

Auditing and Assurance Standards Board
530 Collins Street
Melbourne VIC 3000

15 November 2024

Consultation Paper: ED 02/24 Proposed Australian Standard on Sustainability Assurance ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001*

We welcome the opportunity to respond to the Auditing and Assurance Standards Board's (AUASB) Consultation Paper on 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* ("ED ASSA 5010").

The landscape of corporate reporting in Australia is undergoing significant transformation, driven by the introduction of new climate and sustainability standards, in response to growing investor demand for more meaningful information. With the recent issuance of the first ever legislated sustainability reporting standards in Australia, we are at the brink of seeing this transformation unfold. Assurance is important and necessary to enhance the credibility of climate disclosures in the external market, and the AUASB plays a significant role in shaping the implementation of climate assurance. We acknowledge the challenges that have been faced with developing a pathway to mandatory assurance in the context of proposed Federal Government policy and exposure draft sustainability reporting standards and commend the AUASB for their continued efforts to engage with relevant stakeholders and respond to the feedback received.

Proposed audit and review timelines

We continue to be supportive of a phased assurance approach to progress to a position of reasonable assurance over all legislated climate disclosures for financial years commencing 1 July 2030, as mandated by Treasury.

Overall, we are supportive of the phased approach outlined in ED ASSA 5010. We believe this approach will assist with balancing the maturity of entities' reporting systems, capacity and capabilities of auditors and their experts, and stakeholder needs and expectations for climate disclosures and assurance thereon. Specifically, we are supportive of an assurance phasing approach that adopts the following:

- For any given disclosure, limited assurance is initially obtained before phasing to reasonable assurance.
- Consistent phasing in of assurance for reporting entities in Groups 1, 2 and 3, commencing with the same settings and progress at the same pace. This approach is straightforward and places the same emphasis on the relative importance and interconnectivity of each disclosure, whilst allowing additional time for Group 2 and 3 entities to prepare and develop their reporting systems.
- Earlier assurance over information that is based on historical information or within an entity's control, followed by assurance over disclosures that may involve forward looking information, estimates or significant assumptions.

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We are supportive of governance disclosures and strategy disclosures relating to risks and opportunities being subject to limited assurance in an entity's first year of reporting, however, we highlight the following matters for the AUASB's consideration:

- We anticipate that users may assume assurance over governance disclosures to represent assurance over the adequacy and effectiveness over governance processes and controls to monitor, manage and oversee climate-related risks and opportunities, rather than assurance on the factual representation of the disclosures. We recommend the AUASB consider as a high priority providing guidance to close this expectation gap to reduce the risk of users misinterpreting the assurance provided.
- We recognise the importance of assuring strategy disclosures (risks and opportunities) in the first year of reporting, as the identification of climate-related risks and opportunities will likely be of high interest to users eager to understand their impact on financial disclosures. However, given its connectivity to other disclosure topics, in the absence of providing further guidance and education, users may unintentionally assume assurance over certain aspects of other disclosure topics as a result of limited assurance being obtained over strategy disclosures (risks and opportunities). Given that there is some overlap in the process for preparing strategy disclosures (risk and opportunities) and other disclosure topics (e.g. risk management, scenario analysis and metrics and targets), guidance for practitioners on the nature and extent of procedures expected to be performed to obtain limited assurance on strategy (risks and opportunities) will also be needed to ensure consistency.
- We would be cautious in bringing forward assurance on other disclosure topics to year one, particularly those requiring significant value chain information or those relating to forward looking estimates and scenario analysis, as these will likely add significant pressure on reporting entities and assurance practitioners.

Audit and Assurance Quality and Regulation in Australia

Beyond the responsibility given by Treasury to set the pathway of assurance for legislated climate reporting, the AUASB has a pivotal role to play in shaping the climate assurance landscape through its capacity to educate users and set expectations for reporting entities and assurance practitioners. This role is integral to fostering a robust and resilient corporate reporting environment that supports informed decision-making by investors. Specifically, we highlight the following areas where we believe the AUASB can make a meaningful and practical impact:

Climate reporting framework

Determining whether the climate reporting standards are a fair presentation or compliance framework is critical to ensuring consistency in the reported information and assurance thereon. The Australian Sustainability Reporting Standard AASB S2 *Climate-related Disclosures* ("AASB S2") refers to the requirements for fair presentation of climate-related financial disclosures. However, section 296C of the *Corporations Act 2001* ("the Act") states the requirement for the substantive provisions of the sustainability report to comply with the sustainability standards. This language of compliance with sustainability standards is also reflected in the directors' declaration required under section 296A of the Act. Given the ambiguity, the AUASB will need to provide guidance as the level of work required will differ substantially depending on the framework adopted.

Requirements to provide assurance over the directors' declaration

Under section 296A of the Act, the directors' declaration on the sustainability report will form part of the annual sustainability report and will therefore be required to be audited in accordance with section 307AA of the Act. Under section 1707C of the Act, during the transitional period, a modified form of the directors' declaration will apply, whereby the directors will declare "the entity has taken reasonable steps to ensure the substantive provisions of the sustainability report are in accordance with the *Corporations Act 2001*". Following this period, the directors will declare that the "the substantive provisions of the sustainability report are in accordance with the *Corporations Act 2001*".

However, the assurance requirements over the directors' declaration are currently not clear in ED ASSA 5010. We recommend the AUASB provide clarity within ASSA 5010 to ensure the assurance requirements over the directors' declaration are not contradictory between the Act and the auditing standards.

Specifically, we foresee challenges in users' understanding of the assurance provided where the directors' declaration makes reference to compliance with the sustainability standards and is required to be audited, whilst only limited assurance is required on specific climate statements and disclosures in the sustainability report as it may create the perception that the entire sustainability report has been audited. Additionally, we expect challenges in the assurance practitioner's understanding of the procedures required to provide assurance over the directors' declaration.

For further clarity, we suggest the AUASB further define in ASSA 5010 (with reference to AASB S2 or the Act, if applicable), the specific information included in the statements "all other disclosures in the sustainability report" in paragraph 10(a) and "all disclosures in the sustainability report" in paragraph 10(c), given that the sustainability report, as currently defined in paragraph 9(j), would include the directors' declaration.

Stakeholder education

The concept of phased assurance over climate disclosures will likely be unfamiliar to users of financial and sustainability reports. Furthermore, we anticipate an increase in assurance reports with modifications or emphasis of matters reported, as data reporting systems evolve, familiarisation with disclosure standards by preparers grows, and reporting skills and experience develop. We believe that the AUASB should play a significant role in providing material and guidance to enable users to have a sufficient understanding of the relevant reporting and assurance concepts and to make informed decisions based on the information disclosed.

We recommend that the AUASB work closely with ASIC, particularly during the period where the Modified Liability Framework is in effect, to undertake the role of promoting education about compliance with the climate reporting requirements and deter behaviours that are contrary to the objectives of such requirements. This partnership in education should adapt and evolve over time as public expectations shift, reporting entities progress to obtaining reasonable assurance over climate disclosures and the introduction of further thematic sustainability reporting standards in Australia.

Maintaining quality and consistency of assurance

In addition to the timely finalisation of Australian sustainability assurance standards, the provision of supporting material and guidance will be crucial to ensuring high quality and consistent assurance over legislated climate disclosures can be achieved.

Specifically, we strongly recommend the AUASB issue example reports (including example wording for modified conclusions, emphasis of matter paragraphs and other matter paragraphs that may be applicable), which cover the different requirements for each year of reporting under the phased assurance model.

Additionally, although the assurance standards provide a clear distinction between the objectives of a limited and reasonable assurance engagement, given the unfamiliarity with climate-related financial disclosures, there is likely to be inconsistency amongst user understanding and a risk of misinterpretation regarding the comfort provided under the different levels of assurance. In practice, the work effort between providing limited and reasonable assurance may not be significantly different, particularly in early years of reporting or in situations where, for example, inherent risks are identified, systems and processes are not sufficiently reliable, or issues are identified that requires additional procedures to be performed. Guidance to both users and assurance practitioners will be required to minimise any expectation gap and ensure consistency in the execution of climate assurance engagements.

Regulation of climate and sustainability assurance engagements will also be critical to maintaining quality assurance and enhancing public interest confidence. We continue to encourage the AUASB to work closely with ASIC and the Clean Energy Regulator to determine division of responsibilities and to provide a pragmatic approach to implementing Australian assurance standards and providing regulatory oversight over the quality of sustainability assurance services in Australia.

Thank you for the opportunity to provide our views. Should you wish to discuss the responses within our submission, please reach out to me jacqustrydom@deloitte.com.au.

Yours sincerely

A handwritten signature in black ink that reads "Jacques Strydom". The signature is written in a cursive, flowing style.

Jacques Strydom
National Professional Practice Director
Deloitte Touche Tohmatsu

Questions		Deloitte Response
1.	<p>Do you agree that the audit and review requirements for disclosure topics in the proposed AASB S2 are appropriate, taking into account:</p> <ul style="list-style-type: none"> a) Their relative importance of assurance to users of the information; b) Their interconnectivity; c) The likely cost of assurance; and <p>The readiness of Group 1, 2 and 3 entities' systems and processes.</p>	<p>Overall, we are supportive of the phased approach outlined in ED ASSA 5010. We believe this approach will assist with balancing the maturity of entities' reporting systems, capacity and capabilities of auditors and their experts, and stakeholder needs and expectations for climate disclosures and assurance thereon. Specifically, we are supportive of an assurance phasing approach that adopts the following:</p> <ul style="list-style-type: none"> • For any given disclosure, limited assurance is initially obtained before phasing to reasonable assurance. • Consistent phasing in of assurance for reporting entities in Groups 1, 2 and 3, commencing with the same settings and progress at the same pace. This approach is straightforward and places the same emphasis on the relative importance and interconnectivity of each disclosure, whilst allowing additional time for Group 2 and 3 entities to prepare and develop their reporting systems. • Earlier assurance over information that is based on historical information or within an entity's control, followed by assurance over disclosures that may involve forward looking information, estimates or significant assumptions. <p>We are supportive of governance disclosures and strategy disclosures relating to risks and opportunities being subject to limited assurance in an entity's first year of reporting, however, we highlight the following matters for the AUASB's consideration:</p> <ul style="list-style-type: none"> • We anticipate that users may assume assurance over governance disclosures to represent assurance over the adequacy and effectiveness over governance processes and controls to monitor, manage and oversee climate-related risks and opportunities, rather than assurance on the factual representation of the disclosures. We recommend the AUASB consider as a high priority providing guidance to close this expectation gap to reduce the risk of users misinterpreting the assurance provided. • We recognise the importance of assuring strategy disclosures (risks and opportunities) in the first year of reporting, as the identification of climate-related risks and opportunities will likely be of high interest to users eager to understand their impact on financial disclosures.

Questions		Deloitte Response
		<p>However, given its connectivity to other disclosure topics, in the absence of providing further guidance and education, users may unintentionally assume assurance over certain aspects of other disclosure topics as a result of limited assurance being obtained over strategy disclosures (risks and opportunities). Given that there is some overlap in the process for preparing strategy disclosures (risk and opportunities) and other disclosure topics (e.g. risk management, scenario analysis and metrics and targets), guidance for practitioners on the nature and extent of procedures expected to be performed to obtain limited assurance on strategy (risks and opportunities) will also be needed to ensure consistency.</p> <ul style="list-style-type: none"> • If we are only providing assurance on elements of the report, it will become important that the report is clearly structured so that we can refer to clear sections that we have assured. • We would be cautious in bringing forward assurance on other disclosure topics to year one, particularly those requiring significant value chain information or those relating to forward looking estimates and scenario analysis, as these will likely add significant pressure on reporting entities and assurance practitioners.
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?	We are actively investing time and resources to train and upskill our practitioners to facilitate Treasury's target of reasonable assurance over all mandatory climate disclosures made by an entity from financial years commencing 1 July 2030. We are supportive of the phased assurance approach which will allow practitioners time to develop internal processes and assurance methodology, and to train and recruit sufficient competent resources.
3.	Do you consider that governance disclosures and disclosures of risks and opportunities should be subject to review in year 1?	Yes. Refer to response to Q1.
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?	Yes. Entities that make a statement that there are no material risks or opportunities will still be required to undertake an assessment in order to reach this conclusion. It would be appropriate for this assessment to be subject to the same level of assurance as would be required if material risks and opportunities were identified. This would be a consistent and straightforward approach for users of sustainability reports to understand. We recommend guidance be provided to assurance practitioners regarding the practical extent of work expected to be able to provide assurance on the accuracy and completeness of such statements, to reduce expectation gap for users of the reports and reporting entities going through the assurance process.

Questions	Deloitte Response
	<p>We do however note that whilst there will be reduced reporting costs from the disclosure relief (if applicable), we expect there to still be a significant burden on Group 3 entities, who although have more time to prepare, are still more likely to struggle to have the systems, processes and resources to undertake the assessment.</p>
5.	<p>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?</p>
	<p>Yes. Refer to response to Q1.</p>
6.	<p>Do you agree that entities that enter a Group after the first reporting year for that Group (e.g. due to an increase in their size) should be subject to the same assurance requirements as other entities in the Group for the relevant reporting year (i.e. they would not be subject to the assurance levels for the first reporting year for the group)?</p>
	<p>Yes, however, this approach is currently not articulated in ED ASSA 5010, but mentioned only in paragraph 13(h) of the accompanying explanatory memorandum. We suggest this requirement be written into the ASSA 5010 standard.</p>
7.	<p>Do you agree with the approach to assurance over comparative information?</p>
	<p>Yes, we agree with the requirements outlined in paragraph 11 of ED ASSA 5010.</p> <p>However, we ask that the AUASB provide clarification and/or guidance with respect to the following:</p> <ul style="list-style-type: none"> • The basis for which the extent of work performed on comparative information will be communicated to the users of the sustainability report. For example, the AUASB may consider a similar approach to ASA 710 <i>Comparative Information-Corresponding Figures and Comparative Financial Reports</i>, where an Other Matter paragraph is required to draw the users' attention to when the financial report of the prior period was not audited. We also suggest providing example wording to assist with consistency across assurance practitioners. • Clarification on whether the comparative information is considered to be Other Information in the sustainability report, and guidance on the extent of work required over other information and the requirements of the assurance practitioner where a material misstatement of fact is identified. Specifically, expectations and approach for restating comparative information in situations where: <ul style="list-style-type: none"> ○ a prior period error is identified as a result of limited assurance procedures performed in the current year and the comparative information was not subject to assurance, or ○ a prior period error is identified as a result of reasonable assurance procedures performed in the current year and the comparative information was subject to limited assurance only.

Questions		Deloitte Response
8.	Have applicable laws and regulations been appropriately addressed in the proposed Standard?	We are not aware of any applicable laws and regulations relevant to the proposal that have not been appropriately addressed.
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.	<p>We would expect the nature of the associated costs and benefits from ED ASSA 5010 to include the following:</p> <p>Costs:</p> <ul style="list-style-type: none"> • For reporting entities - recruitment and training costs to understand the climate reporting standards and requirements and to prepare the information, as well as costs associated with developing reporting systems. • For assurance practitioners - recruitment and training costs to ensure there are adequately trained resources to assure the climate information, as well as costs associated with developing internal quality and risk processes and methodology and systems to support efficient execution. • For regulators, governing boards and standard setters - costs from investment in developing new standards and supporting material/guidance to educate the public as well as costs from the implementation of regulation and monitoring and remediation processes. <p>Benefits:</p> <ul style="list-style-type: none"> • Implementing a mandatory phased assurance approach ensures that reporting entities and practitioners invest early in understanding the climate reporting standards and developing systems to reach a position of mandatory reasonable assurance by 1 July 2030. • Greater transparency, understandability and connectivity of information between financial reports and sustainability information for investors.
10.	Are there any other significant public interest matters that you wish to raise on the proposals in this exposure draft?	<p><i>Definitions of reporting years for Group 1 entities.</i></p> <p>Under paragraph 9 of ED ASSA 5010, the definitions of the respective years of reporting for Group 1 entities are currently unclear. For example, for entities with a financial year end of 31 December 2025, in accordance with paragraph 9(f)(i), the first year of reporting would be the financial year commencing 1 January 2025. We would expect the second year of reporting to be the financial year commencing 1 January 2026, however, this date falls within the period in paragraph 9(f)(i), rather than the period in paragraph 9(g)(i).</p>

Questions	Deloitte Response
	<p>Based on the current definition in paragraph 9(g)(i), the second year of reporting for Group 1 entities would be the year commencing 1 January 2027. We suggest AUASB review and revise these definitions to ensure they are correct. Please also refer to other matters raised in the cover letter.</p>