15 November 2024

Sub 25 - ASSA5010

Mr Doug Niven
Chair
The Auditing and Assurance Standards Board (AUASB)
PO Box 204
Collins St West Victoria 8007

Dear Mr Niven

ACAG response to 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*

On behalf of the Australasian Council of Auditors-General we thank you for the opportunity to comment on AUASB Exposure Draft 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). The views expressed in this submission represent those of all Australian members of ACAG, unless specifically identified.

Our detailed response to the 'Exposure Draft Questions' posed by the AUASB is included in the attachment.

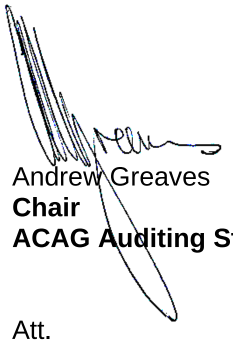
Overarching feedback

- There are pros and cons to the current phasing proposals which makes it difficult to decide whether to fully support or provide an alternative view. In answering question 1, we have produced a table summarising our view of the advantages and disadvantages of deferring assurance requirements, requesting that the AUASB consider both perspectives and provide guidance and advice for report users and auditors; including public sector issues.
- One key argument for deferral of assurance is that it will provide more time for skills uplift, resulting in a smoother transition to more robust assurance practices. A counter position is that climate related financial disclosures that are not assured may be devalued, potentially impacting stakeholder confidence in the reliability and credibility of these disclosures.
- ACAG members agree that the assurance requirements for disclosure topics under AASB S2 are appropriate considering the importance of assurance to users, the interconnectivity of the disclosures, and the likely cost of assurance. Our support is subject to our preceding comments on the phasing proposals and the need for adequate guidance to be provided by AUASB (or AASB), before reasonable assurance is mandated.
- ACAG is concerned about the lack of direct experience in providing assurance for Scope 1, 2, and 3 emissions as well as other TCFD-related disclosures, highlighting challenges in upskilling staff and recruiting qualified experts among rising demand.
- ACAG agrees that 'Governance', 'Strategy - Risks and Opportunities' disclosures should be reviewed in the first year, because effective governance is crucial for managing climate risks and opportunities. This review promotes the establishment of strong governance mechanisms and ensures accurate emissions reporting through a robust sustainability framework. Assurance over these areas enhances user confidence in the completeness and validity of disclosures, ultimately reducing assurance risks for future reporting years and preparing entities for more comprehensive assurance requirements.
- ACAG supports requiring the same level of assurance over statements indicating no material climate-related risks or opportunities, as this is important for the credibility of climate-related disclosures. This process may demand similar effort from entities as preparing the information itself. Consistent assurance enhances transparency, allowing stakeholders to trust the completeness and accuracy of the reports.

- Estimating the costs and benefits of the proposals is difficult. Significant costs are anticipated for preparers and auditors to develop the necessary people, systems and processes, while the benefit to users remains unclear due to the subjective nature of climate-related disclosures. ACAG supports the key messages in the published dissenting view of an AASB Board member on AASB S2 that outlines their concerns around the cost, usefulness and auditability of the climate reporting requirements, especially for smaller and Not-for-Profit (NFP) entities in the private and public sectors.

I trust you find ACAG’s comments helpful as you move to progress the new standards.

Yours sincerely



Andrew Greaves
Chair
ACAG Auditing Standards Committee

Att.

Attachment

AASB EXPOSURE DRAFT QUESTIONS

Exposure Draft Question 1 Do you agree that the audit and review requirements for disclosure topics in the proposed AASB S2 are appropriate, taking into account: a. Their relative importance of assurance to users of the information. b. Their interconnectivity. c. The likely cost of assurance; and d. The readiness of Group 1, 2 and 3 entities' systems and processes.

Subject to the following, ACAG members agree that the audit and review requirements for disclosure topics under AASB S2 for the first year of reporting are appropriate, considering the importance of assurance to users, the interconnectivity of the disclosures, and the likely cost of assurance.

We recommended in our previous submission (Sub 4 CP – Climate and Sustainability) that reasonable assurance should not be mandated until the AUASB (or AASB) has completed providing guidance on the applicable high priority topic areas identified in Attachment 2 to AUASB's Discussion Paper - Assurance over Climate and Other Sustainability Information. This should include guidance on various public sector issues such as:

- value chain considerations
- the risk in the context of whole of government reporting and consolidation that an entity's Scope 1 emissions could be double counted with another entity's Scope 2 or Scope 3 emissions
- machinery of government changes.

<u>Their relative importance of assurance to users of the information</u>.

We are concerned about users' ability to distinguish between no assurance, limited assurance and reasonable assurance, which could create an expectation gap regarding the level of confidence provided.

Additionally, the combination of nil, limited and reasonable assurance within the same engagement presents significant implementation challenges as it requires managing differing assurance levels and methodologies, potentially complicating the assurance process and user interpretation.

ACAG recommends:

- either avoid overlap of differing assurance requirements in the same year, or
- (more preferably) provide clear guidance to preparers, auditors and the public, as to the expectations under the different assurance levels. This should include examples of assurance reports and guidance to auditors to avoid complicating the audit process and incurring excessive costs.

<u>The likely cost of assurance</u>

It is difficult to estimate the costs of providing assurance given the uncertainty about the amount of audit work required, and whether it is for limited or reasonable assurance. This challenge is heightened in the early years of implementation, as the scope and complexity of the disclosures will take time to become more defined and preparers understand how to prepare workpapers to justify their disclosures.

Additionally, with limited guidance about what is material for users, it is difficult to determine how much audit effort is needed to provide reasonable assurance that a disclosure is materially correct. These uncertainties suggest that a phased approach to implementation may be necessary to manage scope, and costs effectively.

<u>The readiness of Group 1, 2 and 3 entities' systems and processes.</u>

Although the phased approach to assurance requirements has merit, we lack sufficient information to fully assess the readiness of all reporting entities.

Entities already complying with NGERS have established systems for record-keeping and compliance, for Scope 1 and Scope 2 emissions reporting. These existing systems provide a foundation that can be leveraged to meet the limited assurance requirements in the first year, including for disclosures related to Governance and Strategy - Risk and Opportunities. However, for other disclosure areas such as Climate Resilience Assessment/ Scenario Analysis, Transition Plans, and Climate-related Metrics and Targets, many entities may require more time to develop the necessary systems and processes, because current systems are unlikely to fully support these more complex reporting requirements. There will be limited value in disclosures if auditors provide a qualified opinion for many sustainability reports; but equally limited value in disclosures that have no assurance where the primary reason is a concern that the information cannot be supported.

There are merits in the original timeline proposals; but there is also some merit in deferring Climate Resilience Assessments / Scenario Analysis, and Transition Plans for an additional 12 months; and Scope 3 emissions for an additional 24 months from the proposed timeframe. However, we note that, for Scope 3, if the 4th year (financial year commencing on or after 1 July 2030 for Group 3 entities) is then changed to 'Limited Assurance' instead of 'Reasonable Assurance', the Corporations Act requirement that sustainability reports for financial years commencing on or after 1 July 2030 must be audited will not be met. Therefore, if this Corporations Act requirement cannot be amended, deferral may have to be only for 12 months in order to still have at least 1 year of 'Limited Assurance'.

Below is an overview of both perspectives, highlighting considerations for the AUASB regarding potential impacts on data readiness, audit preparation, regulatory alignment, and user confidence.

Climate Resilience Assessments / Scenario Analysis and Transition Plans

Deferring assurance

Developing such disclosures will require significant and complex judgement. We note the AUASB Research Report No. 10 (refer extracts in Appendix A) identifies there are:

- minimal disclosures under all four pillars of TCFD framework
- minimal assurance on qualitative sustainability disclosures, and minimal reasonable assurance on either qualitative or quantitative disclosures.

Consequently, there is limited experience and examples of scenario analysis and transition plans being prepared, with even lower level of experience in providing assurance on such disclosures.

We believe that assurance on “Climate Resilience Assessments / Scenario Analysis” and “Transition Plans” should be deferred for at least 12 months while reporting experience develops, and we develop a better understanding of the implications of providing audit assurance. Specifically, how much is the auditor providing assurance on the process compared to providing assurance on the expected consequences to the entity.

The media has recently reported examples of companies significantly changing their transition plans (such as Air New Zealand and Glencore). This demonstrates two potential contradictory matters:

- the timeliness for assurance is important to ensure proper analysis and evidence-based statements and transition plans; giving confidence to disclosures.
- The implications to the understanding by the public, and the liability and reputation of auditors, when assurance is given on plans that subsequently change has not yet been determined. More time may be needed to understand these implications. Supporting limited assurance on these disclosures being deferred for at least 12 months from what is proposed.

Maintaining original time frame

Acknowledging the findings of AUASB Research Report No. 10 which highlights significant gaps in experience, with minimal disclosures across all four pillars of the TCFD framework and minimal assurance on both qualitative and quantitative sustainability data, initiating assurance now, rather than deferring it, would accelerate the development of crucial expertise within the profession, enhancing preparers' and auditors' capacity to produce reliable and comparable climate disclosures.

By embedding assurance early on, the industry can more quickly establish clear expectations and foster the consistency necessary for credible climate reporting. Early assurance would ultimately improve users' confidence in these disclosures and help the profession develop robust, actionable insights, ensuring that climate resilience assessments and transition plans are both credible and aligned with emerging international best practices.

Scope 3 Emissions

Deferring Assurance*:*

The proposed timing for assurance on Scope 3 disclosures does not comply with the stated Key Policy 12(c) of "limited assurance over all other disclosures from the second year of reporting". Because Scope 3 disclosures are only mandated in the 2nd year of reporting, then assurance should only begin in the 3rd year of reporting.

Scope 3 disclosures extend beyond the reporting entity to the entity's "supply chain", including suppliers and customers. This extension is beyond what traditionally has been audited.

The NZ External Reporting Board (XRB) has received feedback that various NZ Climate Reporting Entities are encountering challenges related to data reliability, high costs, and uncertainty around disclosure due to a lack of comprehensive guidance on specific topics. Additionally, concerns have been raised about assurance for scope 3 greenhouse gas emissions disclosures, given the difficulties in acquiring consistent and reliable data from both upstream and downstream partners.

There is a gap in skills, capabilities, and expectations around understanding and interpreting the scope and impact of Scope 3 disclosures For example, it is not clear how such disclosures are interpreted when a major source of Scope 3 emissions for many companies is electricity use by their suppliers and customers, and how these are affected by the plans of many governments to implement renewable energy targets (such as the Australian Government's target of 82% renewable energy in our electricity grids by 2030).

Time is needed for preparers and auditors to understand (and apply) the AASB S2 reporting requirements relating to "use all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort". In this respect:

- What does materiality mean for such disclosures and how accurate do they need to be?
- How can entities report on Scope 3 disclosures using data within their own reporting entity, without imposing additional cost burdens (such as surveys and questionnaires) on suppliers and customers, and ultimately the public?

The implications to the understanding by the users of the general-purpose financial reports, and the liability and reputation of auditors, when assurance is given on Scope 3 disclosures has not yet been determined. More time is needed to understand these implications. Therefore, limited assurance on these disclosures should be deferred for at least another 24 months (to that proposed) – 12 months to comply with the stated intention (Key Policy) of no assurance in the first year of reporting, and a further 12 month delay as explained above. However, to meet the Corporations Act requirement that sustainability reports from 1 July 2030 be fully audited, an amendment would be needed if the fourth year provides 'Limited Assurance' instead of 'Reasonable Assurance.' Without this change, Scope 3 deferral should be limited to 12 months to ensure compliance and allow at least one year of 'Limited Assurance'.

Maintaining Original Time Frame:

Scope 3 disclosures extend beyond the reporting entity to its entire supply chain, encompassing both suppliers and customers. This broader scope presents a critical opportunity to enhance transparency and accountability in sustainability reporting. Acknowledging the feedback received by the XRB, it is evident that various NZ Climate Reporting Entities face challenges related to data reliability, high costs, and uncertainty around disclosures due to a lack of comprehensive guidance. These challenges highlight the urgent need for clear guidance and support material, and immediate assurance, which can provide clarity and confidence in the reported data.

While there are concerns about acquiring consistent and reliable data from upstream and downstream value chain partners, introducing assurance may foster collaboration among stakeholders, encouraging the development of standard practices and improving data quality. Rather than deferring assurance, implementing assurance may accelerate bridging the existing gap in skills and capabilities, enabling preparers and auditors to better understand and interpret the scope and impact of Scope 3 disclosures.

The need for clarity in how Scope 3 emissions are interpreted is critical, especially as many companies' emissions stem from electricity usage by their suppliers and customers, which will be influenced by government renewable energy targets. Implementing assurance requirements will drive entities to refine their reporting practices and enhance their understanding of materiality and accuracy in disclosures.

While it is acknowledged that time is needed for preparers and auditors to fully grasp the AASB S2 reporting requirements, postponing assurance will not address the current gaps in understanding and interpretation. By moving forward with limited assurance now, we can better manage the implications for users of general-purpose financial reports.

Figure: summary of advantages and disadvantages of deferring assurance requirements

	Advantages of Deferring Assurance Requirements	**Disadvantages of Deferring Assurance Requirements**
Data and Methodology Maturity	• Allows time for organisations to develop robust methodologies and improve data quality, ensuring higher accuracy in reporting. • Reduces the likelihood of relying on premature or unverified climate models and resilience strategies. • Allows for more time for AASB/AUASB to provide guidance.	• Delays stakeholder confidence in the data and methods used for climate resilience and transition planning. • Delays auditors' ability to provide early feedback, potentially allowing data gaps and inconsistencies to go unaddressed. • Reduces the opportunity for early detection of inaccuracies, increasing the risk of later material misstatements.
Cost Efficiency	• Reduces immediate costs for organisations by deferring assurance expenditures until frameworks and data are more established. • Allows organisations to allocate resources gradually as requirements mature, potentially lowering overall assurance costs.	• May increase future assurance costs due to deferred audits and accumulated reporting requirements. • Risks higher expenses if material weaknesses are identified later, requiring costly revisions or restatements.
Regulatory Compliance & Audit Readiness	• Provides organisations time to align with upcoming regulatory requirements, improving audit readiness when assurance is eventually required. • Reduces pressure on auditors to interpret standards that have not been tested before, enhancing audit precision and accuracy when frameworks stabilise.	• Delays regulatory alignment, potentially increasing scrutiny from regulators and stakeholders if companies appear unprepared for climate assurance.
Audit Complexity & Assurance Quality	• Simplifies initial assurance requirements, allowing for a clearer focus as frameworks mature. • Reduces audit complexity by ensuring more established and stable standards are in place when assurance is implemented.	• Misses the opportunity to build early experience in climate-specific assurance, potentially leading to increased complexity in future audits. • Deferring may prevent auditors from gaining insights into transition planning and resilience strategies early on.

Exposure Draft Question 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?

ACAG offices have no direct experience in providing assurance on Scope 1 and 2 (or Scope 3) emissions, or other TCFD-related disclosures.

ACAG is concerned with the ability to upskill existing staff, recruit or contract staff with appropriate competence, skills and expertise. This includes concerns over the availability of experts that can be engaged within a reasonable time frame within the industry. Across ACAG offices, there are limited staff with the relevant subject matter expertise to perform these engagements.

We anticipate there will be a surge in demand for these skills in Australia once the reporting framework becomes mandatory. Both preparers and auditors (across public and private sectors) will likely be competing for the same experts in the market to assist with developing processes and systems to collate information, develop methodologies for assurance, and execute the relevant work.

Currently, there is limited experience, and few examples related to scenario analysis, transition plans, and the assurance of these disclosures. Scope 3 emissions, which extend beyond the reporting entity to its supply chain, add further complexities that have not traditionally been part of audit processes. The lack of research and guidance in this area raises concerns about auditors' liability and reputational risk. In particular, the public sector's value chain must be clarified before assurance on Scope 3 is mandated. Additionally, it remains unclear whether these disclosures can be reliably audited without imposing significant costs on the public and the broader economy.

While the AUASB is currently focusing on the effects of requiring assurance for companies within the scope of the Commonwealth legislation, the commonwealth, and various state and territory governments are also considering reporting by government entities, and associated assurance. This will exacerbate the shortage of resources unless the phasing between the Corporations Act reporting entities, and government entities is appropriately planned.

Exposure Draft Question 3

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

ACAG agrees that governance disclosures and disclosures of risks and opportunities should be reviewed in the first year. Governance is a critical element in an entity’s overall approach to managing climate risks and opportunities, serving as the foundation for subsequent reporting and assurance activities. Introducing these reviews in the first year encourages reporting entities to establish strong governance mechanisms from the outset.

Accurate emissions reporting requires clear targets, measurement systems, procedures, and controls. A robust sustainability framework should define who is responsible for disclosures. It should define the roles of the governing body and identify and address associated risk. This framework forms the basis to effectively support the accurate collection, recording, reporting and overall transition to sustainability reporting (i.e. COSO framework model). Reviewing governance will provide assurance that the sustainability processes are properly managed, with oversight capable of addressing risks and opportunities.

Auditing or reviewing risks and opportunities will also offer users confidence:

- the disclosures are complete, and accurate (noting the full list of assertions-at-risk per ISSA500.A414R)
- in the processes the organisation has established for identifying significant climate-related risks, including the time horizons over which these risks may impact the organisation’s business model, strategy, cash flows, and financing activities, and

- whether the risks are physical (beyond the entity's control) or transitional (which can be managed to some extent).

This early focus on governance can also reduce assurance risks for other disclosure areas in later years. Providing limited assurance over governance and strategy will develop knowledge of entities' systems and processes, preparing them for broader assurance requirements and higher levels o0f scrutiny in the future. Strong governance systems also support our obligations regarding 'other information', helping to ensure that these disclosures are free from material misstatements. With robust governance systems in place, users can place greater trust in the accuracy of other disclosures, knowing that rigor has been applied in their determination.

Exposure Draft Question 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?

We agree with the proposed approach to require the same level of assurance over statements that there are no material risks or opportunities. This is essential to ensure climate-related disclosures made under AASB S2 are supported. An entity will need to invest a reasonable degree of effort to justify there are no material risks or opportunities arising from climate change. Consistent assurance for both types of disclosures enhance transparency and credibility, ensuring that stakeholders can trust the completeness and accuracy of the information presented.

Notwithstanding, we note that in the early years of the assurance phasing model, there will likely be differing understanding among preparers (and assurance practitioners) of climate statements, and consequently the level of evidence necessary to support statements that 'there are no material risks and opportunities'.

Exposure Draft Question 5

Do you agree that assurance phasing requirements for Group 1, 2 and 3 entities should commence with the same settings and progress at the same pace?

Recent surveys by CPA Australia, CA ANZ, and AUASB roundtable discussions reveal that the profession and entities are unprepared for climate-related reporting. With the legislation now passed, extending the implementation timeline would allow time for proper training, availability of market experts, and help mitigate independence issues, resource shortages, and high costs.

We agree that assurance phasing requirements for Group 1, 2, and 3 entities should be aligned and progress at a similar pace. A consistent and comparable phased approach enables both preparers and auditors to systematically address knowledge gaps and gradually enhance their skill sets. Group 1 entities, which are likely already compliant with certain reporting requirements, have a solid foundation to meet the limited assurance standards. In turn, Groups 2 and 3 can leverage the experiences and insights gained by Group 1, benefiting from their early adoption of assurance practices.

All entities face similar challenges to implement climate-related reporting and assurance. Therefore, maintaining uniformity in the assurance phasing not only develops a collaborative learning environment but also ensures that all entities can adapt effectively to the evolving landscape of climate disclosures.

Exposure Draft Question 6

Do you agree that entities that enter a Group after the first reporting year for that Group (e.g. due to an increase in their size) should be subject to the same assurance 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)?

The majority of ACAG offices agree with the proposal as the approach is consistent with that taken for financial reporting under the *Corporations Act*. It would ensure that entities are aligned with the phasing requirements, and no entities 'lag behind' due to a change in their size.

However, the proposals have major implications:

- An entity excluded from reporting (i.e. has not previously met the Group 1, 2, 3 criteria) and moving to Group 3 (or higher) is unlikely to have prepared a sustainability report in the past, let alone have it audited. This differs to the current situation where companies moving from small proprietary to large proprietary status are likely to have had at least some form of financial reporting.
- An entity will potentially have higher assurance requirements (e.g. from none to limited, limited to reasonable).
- An entity may move down a group tier, or out of scope due to change in size. This may present issues with what lesser levels of assurance are required over the transition period, and how comparative years are disclosed in the assurance report.

As the terms of assurance engagements are typically agreed and set at the beginning of the reporting period, a change in the classification of an entity (e.g. due to an increase in their size) could result in a change (likely increase) in the level of assurance required, partway through the reporting period.

The possibility of an entity changing groups partway through the year is an additional layer of complexity to be monitored and managed by preparers in terms of the supporting documentation required and by assurance practitioners in terms of the nature and extent of procedures mandatorily required, with a consequential impact to the cost of the assurance engagement.

Exposure Draft Question 7

Do you agree with the approach to assurance over comparative information?

ACAG agrees that exempting the requirement to present comparative information in the first year eases the burden on both preparers and auditors. It allows them to focus on the preparation and auditing of a single year of data and disclosures. This approach reduces workload and costs. In subsequent years, entities can rely on the assurance provided for the previous year's information, ensuring a smoother transition while maintaining the integrity of audited reports.

In particular, we agree that as the assurance requirements are phased in that the comparatives retain their previous assurance requirements.

Where varying levels of assurance exist between the current and comparative periods, it is crucial that the assurance report and the accompanying management assertion highlight these differences. Adequate disclosure in the sustainability report, along with an 'other matter' paragraph in the assurance report, should direct users' attention to areas not previously subject to assurance (or reasonable assurance), ensuring they are appropriately informed.

Exposure Draft Question 8

Have applicable laws and regulations been appropriately addressed in the proposed Standard?

Yes. The proposed standard addresses the requirements of sustainability reporting as mandated by s296A(1) of the *Corporations Act 2001*. Additionally, the proposed standard ASSA 5010 has considered relevant requirements in the *Treasury Laws Amendment (Financial Infrastructure and Other Measures) Act 2024*. However, state and territories may need to seek legislative change to provide the mandate to undertake sustainability or climate related financial disclosure audits.

We have limited our considerations to the scope outlined above and have not addressed broader issues, such as potential conflicts with other laws or regulations or any duplication of efforts with NGERS (if it continues).

Exposure Draft Question 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.

At this stage it is difficult to estimate the costs of the proposals, or whether these costs outweigh the benefits to the users of the financial statements. We expect that there will be significant costs incurred by preparers to establish and maintain systems to measure results for reporting (including either recruiting or training staff or contracting experts) and likewise for auditors to provide assurance (developing methodology, recruiting and training staff or purchasing expertise). The amount of benefit to users is difficult to anticipate given the significant amount of uncertainty, judgement and estimation involved in preparing the information.

ACAG draws your attention to the published dissenting view of an AASB Board member on AASB S2 that outlines their concerns (that ACAG shares) around the cost, usefulness and auditability of the climate reporting requirements, especially for smaller and NFP entities in the private and public sectors. We include an extract below.

> *"DV2 In particular, I have concerns around the cost, the usefulness and the auditability of these reporting requirements. As far as I can discern, they have never been fully implemented or audited anywhere in the world, even for the largest reporting entities.*
>
> *DV3 I am particularly concerned about the cost relative to benefit overall for smaller and not-for-profit entities in the private and public sectors, while recognising that identifying which entities are required to apply AASB S2 is beyond the role of the AASB.*
>
> *DV4 I also have strong concerns around the requirements to disclose Scope 3 greenhouse gas emissions when the concepts of reporting entity control, as well as verifiability and usefulness to report users regarding allocating scarce resources to an entity and across entities, are not established in my view. My concerns in this regard are heightened for smaller and not-for-profit entities in the private and public sectors.*
>
> *DV7 Sustainability reporting as required by the recent Corporations Act amendments and specified in AASB S2 represents a profound shift and cost escalation in Australian corporate reporting. However, the practical benefits of mandatory reporting in accordance with AASB S2 for users and the Australian financial system and environment have not yet been demonstrated or clearly articulated. When combined with acute shortages in reporting and auditing capability and capacity, which particularly affect smaller and not-for-profit entities in the private and public sectors, implementation of AASB S2 is, in my view, unworkable."*

Entities with existing greenhouse gas reporting under NGERS may build on their current systems for Scope 1 and 2 emissions. However, expanding assurance to include Scope 3 emissions will require coordination with supply chain partners. This creates additional administrative, compliance, and consulting costs.

Despite these costs, sustainability assurance offers key benefits that will enhance the credibility and reliability of sustainability reports, fostering greater trust among investors, regulators, and stakeholders. Assurance of governance, strategy, and climate-related risks and opportunities will ensure that companies align their sustainability practices with their financial goals, leading to better transparency and risk management.

The proposed deferral of assurance for Climate Resilience Assessments / Scenario Analysis, and Transition Plans (by 12 months); and Scope 3 emissions disclosures (by 24 months, subjected to amendments in the Corporations Act as mentioned above) aims to reduce financial and non-financial burdens on entities and auditors. Leveraging existing systems for Scope 1 and 2 emissions allows for a smoother transition, while the delay provides time for preparers to address knowledge gaps in scenario analysis and transition plans, which are currently unfamiliar to most. Early adopters can share best practices, enabling smoother transitions for other entities while controlling costs.

ACAG also recommends that guidance similar to that provided in *ISSA 5000 General Requirements for Sustainability Assurance Engagements* be included, outlining specific expectations and guidance for small, non-complex entities as well as public entities. This guidance may clarify the precise meaning and intent of each requirement, include relevant examples tailored to the circumstances, and, where applicable, incorporate additional considerations for smaller, less complex entities into the explanatory material. Consideration should also be given to scalability, as in less complex engagements, the approach need not be time-consuming or complicated. It should be tailored to the size of the entity, the complexity of the engagement (including sustainability matters and applicable criteria), the scope of the assurance

Exposure Draft Question 10

Are there any other significant public interest matters that you wish to raise on the proposals in this exposure draft?

In our submission Sub 4 CP - Climate and Sustainability, we identified implementation issues. For example, what is the value chain for the public sector and can the Scope 3 amounts be determined and audited without passing on significant costs to the public and the economy?

While NGERS-compliant entities can use existing systems for Scope 1 and 2 emissions reporting, these frameworks are often inadequate for the new, complex disclosures required under the Corporations Act and AASB S2, such as scenario analyses and transition plans. Since TCFD-aligned disclosures are still in early stages, there are few examples or benchmarks to guide reporting or assurance processes. This creates uncertainty for users of financial and sustainability reports, who must interpret future-oriented statements (like transition plans) without sufficient precedent or clarity.

Given these complexities, the costs of assurance may outweigh the benefits if disclosures are misunderstood or if assurance is conducted too early on information that lacks precision and consistency. A phased approach to assurance will allow preparers and auditors to develop better methodologies and clearer narratives over time, ensuring that users can trust and interpret climate-related disclosures accurately.

Given section 307AA(c) of the Corporations Act requires the auditor to form an opinion on whether 'the entity that prepared the sustainability report has kept sustainability records sufficient to enable the sustainability report to be prepared and audited', we recommend the Board consider developing guidance materials to help assurance practitioners determine what would be sufficient appropriate evidence, particularly in the context of limited assurance engagements, that applies in the first three years of the assurance phasing model.

Any other matters in ED 02/24

As stated in our previous submission Sub 4 CP - Climate and Sustainability, ACAG strongly recommends the AUASB consider developing a compendium style Guidance Statement similar to GS023 which can be added to, deleted from, and amended as the provision of sustainability assurance develops in its maturity.

In para 9, the definitions of 'first year of reporting', 'second year of reporting', 'third year of reporting' and 'fourth year of reporting' need to be corrected for Group 1 entities. The AUASB may wish to simply give the reporting from date, and not a range of dates; or alternatively better describe the reporting periods.

Year of reporting	The (first) financial year commencing
First	For Group 1 entities - from 1 January 2025 to 31 December 2025 [as a Group 1 entity with a FY commencing 1 January 2026 will already have had a first FY commencing 1 January 2025] (alternatively, the first financial year commencing on or after 1 January 2025)

Second	For Group 1 entities - from 1 January 2026 to 31 December 2026 (alternatively, the first financial year commencing on or after 1 January 2026)
Third	For Group 1 entities - from 1 January 2027 to 31 December 2027 (alternatively, the first financial year commencing on or after 1 January 2027)
Fourth	For Group 1 entities - from 1 January 2028 to 31 December 2028 (alternatively, the first financial year commencing on or after 1 January 2028

Appendix: Extracts AUASB Research Report No. 10

You J, Assurance of Climate-Related Information in Australia (2023) published in Mattocks R., and R. Simnett (eds), Deakin-AUASB Sustainability Assurance Research Workshop: Research informing the AUASB's Sustainability Assurance Agenda. AUASB Research Report No. 10

> In 2022 only 69 of 2,004 entities reported under the explicit four pillars of the TCFD framework (level of assurance not stated).
>
> In 2022, 40 entities mentioned the provision of external assurance in the annual report, with only 3 identified with reasonable assurance specifically on scope 1 and 2 disclosures.

Garg M., Impact of Climate-Change Financial Disclosures on Accounting Numbers and Assurance Practices (2023) published in Mattocks R., and R. Simnett (eds), Deakin-AUASB Sustainability Assurance Research Workshop: Research informing the AUASB's Sustainability Assurance Agenda. AUASB Research Report No. 10.

> "the majority of companies only partly implement the TCFD recommendations, and there is considerable variation in reporting."
>
> "Our analysis suggests that voluntary climate change, sustainability, and other risk related financial disclosures are heterogeneous, and are mostly of low quality and inadequate, with little clarity on their real impact on the disclosing companies' operations and long-term assets."

Zamir F., Review of Sustainability Assurance Practices by ASX 300 Firms (2023) published in Mattocks R., and R. Simnett (eds), Deakin-AUASB Sustainability Assurance Research Workshop: Research informing the AUASB's Sustainability Assurance Agenda. AUASB Research Report No. 10.

> Only 73 entities of 242 firms (from ASX300) had some form of sustainability assurance.
>
> Only 9 entities had reasonable assurance or limited and reasonable assurance of 73 entities (from the 242 sample). That reasonable assurance was typically given for scope 1 and 2 emissions.
>
> Only 11 entities of the 73 entities (from the 242 sample) had assurance on qualitative or qualitative and quantitative data.
>
> Only 7 of the 242 sample had assured TCFD-aligned reports.