Tel: +61 2 9251 4100
Fax: +61 2 9240 9821
www.bdo.com.au

Level 11, 1 Margaret Street
Sydney NSW 2000
Australia

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

18 November 2024

Dear Chair,

AUASB CONSULTATION RESPONSE TO EXPOSURE DRAFT ED 02/24

We are pleased to submit our response to ED 02/24 on the proposed Australian Standard on Sustainability Assurance ASSA 5010 *Timelines for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001*. BDO strongly supports the AUASB's efforts to enhance assurance standards, particularly in relation to sustainability and non-financial information. We believe that this move represents a critical evolution in reporting standards that will benefit not only stakeholders but also the broader financial markets. As the business environment continues to evolve, it is imperative that non-financial disclosures complement traditional financial information to provide a more comprehensive view of company performance, risks, and opportunities.

We do note that similar assurance requirements do not exist in relation to director report disclosure that addresses corporate strategy - risks and opportunities, and corporate governance statements. The disparity with the requirement that similar disclosure in the sustainability report will ultimately be required to be audited is something the Government should address. If the cost of providing assurance over similar disclosure requirements that already exist outweighs the benefit, can the same be said of providing assurance over similar disclosure in the sustainability report?

Background

The increased focus on non-financial information aligns with global trends, where transparency in sustainability and governance is becoming just as important as financial metrics. Non-financial disclosures offer stakeholders—including investors, regulators, and customers—critical insights into a company's long-term strategy, risk management, and corporate responsibility. This more holistic approach to reporting is essential for supporting better decision-making, promoting trust in capital markets, and incentivizing the transparent allocation of capital and business relationships.

BDO believes that the adoption of these new standards will not only align Australia's reporting framework with international best practices but also encourage companies to improve their internal systems and processes. While we recognize that there will be additional costs for companies to upgrade their reporting capabilities, as well as the need for audit firms like ours to expand capacity and capability, we consider these efforts worthwhile. The increased transparency and benchmarking opportunities provided by these enhanced disclosures will benefit stakeholders by improving the quality of information available for decision-making and accountability.

Response to Specific Questions:

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?**

Response: Yes, we agree that the audit and review requirements for disclosure topics in the proposed AASB S2 are appropriate. Sustainability information, particularly in the context of governance, risks, and opportunities, is of growing importance to stakeholders. Ensuring a high level of assurance for these disclosures is necessary to foster trust and transparency.

It is important to acknowledge the expected additional costs of assurance and the potential readiness challenges for Group 1, 2, and 3 entities. Our view is that the phasing approach from limited to reasonable assurance should be more gradual than proposed i.e. limited assurance for the first few years before moving to reasonable assurance closer to the fifth year. We are concerned regarding the readiness of companies to prepare such disclosures and the existence/maturity of climate related governance arrangements. In terms of Scope 3 emissions, we would support the requirement of limited assurance until at least the fifth year, given the nature of this information and reliance on third parties to provide information.

Furthermore, a phased approach starting with specific disclosure categories including emissions data, governance, and risk management, as initially proposed. Then adding climate resilience to ensure the appropriate identification of impacts. Forward-looking metrics, climate resilience, and strategy disclosures could be gradually introduced. This method allows companies to establish their foundational reporting framework effectively before addressing more complex and detailed disclosures.

While these challenges exist, we believe the benefits of improved disclosure far outweigh the initial costs, particularly as entities enhance their systems and processes over time.

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?**

Response: As auditors, we are confident that our firm could adequately resource the audit and review requirements over sustainability information. However, this will require additional investment in capacity-building, training, and technology. We believe that with the right preparation and planning, these investments will yield significant value, not just in meeting the new assurance requirements but in positioning firms to be leaders in sustainability reporting and assurance. Additionally, the current planned phased timeline is suitable to allow our firm to build capability and capacity over time, focused on this new engagement type and subject matter.

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

Response: Yes, we believe that governance disclosures and disclosures of risks and opportunities should be subject to review in year 1. Early assurance on these disclosures will enhance market confidence and help ensure that entities are taking a proactive approach to managing sustainability-related risks and opportunities from the outset. These governance and risk elements are the fundamental foundations for an entity's approach to sustainability, particularly for GHG emissions. Therefore, there is great benefit in their structural elements being subject to assurance. Furthermore, these areas are more likely to be the focus of the company's board and those charged with governance oversight. Detailed reporting in these areas is important to ensure the "tone from the top" is considered in the assurance scope.

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?**

Response: We agree that any statements claiming there are no material risks or opportunities should be subject to the same level of assurance as those identifying risks and opportunities. This ensures consistency in reporting and assures stakeholders that such statements are reviewed thoroughly and verified, thus preventing any potential misrepresentations or omissions.

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?**

Response: We agree that assurance phasing requirements for Group 1, 2, and 3 entities should commence with the same settings and progress at the same pace. Uniformity in the assurance approach will enhance comparability and consistency across entities of different sizes, which is critical for benchmarking and market analysis.

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)?**

Response: Yes, we agree that entities entering a Group after the first reporting year should be subject to the same assurance requirements as other entities in the Group. This ensures that all entities within the same Group are held to consistent standards, which is critical for maintaining the integrity of the reporting framework. This application is consistent with existing financial reporting requirements, where entities are required to fully comply from the time they meet the set thresholds. On this basis, companies and their auditors should be looking to keep track of the thresholds and plan accordingly for future periods where they may be captured by the reporting requirements.

Further clarification is needed as to whether subsidiaries will be exempt from preparing separate ESG reports if their information is included in the Group's consolidated ESG report.

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

Response: We agree with the approach to assurance over comparative information. Ensuring consistency and accuracy in comparative data is essential for stakeholders to evaluate trends and make informed decisions based on year-over-year performance. Paragraph C3 in Appendix C of the Australian Sustainability Reporting Standard AASB S2 Climate-related Disclosures (AASB S2) provides that an entity is not required to provide comparative information in the first annual reporting period that it applies that standard. For the first year, having to look back pre-reporting requirements would present the risk of undue cost or effort for companies to comply with, especially given that the information required to be reported is not historically captured in the general ledger and would not be expected to be suitably available and reliable before reporting requirements are in force. Hence, the focus should be on the completeness and accuracy of disclosures from the date of capture only, i.e., the first year, and not on looking back to recreate comparatives.

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

Response: At this stage, nothing has come to our attention that suggests applicable laws and regulations have not been adequately addressed or covered in the proposed Standard. We believe that the alignment with existing regulatory frameworks is crucial for ensuring that the new standards are both effective and enforceable, and hence ongoing monitoring in this regard is important.

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.**

Response: The costs of the proposals will primarily involve upgrading systems, enhancing reporting capabilities, and obtaining assurance over sustainability information. Although we have initial indications of the costs of the proposal, we do not want to specifically quantify the additional level of time, effort, and cost for us overall as an audit firm. The additional costs will also vary depending on clients' readiness, the scope and size of an individual engagements. We do note that our firm will need to invest for this change. We have all the existing core skills and processes to support assurance activity of this nature; however, there will need to be education and process-procedure changes for us and our clients to accommodate the assurance over this non-financial data within the financial statements. This will involve changes across people, process, and technology. Hence, the phased approach across Group 1, 2, and 3, as well as the phased approach from limited to reasonable assurance, will support the ramping up of this activity and help to reduce any risk in this change program across the firm.

From a client's perspective, these costs will vary depending on the size and readiness of each entity. However, the long-term benefits—both financial and non-financial—include improved transparency, better risk management, and increased stakeholder confidence. These benefits, in our view, justify the initial investments.

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

Response: We would like to emphasize the importance of continuing stakeholder engagement throughout the implementation phase. Close collaboration between the AUASB, entities, and assurance providers will be key to ensuring the successful adoption of these new standards, especially as entities work to upgrade their systems and processes. In order to ensure consistency across audit firms, in terms of methodology, it would be beneficial if the AUASB would develop and issue resources, implementation guides and practical roadmaps from to assist auditors in implementation, for example materiality.

Additionally, considerations related to data availability and benchmarking are important so that companies can be as consistent as possible in their approaches, methodologies, and data used in certain industries. This will promote consistency and better comparability for stakeholders and investors.

We trust that our comments will assist the AUASB in further refining the proposed standards. We remain supportive of the transition towards greater assurance over non-financial disclosures and believe it will benefit both stakeholders and the broader financial markets in the long term.

Yours sincerely

J Bowen

Jane Bowen

Partner, Quality Management Leader

BDO Audit Pty Ltd