



1 May 2024

Sub 4 CP -Climate and Sustainability

The Chair
Australian Auditing and Assurance Standards Board
PO Box 204
Collins St West Victoria 8007
AUSTRALIA

Dear Mr Niven

Request for comment: Discussion paper – Assurance over Climate and Other Sustainability Information

The Australasian Council of Auditors-General (ACAG) welcomes the opportunity to respond to the specific questions raised in the *Discussion Paper - Assurance over Climate and Other Sustainability Information*.

The views expressed in this submission represent those of all Australian members of ACAG. ACAG's comments are primarily in the context of the public sector, which reflects ACAG's significant experience and involvement in the sector.

ACAG's detailed response is attached, addressing the questions asked by the Australian Auditing and Assurance Standards Board.

ACAG appreciates the opportunity to respond and trust that you will find the following comments useful.

Yours sincerely

A handwritten signature in blue ink that reads 'B.P. Worrall'.

Brendan Worrall, Auditor-General Queensland
Chair
ACAG Auditing Standards Committee

Attachment

ACAG Feedback Consultation Paper – Assurance over Climate and Other Sustainability Information

Question 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.

All groups and phases

Overall, reasonable assurance should not be mandated until the AUASB has completed the applicable high priority topic areas identified in Attachment 2. We also note the steep learning curve for preparers and auditors, and several jurisdictions support the phasing in from limited to reasonable assurance while processes are refined and embedded, and auditors improve their skills.

However, consideration should be given to what is a meaningful level of assurance; and whether report users will obtain value from limited assurance, or limited assurance in one year and reasonable assurance in the following year.

A limited assurance conclusion arises from the execution of audit procedures that are not as extensive as those required for reasonable assurance. Therefore, achievement of an unmodified limited assurance conclusion in one year will not necessarily lead to a 'step up' to an unmodified reasonable assurance opinion in the next year because as the audit procedures become more extensive, the likelihood of identifying errors also increases.

An audit brings value to an entity through assurance to the market but also through findings and recommendations about weaknesses in controls, systems, processes and information. Some of those weaknesses will only be identified as a result of the more extensive testing required to result in reasonable assurance.

Group 1 entities

We believe the timing of assurance (limited and reasonable) for qualitative scenario analysis, quantitative scenario analysis, and Scope 3 emissions should be deferred. These are more judgemental in nature and require more sophisticated models to audit, and therefore need more time to build methodologies and skill sets.

The current proposal outlined in Attachment 1 *Possible Assurance Phasing*, gives an extension for Group 1 30 June reporting entities to start reporting in the year ending 30 June 2026. However, it does not give them similar audit relief (which previously only required limited assurance for Scope 1 and 2 emissions) for the first year of reporting as they are captured in the 2nd column of the phasing model. Group 1 31 December entities receive the benefit of further embedding and refining their systems and process prior to mandatory assurance commencing.

We believe that all reporting entities should be given the benefit of time to further embed and refine their systems. This issue can be fixed by redesignating the 1st column in the phasing model so as to be for 'Years commencing 1 January 2025 to 31 December 2025', and similarly redesignating the subsequent columns as 'Years commencing 1 January xxxx to 31 December xxxx'. We also suggest that an additional line of headings be included for 1 December to 31 December reporting periods for the other columns. That is, 1 July 2026 to 30 June 2027 should also include 1 January 2026 to 31 December 2026.



Group 2 and 3 entities

ACAG recommends that at least one additional year of transition time should be given, so that the first year of assurance (currently years commencing 1 July 2026 for group 2 and 1 July 2027 for group 3) for all disclosure topic areas is only limited assurance and not reasonable assurance for scope 1 and 2 emissions and governance.

This additional time will assist with managing engagement risk, learning curve, training staff, and costs associated with first-year implementation. There will be a significant amount of upskilling required by both reporters and auditors and having a compressed timeframe will likely result in more audit report opinions being qualified or disclaimed, or lacking in quality. This may erode trust by users of the statements.

Question 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.

Currently, ACAG jurisdictions have limited to no experience in assuring climate-related or sustainability disclosures.

ACAG is concerned with the ability to train, 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 methodology for assurance, and execute the relevant work.

We also have concerns in relation to Scope 3 that should be resolved before assurance is required. For example, what is the value chain for the public sector? Also, can the Scope 3 disclosures be determined and audited without passing on significant costs to the public and the economy.

While the AUASB is currently focusing on the effects of requiring assurance for companies within 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.

Question 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?

ACAG has concerns that entities who are not already NGER reporting entities, will not have the systems and processes developed, implemented and sufficiently reliable to facilitate the assurance processes.

In particular, there are the following concerns:

- That entities included in groups 2 and 3 will not have mature systems and processes to facilitate the assurance processes due to constraints in funding and internal resources.



- The systems and processes may not be sufficiently reliable or ready to capture Scope 3 emissions and the models that will be used for developing quantitative scenario analysis are not sufficiently robust.
- The current timelines to phasing in groups 2 and 3 involve very steep jumps in the first year of implementation – years commencing 1 July 2026 and 2027 respectively.

Question 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.

ACAG agrees that ISSA 5000 should be applied for both mandated and voluntary assurance for mandatory and voluntary disclosures. Doing so will help ensure:

- consistency and comparability of reporting across different entities and industries
- alignment with international standards
- quality over assurance provided, whether voluntary or mandatory.

However, our concerns include:

- Potential confusion by users of information, as voluntary and mandatory information may not be easily distinguishable – especially when one opinion is issued with respect to both sets of information. Consideration should be given to whether the reporting framework should stipulate that the information required by the amendments to the Corporations Act reporting requirements (ie mandatory disclosures subject to assurance) is kept separate from other non-mandatory/voluntary disclosures. This voluntarily disclosed information would then become 'other information'. If an entity required assurance on one or more elements of the 'other information', that additional voluntary information would need to be able to be separately identified.
- Cost of resourcing, and additional constraint on skills gap in the profession.

Question 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?

ACAG agrees that a local pronouncement giving guidance on any parts of ISSA 5000 that are not relevant locally would be helpful. Care would need to be taken to ensure no ISSA 5000 requirements are carved out. The local pronouncement would help to focus the engagement team's efforts and streamline capability uplift in the first few years of implementation. This will also assist in ensuring a consistent approach in application.

Question 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?

ACAG is not aware of any impediments applicable to their government entities.

Various jurisdictional audit offices may not have the explicit mandate to undertake sustainability, or climate related, financial disclosure audits. Other jurisdictions have audit mandates that where law or regulation requires them to undertake the audit; it brings the audit within their mandate.

State and territories may need to seek legislative change prior to provide the mandate to perform the work.

Question 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?

ACAG is not aware of any.

ACAG notes that the AUASB has already identified in the consultation paper that example guidance may be added regarding pre-acceptance procedures not being relevant to public sector entities that ACAG jurisdictions are mandated to audit.

Question 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?

ACAG agrees that this would be helpful, particularly as assurance over sustainability information is relatively new and also given Australia's unique sustainability issues, laws and regulations and user needs.

ACAG strongly recommends that initial additional pronouncements are in the form of guidance statements and other publications rather than standards that are legally enforceable.

Some considerations identified are:

- AUASB will need to distinguish between potentially different reporting frameworks, e.g. that introduced by the Corporations Act, and those by other regulators (e.g. commonwealth, state and territory governments).
- AUASB will need to consider any international comparability issues, should a local pronouncement be created.

Question 9

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

ACAG agrees that all topics within Attachment 2 are relevant. It is difficult, at such an early stage, to form a view as to whether additional guidance is necessary in all circumstances and whether AUASB has prioritised the list correctly.



ACAG strongly recommends the AUASB consider the development of 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.

Some offices proposed to reconsider the following two priorities:

- Topic area 3 (Consistent disclosures) – Consider whether this should be medium as we are already receiving some questions from clients in this regard.
- Topic area 26 (Public sector) – Consider elevating to medium. Public sector entities have unique governance structures, reporting obligations, specific government policies / decision making processes that may impact the sustainability reporting requirements and assurance process.

Question 10

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

ACAG is not aware of any.

ACAG strongly recommends that as there are a lot of matters listed in Attachment 2, the AUASB consider the development of 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.

Question 11

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

Yes, some considerations identified are:

- Administrative orders and restructures within government (machinery of government changes) occur reasonably frequently (as compared with non-government or private entities) and would be expected to impact and change the 'organisational boundary' for the organisation. This could be expected to have a pervasive impact on the engagement - including reducing comparability and potentially usefulness of climate information reported across years. Guidance for preparers on scoping assessments (i.e. impact of what has come in, restructured, removed) and the timing of such, as well as to auditors on what needs to be considered in these situations, may be useful.
- Challenges around planning and executing group engagements on climate reporting, including materiality considerations - having regard to the breadth of government activities/operations at whole of government, and large volume of diverse climate-related information associated.
- To expand on Topic area 10 (Value chain area) - relating to treatment of differences in policies / methodologies adopted by the group and its subsidiaries; and impact assessment to potential qualification of opinion if differences are material or information from international subsidiaries are not reliable.
- More guidance for the auditor that needs to perform the work and the work to be performed over reasonable and limited assurance.
- Legal and regulatory compliance - impact of other laws and regulation to the accuracy and reliability of sustainability disclosures (e.g. balance between disclosing sustainability metrics vs data privacy/confidentiality requirements for health/financial services industry).

Question 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?

ACAG agrees that having reminders and guidance about obligations under other standards and reporting frameworks would be helpful.

Question 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)?

Most ACAG offices agreed that guidance from the AUASB on reliable and relevant materials would be helpful. It could assist engagement practitioners in uplifting capability and promote consistency across practitioners in the first few years of assurance phasing.

Some offices cautioned this approach, commenting that:

- It is not the role of the AUASB to direct and/or guide the auditor where to find technical and industry information to support an opinion. That is where the auditor, if they do not have the skills, needs to rely on the use of an expert or experts.
- Such a pronouncement is also likely to become dated quickly and cause some auditors to see the pronouncement as the single register of relevant information when the reporting entity may in fact be using more contemporary evidence-based information.

Question 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)?

ACAG agrees that this would be beneficial, particularly given that there needs to be consistency between what is reported in the sustainability report and the financial report.

Consideration of when this guidance is issued should be explored as a matter of priority.

Some offices highlight the benefit in issuing this guidance in the short term. If there is an impact on recognition, measurement and disclosure in the financial report, the auditor should be cognisant of the linkages so that the financial report matters are properly addressed, and the appropriate auditor's report is issued.

However other offices note that it may be more beneficial for a local pronouncement to be issued in the medium to long term. It should be introduced only after reporters and auditors are sufficiently mature in climate reporting and climate assurance. This is because it is anticipated that there is a higher risk of material misstatement in climate reporting in the first few years of mandatory climate reporting and assurance phasing model. As such, introducing a local pronouncement that establishes direct link back to the financial reports will demand additional effort from preparers and auditors in considering the impact from climate information to the financial report, and potentially introducing additional risks of material misstatements to the financial report (given the inherent risk in climate information in the first few years of implementation).

Question 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?

Some considerations identified by ACAG offices are:

- Ensure consistency where possible to reduce administrative burden (e.g. scope 3 emissions are not required by the NGER Act (but are proposed for the ASRSs). CER recommends using the National Greenhouse Accounts to estimate scope 3, yet the proposed AASB standard would require the GHG protocol).
- Ensure that the assurance requirements refer to, or are, consistent with ASAE 3410 Assurance Engagements on Greenhouse Gas Statements.
- Ensure that the content in any pronouncements does not conflict with the CER's recognised and established positions which have evolved over time and, as a result, are more mature than the AUASB.
- Clarification and guidance around the qualification of an assurance practitioner for sustainability reporting, noting that under CER guidelines / NGER Act, the auditor should be a registered greenhouse and energy auditor, which may be impractical to be adopted for sustainability reporting purposes. Detailed guidance may also be made on the emission factors, emissions calculation methodologies mandated for use by CER versus the methodologies or estimations that AUASB/AASB may adopt.

Question 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?

ACAG has few in-scope clients that operate internationally. For those few clients, we have identified the following practical factors and challenges that may be relevant in auditing cross-border activities or operations:

- difference in reporting frameworks and assurance frameworks (if any exists)
- local authorities' policies, regulations and targets concerning climate related matters
- differences across jurisdictions (laws and regulations) that may limit/prevent sharing of information with entities from other jurisdictions
- language barrier and the need for translation/interpreting service over subject matter
- using auditor's own experts (subject matter related) across borders or jurisdictions
- when is there significant uncertainty or a limitation on scope
- making sure that the standard in Australia can be used for Australian companies reporting under AASB ASRS Standards, or ISSB S1 and S2.



Question 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 identified the following other matters for the AUASB to consider:

- Although the list of potential matters for a local pronouncement is comprehensive, additional aspects/challenges in application may warrant additional guidance as entities implement the requirements and assurance is provided. It would be beneficial for the Board to keep the dialogue and consultation channels open to help ensure the requirements are understood and applied consistently.
- The AUASB refers to current NGERs reports being subject to assurance, and may have assumed that all NGERs reports have had their reports subject to assurance. We understand that NGERs assurance is currently on a voluntary basis. That means that not all NGERs reporters have had their reports subject to any assurance. This may affect the underlying assumptions, and the illustrative timings, which may need to be adjusted.

As stated above, ACAG strongly recommends the AUASB consider the development of 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.