

24 November 2025

Sub 11 ED02-25

The Chair
Auditing and Assurance Standards Board
PO Box 204
Collins Street West, Melbourne Victoria 8007
AUSTRALIA

Dear Mr Niven

Comments to Exposure Draft 'Proposed Australian Standard on Sustainability Assurance ASSA 2025-10 Amendments to ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001*'.

The Australasian Council of Auditors-General (ACAG/we/our) welcomes the opportunity to comment on Exposure Draft 'Proposed Australian Standard on Sustainability Assurance ASSA 2025-10 Amendments to ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001*' (ED02/25). The views expressed in this submission represent those of all Australian members of ACAG, unless specifically identified. ACAG's comments are primarily in the context of the public sector, given our significant experience and involvement in the sector.

The attachment to this letter addresses the AUASB's question for comment outlined in the ED.

Overarching feedback

To comply with the intent of the *Corporations Act 2001*, the Directors' declaration about the climate statements which forms part of the Sustainability Report as defined under s296A(1) should be subjected to assurance for years 2 and 3.

We do not anticipate any significant challenges for obtaining sufficient appropriate evidence that the entity has taken 'reasonable steps' to ensure the sustainability report complies with the Act for periods commencing 1 July 2026 to 31 December 2027. However, additional guidance would be helpful to aid consistency in assessing whether the directors have ensured the entity has taken 'reasonable steps' for this period.

We agree with the proposed amendments for voluntary reporting. They offer clear guidance on how the assurance phasing would apply to those entities that choose to voluntarily comply with the sustainability reporting requirements under the Act if the Bill is enacted.

There are advantages and disadvantages in the resetting of assurance phasing. While the proposed approach may encourage voluntary reporting, it also has the potential to undermine the intent of a phasing of reporting and assurance requirements.

ACAG thanks you for the opportunity to comment to this ED. I hope you will find ACAG's comments helpful as you move to progress the changes.

Yours sincerely



Andrew Greaves
Chair, Audit Standards Committee
The Australasian Council of Auditors-General

Attachment: ACAG Response**Directors' Declaration****Question 1**

Do you agree that the directors' declaration should be subject to assurance for Years 2 and 3?

Yes.

The Directors' declaration about the climate statements is part of the Sustainability Report as defined under s296A(1).

The Independent Assurance Report conclusion in years 2 and 3 is 'Based on the procedures performed and evidence obtained, no matter(s) has come to the auditor's attention that causes the auditor to believe that the sustainability report is not fairly presented in all material respects, in accordance with the *Corporations Act 2001*'. Therefore, the sustainability report including the Director's declaration should be subject to assurance.

While paragraph 10 of ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* (ASSA 5010) specifically calls out the phasing of review/audit of disclosures in the report, it does not explicitly exempt the Director's declaration from assurance like paragraph 11 of ASSA 5010 does for the comparatives. The current wording is silent, and could be interpreted as never requiring assurance, unless it's interpreted as a disclosure.

Limited assurance is required over all mandated disclosures in years 2 and 3 and hence the Directors declaration as part of the Sustainability Report should be subjected to the same level of assurance. As all the mandated disclosures are not subjected to assurance in year 1, the proposed assurance exemption in year 1 would appropriately relieve auditors from performing additional procedures to provide assurance over the Directors' Declaration that the entity has taken 'reasonable steps' to ensure compliance with the *Corporations Act 2001*.

Regulatory Guidance 280 (RG 280) lists the responsibilities of Directors, and the declaration to be made under the *Corporations Act 2001*. The modification of the Directors declaration for the financial years commencing between 1 January 2025 and 31 December 2027, is in line with the reporting process still evolving and maturing. RG 280.58 states that the 'directors are expected to develop their understanding, experience and capabilities in relation to sustainability reporting over time'. The Directors' declaration is phased from no assurance in year one, to limited assurance on the 'reasonable steps' statement, and then to reasonable assurance on compliance with *Corporations Act 2001* and AASB S2. This phasing aligns with the assurance requirements of disclosures and supports directors' growing understanding, experience and capabilities, as noted in RG 280 above.

Assurance over the Director's declaration would be an attestation that the Directors have exercised their duty of care and diligence (RG 280.54) and carried out their reporting responsibilities as prescribed in RG 280.55

Question 2

Would there be any significant challenges for auditors in obtaining sufficient appropriate evidence that the entity has taken 'reasonable steps' to ensure that the sustainability report complies with the Act for periods commencing 1 July 2026 to 31 December 2027?

No

We do not anticipate any significant challenges for obtaining sufficient appropriate evidence that the entity has taken 'reasonable steps' to ensure the sustainability report complies with the Act for periods commencing 1 July 2026 to 31 December 2027.

Under RG 280.55, Directors are responsible for understanding the entity's sustainability reporting obligations and the climate-related risks and opportunities that may affect its prospects, including access to cash flows, finance, and cost of capital (as outlined in paragraph 2 of AASB S2). They should establish systems and controls to identify, assess, and monitor material climate-related financial risks and opportunities, and to oversee the preparation and maintenance of sustainability records and reports. Directors should also apply a critical lens to the disclosures, ensuring the methodologies, inputs, and assumptions are appropriate, complete, and accurately characterised. These responsibilities would help them form an opinion whether the entity has taken reasonable steps to comply with the *Corporations Act 2001*.

The Directors' duties as explained in RG 280.55 align closely with the practitioner's responsibilities under ASSA 5000 *General Requirements for Sustainability Assurance Engagements* (ASSA 5000).

Under ASSA 5000, auditors are already required to perform procedures that address whether the entity has undertaken reasonable steps.

ASSA 5000.113L states that 'the practitioner shall obtain an understanding, through enquiry, of the components of the entity's system of internal control relevant to the sustainability matters and the preparation of the sustainability information (requirements of AASB S2) including:

- ASSA 5000.114L entity's control environment relevant to the sustainability matters and the preparation of the sustainability information. This would include the directors' responsibility for ensuring there is an appropriate control environment.
- ASSA 5000.115L understanding of the results of the entity's risk assessment process relevant to the sustainability matters and the preparation of the sustainability information. This would include the director's endorsement of risk assessments and risk treatments.
- ASSA 5000.116L obtain an understanding of the results of the entity's process to monitor the system of internal control relevant to the sustainability matters and the preparation of the sustainability information. This would include the internal audit plan and reporting internal audits and other relevant matters to the directors.
- ASSA 5000.117 obtain an understanding of the entity's information system and communication relevant to the sustainability matters and the preparation of the sustainability information

AASB S2 disclosure requirements include governance and oversight, and risk management. This will be covered as part of assurance procedures undertaken above by auditors. These procedures collectively provide a basis for concluding whether the directors have taken reasonable steps to ensure compliance with its sustainability reporting obligations, and the Director's involvement in the process. Accordingly, we consider that no significant additional challenges are expected beyond those already required within the existing requirements of ASSA 5000.

Question 3

Should guidance be developed to assist auditors on how to approach the 'reasonable steps' criterion in the directors' declaration for years commencing 1 July 2026 to 31 December 2027, bearing in mind that the meaning of the 'reasonable steps' criterion for entities is not within the remit of the AUASB?

Yes.

We consider that guidance would be helpful for auditors in approaching the 'reasonable steps' criteria in the Directors' Declaration for reporting periods commencing between 1 July 2026 to 31 December 2027.

While the interpretation of what constitutes ‘reasonable steps’ for entities lies outside the remit of the AUASB, auditors will still be required to form a view on whether sufficient and appropriate evidence has been obtained to support the Directors’ Declaration. Developing guidance would therefore be beneficial to promote consistency in audit practice, clarify expectations regarding the nature and extent of audit procedures, and reduce potential divergence in auditor judgements during the transition phase.

Such guidance would assist auditors in determining the appropriate nature and extent of procedures to be performed and provide clarity on how their conclusions impact the assurance report. For example, in years 2 and 3, the assurance is limited and provided at the disclosure level. If a disclosure is accurate but the entity lacks a robust governance structure, auditors may need guidance on whether this would affect the assurance opinion. Guidance would clarify the implications for the opinion if ‘reasonable steps’ have not been taken. For example, whether the audit conclusion is modified in terms of uncorrected material misstatement or significant deficiencies in internal controls or reporting processes.

Further, guidance would be valuable in complex situations, such as decentralised emissions, where it may be unclear what constitutes reasonable steps. It would help auditors determine whether additional procedures are needed beyond the standard assurance testing of disclosures.

The concept of reasonable steps is inherently subjective. While stating compliance with the Corporations Act from year 4 onwards is definitive, claiming that ‘reasonable steps have been taken’ can vary between entities depending on their circumstances.

Voluntary Reporting

Question 4

Do you agree with the proposed amendments to clarify how the phasing in of assurance applies to entities that choose to comply with the sustainability report requirements under the Act voluntarily, should the Bill be enacted.

Yes.

This will ensure uniformity in reporting and assurance requirements.

Question 5

In particular, do you have any views on adopting the proposal to reset the phasing in of assurance where entities that voluntarily report under the Act subsequently opt out? Do you have any views on the alternative of not allowing a reset of the phasing in? Do you have any information on the likelihood that an entity would opt in and out of voluntary reporting under the Act?

We see both advantages and disadvantages to requiring a voluntary reporter to maintain a notional Group’s assurance requirements or resetting the assurance requirements.

We note that the issue is only for smaller companies and is only for the period of limited liability.

The reset option may encourage entities to voluntarily report, knowing they have an assurance pathway outlined under ASSA5010; without imposing an additional burden on themselves. The phasing can be viewed as setting the minimum requirements, with any additional steps left to individual entities to determine based on the benefits for their intended users. In the absence of reset, the proposal appears to penalise or discourage early reporting by locking the entities into higher level of assurance phasing. Any voluntary adopter should be allowed to do the minimum requirements for that year, and additional assurance should be at their discretion.

However, the scope is limited to certain entities and situations. There are additional complexities in relation to determining notional years such as when moving between Groups owing to restructure due to a sale of assets/subsidiaries etc. For example:

- a Group 1 entity preparing a statutory report in Year 1 (1 July 2025 to 30 June 2026),
- being restructured to, say, an Ungrouped company in Year 2 (1 July 2026 to 30 June 2027) and not preparing a statutory or voluntary report), and
- wishing to prepare a voluntary report under the Corporations Act protections in Year 3 (1 July 2027 to 30 June 2028).

Under the proposal to not reset, this entity will for 1 July 2027 to 30 June 2028 be subject to Group 3 levels of assurance phasing (as it is Ungrouped and applying section 1701DA for the first time). This contrasts to an Ungrouped entity that voluntarily reported for 1 July 2025 to 30 June 2026 and applied section 1701DA for the first time in that year, so would be subject to Group 1 levels of assurance for a notional third year of reporting. This represents two different outcomes for entities that both reported as Group 1 for 1 July 2025 to 30 June 2026, did not report the next year, and voluntarily reported the year after.

The disadvantage we see is how it defeats the purpose of phasing assurance; which in part is to support the maturing of a reporter's systems and processes. The entity still benefits from the phasing if they do not have a reset. This is because they have the benefit of the year they have not reported to improve their systems and processes. Entities that voluntarily opt to report should comply with the requirements of the *Corporations Act 2001*, including the associated standards in entirety. A decision to voluntarily report should not be taken lightly.

Another view is that if an entity pauses for a year, the entity should be subjected to the phasing in of assurance that would have applied had they continued to prepare a sustainability report under the Act. The pause year(s) would have given the entity opportunity to address any gaps. The reset may also add complexities to comparatives. The lack of assurance on prior-period information can reduce comparability for users to assess trends and performance over time. Notwithstanding the requirements in ASSA5000.207-.209, it also limits the auditor's ability to evaluate changes or restatements and disrupts continuity in understanding the entity's systems and controls. When assurance resumes, additional work may be needed to re-establish baseline knowledge. An Other Matter paragraph may need to be included in the assurance report to explain the scope of the engagement may have excluded the comparatives.