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3 May 2024

Mr Niven,

Consultation Paper: Assurance over Climate and Other Sustainability Information

We welcome the opportunity to respond to your invitation to comment on the Auditing and Assurance Standards Board (AUASB)'s *Consultation Paper: Assurance over Climate and Other Sustainability Information (revised 4 April 2024)* (the Consultation Paper). We would also like to acknowledge the extensive outreach program that your board undertook over this consultation period to ensure audit and assurance practitioners, preparers and users of climate-related financial disclosures and other sustainability information, regulators and academics all had the opportunity to contribute to this important discussion.

PwC Australia welcomes the objectives of the Consultation Paper which successfully builds on the sustainability programs of work led by the International Auditing and Assurance Standards Board (IAASB) and the work undertaken in Australia by Treasury and the Australian Accounting Standards Board (AASB). We make the following general comments:

- We support the priority that the Australian Government and your board has given to developing standards for assurance on climate and other sustainability information. This is critical in responding to the significant growing public interest in high-quality external sustainability reporting as a key component of corporate reporting.
- We acknowledge the complexity of implementing sustainability assurance standards. The new standards are being developed during a time of significant change, both in demand for assured disclosures and also with the pending release of new reporting standards. Companies will need to consider
 - the maturity of reporting systems,
 - Availability of competent resources, and
 - Availability of value chain information.
- As such, we support your board's ongoing efforts to continuously engage with all relevant stakeholders to seek inputs as the reporting and assurance ecosystem evolves.



- We agree with the proposal that the standard, when finalised, be applicable in Australia for both mandatory and voluntary assurance over climate-related information required under standards being developed by the AASB and the voluntary reporting of other climate and sustainability information.
- We support a phased approach to implementing assurance requirements to allow capability and capacity uplift by auditors and their experts, and for preparers to develop and implement appropriate systems and controls.

In respect to the phased implementation of assurance, as outlined in Attachment 1 of the Consultation Paper, we make the following observations:

- The development of industry-based methodologies and further calculation guidance will be important to assist organisations in developing their processes and measuring their required reporting disclosures. Establishing the criteria and guidance needed for assurance that is commensurate with these measurement methods will also be important in aligning expectations of and on assurance practitioners.

In respect to the possible Matters for Local Pronouncement, as outlined in Attachment 2 of the Consultation Paper, we make the following observations:

- PwC continues to advocate for the international harmonisation of reporting and assurance standards to ensure users of climate and other sustainability information can compare and rely on consistent information, regardless of jurisdiction. We submit that the international standard, ISSA 5000 General Requirements for Sustainability Assurance Engagements (ISSA 5000), when finalised, should be the primary driver of assurance standards globally, with local supplementary requirements only adopted where necessary and essential for that local jurisdiction.

In addition to our comments above, we have responded in Annex 1 attached to each of the 17 questions included in the Consultation Paper.

We look forward to further engagement with the AUASB as this area continues to develop. We would be pleased to discuss our comments with you.

Yours sincerely

A handwritten signature in black ink, appearing to read 'S. Horlin', written in a cursive style.

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Annex 1 - Questions

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 are generally supportive of the phasing model proposed in Attachment 1 of the Consultation Paper but would like to highlight the following:

- Achievement of the target dates for reasonable assurance over Scope 3 emissions will heavily depend on the development of industry-based methodologies and further calculation guidance being developed, as well as the availability of sufficient and appropriate information, including from third parties.
- The draft Australian Sustainability Reporting Standards (ASRS) do not provide specific transition reliefs in respect of Quantitative scenario analysis or industry based metrics, as the Possible Assurance Phasing in Attachment 1 suggests.
- More clarity is required in the definition of ‘appropriateness of metrics’ in the assurance pathway in order to align understanding by Intended Users and assurance practitioners, with provision of examples. In addition, we seek to understand the phasing of ‘Other metrics and targets, excluding appropriateness’, versus ‘Other metrics, including appropriateness’ for Group 2 and 3 entities, which differs in approach from Group 1.

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 believe we will be able to adequately resource the assurance over climate and other sustainability information for entities for whom we are the financial auditor, based on the possible assurance pathway outlined in Attachment 1 of the Consultation Paper.

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?

Further to our response in Question 1, we do believe that systems and processes will need significant development by entities, however note examples of companies who are already progressing their controls and processes maturity. This is particularly crucial in relation to Scope 3 emissions where there will be significant investment required in terms of resources and capability to oversee the maturity of



reporting by 30 June 2026, for Group 1 entities.

Group 3 entities will have the ability to leverage industry based methodologies developed by earlier adopters, but note the resources and capability will be needed.

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.

Yes, we are fully supportive of the adoption of ISSA 5000 in Australia for both mandatory and voluntary reporting.

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?

We believe experienced assurance practitioners will have the capability to identify and apply the appropriate principles of ISSA 5000 in the context of the reporting framework over which they are providing assurance.

If a separate pronouncement is developed, which highlights the areas of exclusion for mandatory Australian reporting requirements (such as double materiality), we believe the context of irrelevance should be explained clearly so as to avoid confusion for the assurance practitioner, when applying to other engagements.

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?

Clean Energy Regulator (CER) reporting in Australia is in accordance with the ASAE framework. Consideration will need to be given, upon the release of ISSA 5000, as to the assurance frameworks utilised by the CER. Please also refer to our response at Question 15.

Other than this, we are not aware of laws or regulations which prevent the application of the proposed standard.



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 believe the current adoption of ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*, enhances assurance quality over greenhouse gas subject matter. We understand (per paragraph 50 of the Consultation Paper) that the IAASB are considering changes to the proposed ISSA 5000 in relation to whether ISAE 3410 should be sunsetted or be placed under ISSA 5000.

We are supportive of ISSA 5000 including the principles of ISAE 3410, either via reference to ISSA 5000 in a revised ISAE 3410, or by the reclassification of ISAE 3410 as a separate ISSA standard.

If this is not addressed at the global-level, there will be a reduction in assurance quality and a conflict between these assurance standards.

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 a local pronouncement in paragraph 45?

Yes, we believe a local pronouncement (or pronouncements) would be useful for Australian assurance practitioner and agree with the reasons in paragraph 45, but note the following:

- The development of local pronouncements should not be finalised until ISSA 5000 is realised in its final form.
- PwC continues to advocate for the international harmonisation of reporting and assurance standards to ensure users of climate and other sustainability information can compare and rely on consistent information regardless of jurisdiction
- Local pronouncements should not increase the requirements of Australian assurance practitioners, compared to their international counterparts. Rather, the pronouncement(s) should seek to provide clarity for Australian assurance practitioners.
- Pronouncements could be released by topic matter, following the finalisation of ISSA 5000, rather than one to cover all additional matters. For example, a pronouncement specific to providing assurance under Australian sustainability reporting requirements and separate pronouncements on more general topics, such as the use of auditors experts. An existing example of this approach would be the Guidance Statement (GS) 021 *Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes*.
- Pronouncements could be phased, rather than requiring full release by the end of 2024, reflecting the phasing of assurance requirements in Attachment 1 of the Consultation Paper.



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

If the matters in Attachment 2 are not addressed in the final ISSA 5000 then yes, we agree with the AUASB addressing these matters in a local pronouncement.

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

The matters in Attachment 2 seem reasonable for a local pronouncement. We believe that these matters may be suited to guidance and FAQs, rather than in the form of an assurance standard, in order to mitigate the risk of any departures from international practices under ISSA 5000.

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

Subject to the finalisation of ISSA 5000, consideration should be given to ASAE 3410, per our response to Question 7.

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?

Whilst it is anticipated in Australia that the financial auditor will be the same assurance practitioner for climate and other sustainability disclosures, we believe that reminders and guidance for the financial statement auditor in the context of the financial audit, should remain separate from pronouncements in relation to ISSA 5000, which should specifically address matters in relation to assurance over climate and other sustainability information.

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

We believe assurance practitioner guidance would be useful but at a global, rather than Australian, level. The assessment of disclosures is a challenging and subjective area. Entities in similar industries,



such as those with Financed Emissions, use various methodology frameworks in the market, resulting in an inconsistent reporting approach.

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)?

Per our response to Question 12, we believe any pronouncement directed to the financial statement auditor in the context of the financial audit should be drafted and published separately from the pronouncements in relation to ISSA 5000 (and local equivalent).

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?

Whilst not specifically for the AUASB's consideration in relation to the development of a pronouncement, we do think there would be value in the AUASB working with the Clean Energy Regulator (CER) to align the assurance requirements and associated assurance reports for CER engagements (such as Safeguard Mechanism assurance) with the proposed Australian equivalent of ISSA 5000.

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?

Per our response to Question 8, whilst we welcome Australian pronouncement(s) to provide further clarity and guidance, we strongly believe that following the principles of ISSA 5000 will provide consistency in global reporting and would discourage any additional requirements for Australian assurance practitioners other than requirements specific to Australian reporting.

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 have no further comments other than those addressed in Questions 1 to 16 above.