the engagement leader or team lacks previous experience in assuring the information – all characteristics of preparing climate statements per AASB S2

Given that there is only a limited pool of assurance practitioners with useful experience in assuring the information in the mandatory climate statements, including a limited pool of RCAs with relevant experience in leading it, it seems obvious that many RCAs may be prohibited by ISSA 5000 to accept the engagement – this may not be an acceptable outcome given the statutory nature of the mandatory sustainability report audit, but in that case it is prohibited to perform the sustainability report audit using ISSA 5000 – as the competence requirement is a fundamental quality requirement of ISSA 5000 assurance. This is a key challenge and risk for the AUASB to address – focussing on prohibiting access to competent people to assist with the mandatory sustainability report audit does not appear appropriate that this time.

3.1.1 Use all available options to address the challenge

Addressing this challenge requires the mobilisation of people with broader competence and skills, including inviting more providers to be part of the assurance provision – which is a key component to achieve sustainability assurance quality per ISSA 5000 and consistent with Treasury's comments relating to encouraging new players into the assurance market, including delegation to other providers such as RGEAs.

ISSA 5000 principally considers that this can occur in 4 different ways:

– **Using a "Component Practitioner"**, per paragraphs A19-A20 – whereby specific components, for example relating to sustainability information pertaining to specific business activities (e.g., relating to emissions) are assured by another practitioner in a way that is actively coordinated and where the component practitioner forms part of the overall engagement team – the component practitioner may be an associated network firm in another jurisdiction or could be another firm. However, using another firm also "leaks" revenue from the RCA firm, which therefore may have limited commercial incentive to apply this option, even if appropriate to address the capability and capacity challenge.

– **Using the "Work of Another Practitioner"**, per paragraphs 50-55 and A123 – A135 – whereby another firm's assurance work performed over aspects or components of the sustainability information has been performed in a separate assurance engagement – i.e., without active coordination with the RCA's sustainability report audit engagement. The other practitioner is not part of the engagement team, and is effectively engaged directly and separately by the audited body – this could be on specific components of the mandatory sustainability audit where the audited body may have more confidence in the competence and/or cost effectiveness of the another practitioner – e.g., RGEAs assuring the emissions to be reported in the climate statement using ISSA 5000, and the RCA firm auditing the climate statement using the RGEA's assurance of those emissions data as outlined as possible in ISSA 5000.

– **Using the work of an expert**, per paragraphs 56 – 58 and A136 – A150 – whereby an expert in a field other than assurance is used to perform procedures relating to one or more specific aspects of the engagement. The expert may be internal and be formally part of the engagement team, or external and not be formally part of the engagement team. As mentioned above, when using the work of an expert ISSA 5000 sets additional competence requirements of the engagement leader, which may make it harder to use to address the capability and capacity challenge.

– **Using the work of internal audit**, per paragraphs 59 and A152 – A154 **–** whereby the work of internal audit over aspects of sustainability controls or information is used as part of the sustainability report audit evidence. Internal audit is not part of the engagement team. Given the capability and capacity challenge working in ways that coordinates testing may present avenues for both improving the internal controls of audited bodies, as well as the external sustainability assurance quality.

We understand that the AUASB is keen to focus on the competence required by the engagement leader, the engagement team (including component practitioners, we assume), and using experts were required. We believe this will be insufficient to address the substantial capability and capacity gap. The AUASB should take an “all hands-on deck” approach and actively enable appropriate use of both using the work of another practitioner as well as using the work of internal audit as ways to address the challenge. Noting in this respect:

– **Enable RGEAs to address the challenge** – RGEAs are in a unique position to support in addressing the capability and capacity challenge, as also envisioned by Treasury during its consultation. This is particularly the case given RGEAs perform assurance over emissions reporting using AUASB’s standards, currently ASAE 3000 and ASAE 3410, and in future ASSA 5000 – whilst applying AUASB’s quality management standards and meeting the same or similar ethical and independence requirements in performing such assurance. This includes issuing long-form assurance reports (as required per NGER Audit Determination) which should enable the RCA leading the mandatory sustainability report audit to understand the risk areas addressed and the nature and extent of assurance procedures performed – thereby in substance likely to meet the requirements set in ISSA 5000 for “using the work of another practitioner”. However, we believe the AUASB needs to clarify further in a pronouncement or guidance how this can work – to enable confidence for Directors or management in companies that may wish to go down this route – which may be driven by concerns over the RCA firm’s competence or fee for performing the mandatory audit over these aspects.

– **RCA firms may have no or limited commercial incentive to actively outsource any of the assurance work to other practitioners**, even where this would achieve better sustainability assurance outcomes in terms of assurance quality and costs. This includes limited incentive to involve any RGEA from another firm to assure emissions as a component practitioner even where it may be a better outcome in assurance quality or cost. Therefore, unless the AUASB further enables the appropriate “Use of the Work of Another Practitioner” then it is likely that using broader practitioners, such as RGEAs, will be limited – thereby increasing the substantial capability and capacity challenge, which in turn may adversely impact the quality and/or cost of the mandatory sustainability report audit. If the AUASB sets out further guidance of how audited bodies could actively appoint other practitioners, particularly RGEAs, to perform assurance that directly supports the mandatory sustainability report audit then companies and its Directors may have confidence in using this approach as a way to achieve better sustainability assurance outcomes. Refer also our comments to your recent ASSA 5010 consultation.

– **Strong internal audits on climate aspects benefits the quality of the new mandatory sustainability report audit** – internal audit functions performing better testing of relevant processes and controls used to prepare the climate statement per AASB S2 should be of significant benefit to the new mandatory sustainability report audit. However, internal audit functions also have a significant capability and capacity gap to overcome to achieve this – and company Directors need to invest significant resources in ensuring it occurs – they are more likely to do so if they can have confidence in the investment paying off in supporting not only their own internal control objectives, but also in enabling better sustainability report audit outcomes – including confidence in the investment being likely to reduce the cost of the new mandatory sustainability report audit. Prohibiting active coordination between internal and external audit in achieving this may dampen their confidence in making the investment – which in turn will decrease the confidence in climate statements and increase the capability and capacity gap for the new mandatory sustainability report audit.

  Internal audit functions may at times be the best avenue to address the capability and capacity gap – to achieve better internal audits of climate statement controls a significant uplift in internal audit capability and capacity will be required. This could be through hiring and training of in-house internal audit capability, or it may involve engaging capable external providers with relevant competence to perform sustainability related internal audit services – the latter especially where the internal controls testing may require significant technical expertise, for example relating to climate resilience assessment through scenario analysis, transition planning and targets, scope 3 emissions reporting or complex scope 1 emissions sources. For complex scope 1 emissions sources the in-sourced internal audit capability could include RGEAs that have specialised in assuring those complex emissions sources.

Consider for example assurance of complex and often material scope 1 emissions in the coal mining and oil and gas sectors. RCA firms may struggle to obtain sufficient capability and capacity to drive high quality assurance of these complex scope 1 emissions sources that may require geologists or instrumentation engineers. However, using the work of such experts may not suffice because it also requires assurance engagement leaders that intimately understand the inherent risks and appropriate controls to manage the risks and therefore be able to engage with those experts appropriately (as required by ISSA 5000). Company management and its Directors may appreciate this challenge. This may include the need for internal controls to increase their own confidence in the significant scope 1 emissions to be reported in the climate statement that the Directors must approve – as well as having concerns about the RCA firm's capability and capacity to perform appropriate, high-quality and cost-effective external audit of those emissions. In response the company could engage a competent RGEA firm that has specialised in assuring these emissions sources to provide confidence for the directors' approval of the climate statement:

– **Example 1: RGEA appointed to perform ISSA 5000 assurance over complex emissions** – this could be by the company engaging a competent RGEA firm to perform an ISSA 5000 assurance engagement relating to the company's scope 1 and 2 emissions to be reported in the climate statement. In this case the new mandatory sustainability report audit would benefit from the AUASB having further enabled the use of another practitioner's work appropriately, as it would provide confidence by the company's management and Directors that the approach would likely be accepted as appropriate by the RCA firm performing the mandatory sustainability report audit.
– **Example 2: RGEA appointed to assist internal audit function** – it could also be by the company engaging a competent RGEA firm as part of assisting its internal audit function to perform appropriate reviews and controls testing of key aspects of the complex scope 1 emissions reporting. In this case, given the significant capability and capacity gap, it may be beneficial for the internal audit testing to be coordinated with the RCA firm's mandatory sustainability report audit – especially as it could be a significant approach to address the significant capability and capacity challenge the RCA firm faces. It will also provide more confidence among the company's Directors that the investment in stronger internal audit yields appropriate benefit – including in better sustainability report audit outcomes, and as part of increasing the capability of the internal audit function for future years. Prohibiting this coordination between internal and external audit to occur simply reduces the likelihood it will occur - and when it occurs, reduces the ability of it to address the significant capability and capacity gap.

Accordingly, AUASB should focus on enabling these approaches to increase the quality of climate statements and the assurance of them – to encourage higher sustainability report audit quality as well as encourage stronger internal controls – especially over time, and therefore be a significant aspect of addressing the significant capability and capacity gap.

3.2 Addressing substantial assurance technical challenges

As mentioned above, there are substantial technical challenges in terms of how to assure significant parts of the climate statements prepared per AASB S2 – refer our recent comments to ASSA 5010.

We consider that the AUASB should consider these challenges far more important to address than the risk to assurance quality from working directly with internal audit functions – indeed, it is possible that it may be easier to address those challenges through working directly with internal audit functions where they exist – in ways similar to how it may assist in addressing the capability and capacity gap noted in section 3.1 above

4. Response to Q7 – What, if any, are the additional significant costs/benefits for auditors and assurance practitioners and the business community arising from compliance with the requirements of this proposal?

We expect there would be potential significant additional costs with limited benefits from the proposed prohibition. This is particularly the case due to the significant capability and capacity challenge affecting both the business community and the audit firms:

– For the business community the challenge relates to a significant required upgrade in the capability and capacity among people preparing the new sustainability report according to AASB S2, as well as internal audit capability and capacity among companies that want internal audit to perform testing on whether the company's management of climate risks and opportunities is appropriate controlled.
– For the RCA firms there a well-known significant capability and capacity gap to perform the new mandatory sustainability report audit, as outlined above.

Accordingly, the prohibition will make it harder for the business community to procure people to drive better climate risk management internal controls within a severely restricted pool of capable professionals. This hiring will be in direct competition with RCA firms hiring within the same insufficient pool of competent professionals – this will therefore likely drive-up costs of the mandatory sustainability report audits whilst reducing either the quality of internal control or the quality of the sustainability report audit – or both.

As an example, GHD is currently assisting internal audit of a global company relating to its controls in respect of decarbonisation and its ability to meet its publicly declared decarbonisation targets – to provide assurance to the global board of directors when reporting on transition plans and performance against decarbonisation targets. We were selected due to deep technical understanding of how to achieve decarbonisation targets as well as proven sustainability assurance competence. Whilst this audit is not coordinated with the company's external audit, it is obvious that the outcome of this type of internal audit may be of significant relevance to RCAs performing the mandatory sustainability report audit. Given the significant capability and capacity gap affecting both internal audit functions and the RCA firms it appears obvious that there may be significant benefit to the sustainability report audit if it is possible to agree coordination on specific testing by internal audit – especially given the RCA firm may struggle with both capability and capacity to perform this testing on their own.

By prohibiting this type of direct coordination on internal controls testing by internal audit prematurely this coordination cannot occur, which makes it harder for companies to have its internal audit function drive climate risk management controls testing, which benefits better prepared AASB S2 reporting, and therefore also the quality of external financial audits.

Whilst we cannot quantify these costs of the prohibition, we note they may be significant, and the benefit limited – at least until the challenging and significant capability and capacity gap impacting both companies preparing climate statement per AASB S2 and auditors performing sustainability report audits has been addressed.

5. Response to Q8 –Are there other significant public interest matters we wish to raise?

There should be significant public interest in the quality and costs of preparing high-quality climate statements prepared per AASB S2 – including the quality and costs of the associated mandatory sustainability report audit. This is why ISSA 5000 sets a framework to encourage more providers to be involved (i.e., to achieve higher sustainability assurance quality) and why Treasury in its consultation emphasised the need for this to occur for the mandatory sustainability report audit – including through delegation to RGEAs where appropriate. Accordingly, we again encourage AUASB to consider an "all hands-on deck" approach using all options available per ISSA 5000 to enable this to occur, given the public interest in high assurance quality whilst avoiding excessive costs of it – refer our response to Q6 above.

In respect of the proposed prohibition of direct assistance from internal audit functions, as outlined above, we believe it may adversely impact on the quality of sustainability assurance or the cost of the assurance, or both – with limited benefits likely to be achieved. This is particularly so given the significant capability, capacity and technical challenges currently existing for this assurance – and where it is of benefit to the quality of the assurance if the internal audit functions are also strengthened – which the prohibition makes harder to address. Refer our responses above. Accordingly, we believe the proposed prohibition under the current context is contrary to the public interest.

6. Thank you for considering our comments

Thank you again for the opportunity to comment. Should you have any further questions or inquiries relating to our comments, please feel free to contact the undersigned.

Regards

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Copy to: GHD's S&C assurance team's lead auditors.

APPENDIX A – GHD's credentials as climate assurance providers

GHD is an employee-owned global professional services company with over 11,000 employees in 200 offices on five continents – and with approximately 5,000 of our employees in Australia in 44 locations across the nation. Our professional services are primarily within engineering and environmental services focussing on making water, energy, and communities sustainable for generations to come.

We are a leading climate assurance practice in Australia

We are currently one of Australia's leading assurance providers in respect of climate aspects, with nine (9) Category 2 Registered Greenhouse and Energy Auditors (RGEA Cat 2s) practicing as lead auditors for National Greenhouse and Energy Reporting (NGER), projects under the Australian Carbon Credit Unit (ACCU) scheme and under the Safeguard Mechanism. We also conduct assurance of climate disclosures contained within annual corporate sustainability reporting, as well as broader corporate sustainability report assurance – primarily for several ASX 200 companies.

Our RGEA Cat 2s annually lead up to 80-100 or more such assurance engagements. GHD is also on the Clean Energy Regulator's (CER) panel for auditors leading assurance engagements under its regulatory compliance programme – with the CER over the last five years having commissioning more such engagements to GHD than from any other firm, including more than any big-4 accounting firm.

We deliver climate assurance applying AUASB's standards

To deliver these assurance engagements GHD and its lead auditors (RGEA Cat 2s) must apply assurance approaches based on standards issued by the AUASB – including ASAE 3000 and ASAE 3410[1], as well as applying AUASB's quality management standards such as ASQM1[2] and meeting relevant professional, ethical and independence requirements set out in APES 110[3] – equivalent to the requirements of RCAs. It is mandated in a legislative requirement for performing audits and assurance engagements under the CER's schemes – and is subject to regulatory oversight and inspection by the CER, with GHD's RGEA Cat 2 auditors being subject to regulatory inspections by the CER's audit inspectors.

[1] That is the Australian Standard on Assurance Engagements 3000 *Assurance Engagements other than Audits of or Reviews of Historical Financial Information* (ASAE 3000), and Australian Standard on Assurance Engagements 3410 *Greenhouse Gas Statements* (ASAE 3410)
[2] That is AUASB's Australian Standard for Quality Management 1 (ASQM1).
[3] That is the Code of Ethics for Professional Accountants (APES 110) by the Accounting Professional & Ethical Standards Board (APESB) referred to in AUASB's standards.