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Ref: KLB/TN/RV

02 May 2024

Dear Chair,

CONSULTATION PAPER – ASSURANCE OVER CLIMATE AND OTHER SUSTAINABLITY INFORMATION

We appreciate the opportunity to provide comment to the Australian Auditing and Assurance Standards Board on the Consultation Paper on Assurance over Climate and Other Sustainability Information (the "Consultation Paper").

Pitcher Partners is an association of independent firms operating from all major cities in Australia. Firms in the Pitcher Partners network are full service firms, and we are committed to high ethical standards across all areas of our practice. Our clients come from a wide range of industries and include listed and non-listed disclosing entities, large private businesses, family groups, government entities, and small to medium sized enterprises.

We acknowledge the Australian Auditing and Assurance Standards Boards' efforts to facilitate greater consultation in the standard setting process. We agree with many of the proposed amendments and ideas in the Consultation Paper, however as communicated previously to the AUASB, we believe there are some areas of concern with the introduction of assurance over climate and other sustainability information regarding the capacity of the market to provide the assurance on the timelines proposed and the differential assurance being provided in the transition phase.

Our detailed responses to the questions contained in the Consultation Paper are attached to this letter, and we would welcome the opportunity to engage in any further discussion of this topic with other interested parties.

Please contact either myself or Tim Nesbitt, Director – Audit & Accounting Technical (03 8612 9596 or tim.nesbitt@pitcher.com.au) or Ronnie Vogt Director – Audit & Accounting Technical (03 8610 5118 or ronnie.vogt@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours sincerely,

K L BYRNE
Partner

T NESBITT
Director, Audit & Accounting Technical

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Response *Consultation Paper Assurance over Climate and Other Sustainability Information*

Overall Questions from International the Consultation Paper – Assurance over Climate and Other Sustainability Information

1. Consideration should be given to the relative importance of each type of disclosure and the cost of assurance over that information. In that context, do you believe that limited assurance or reasonable assurance should be required earlier or later for any disclosures in the possible assurance phasing model in Attachment 1? Please provide reasons.
We believe that any level of assurance should be required as late as is possible, and it should start with limited assurance for as many disclosures as possible. The logic for not commencing for some disclosures with Limited assurance and moving to reasonable assurance is unclear, for example Governance, Quantitative scenario analysis and Industry based metrics. We acknowledge the importance of the disclosures in Attachment 1, however given the uncertainty and lack of frameworks to effectively provide assurance on many of these disclosures, there is no compelling reason to accelerate the phasing of these topics. In addition, unless and until appropriate frameworks are established, assurance at any level should not be required for these topics. Furthermore, there is a limited pool of resources for many of these disclosure topic areas and as such, engaging appropriate assurance providers who can perform the required assurance services may be challenging. (Refer to our response to question 2 for further information.) Based on Attachment 1, whilst acknowledging the timing differences for commencement of the requirements, we note there is inconsistency in the approach to the levels of assurance proposed for Group 1, 2 & 3 entities in the first year of application for disclosure topic areas. For Group 1 entities, all disclosure topic areas other than 'Governance' start with limited assurance. For Group 2 entities, this extends to include 'Scope 1 and 2 emissions' (in addition to 'Governance') starting with reasonable assurance, and for Group 3 entities this further extends to include 'Other metrics and targets (appropriateness of metrics)'. We understand there is a passage of time involved and external information is likely to be more readily available to Group 2 and Group 3 entities, however it still represents the first year of application and required assurance of the disclosure topic areas for the individual entities. For Group 2 & 3 entities, different levels of assurance (limited assurance and reasonable assurance respectively) are suggested in Attachment 1 to be required across two years on the interlinked disclosure topic areas of 'Other metrics and targets (excluding appropriateness of metrics)' and 'Other metrics and targets (appropriateness of metrics)' which may not be appropriate or make sense. Similar to the point above, the connectivity and suggested timing of applicability of requirements and levels of assurance should be reconsidered in relation to the 'Qualitative scenario analysis' and 'Quantitative scenario analysis' disclosure topics (in conjunction with AASB) and the 'Governance' and 'Risk management' disclosure topics (with reference to Treasury communications). Additionally, with differential reporting levels and a multitude of disclosures, clarity on what the reporting will look like is a key consideration, as appending multiple assurance reports of different levels to the financial statement audit report is unlikely to enhance the user transparency on what assurance is provided over the climate and sustainability information.
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.
There is an acknowledged shortfall in the current available resources of experts, both internally and externally, therefore the cost and availability of these resources is a significant concern in the provision of the required assurance services. Further, establishing a suitable group of internal staff to perform these services is challenging in the initial years, especially for middle and smaller tier firms. Whilst the number (and experience) of expert resources is expected to grow over time, climate and sustainability related assurance requirements will continue to increase and so will the demand for these experts. The intention to include climate and sustainability reporting in annual financial reporting means with the existing deadlines, further pressure is placed on audit and assurance providers (including engagement partners and engagement quality reviewers) during the peak periods.

The profession is already facing recruitment challenges, and longer hours with effectively tighter deadlines is unlikely to enhance the image of the assurance profession.

We highlight that the resource challenges equally apply to client staff who will have increased burdens in meeting both financial and climate and sustainability reporting obligations within the same timeframes. This has the potential for unintended consequences of decreasing audit quality with more work required in the same timeframe. Further, smaller practices may determine that continuing to provide assurance services is not feasible due to the additional resource requirements, as a result of the additional work, and potentially the rotation requirements if a sustainability, financial statement and EQR are required then smaller audit practices would potentially struggle to have sufficient engagement leaders for these roles. The resource constraints are likely to also lead to the cost of compliance being high.

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?

On a broad basis, it is expected that many entities (especially those in Group 3) will find it challenging to have the appropriate systems and processes in place and operating effectively to provide relevant information and be ready for these reporting obligations. It should be remembered that the phasing proposed will be the last date these obligations exist for entities, not the first. As suppliers to entities who have earlier adopted the requirements and/or downstream consumers for scope 3 emissions, Group 1 and 2 entities will be requiring information far earlier than the mandatory dates impacting Group 3 entities. The form, content, extent and timing of information needed by earlier adopting entities has yet to be communicated, making it more challenging for middle market and smaller entities to be aware and prepare for these changes.

This is likely to be further impacted by the lack of available experts to assist entities in developing the systems and processes.

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.

Conceptually yes, we agree.

All climate disclosures and other sustainability information should be held to a common standard, whether voluntarily disclosed or required, which is a consistent concept applied to information disclosed in financial statements presently.

With regard to assurance phasing, refer to our responses to earlier questions.

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?

The clear delineation and separation of any non-mandatory material (and inclusion of this as guidance where possible) would assist in the "readability" and ease of application of the standard and provide clarity on what is mandatory in the Australian environment. We do acknowledge that the local version of the standard needs to accommodate different circumstances beyond the mandatory requirements (e.g., voluntary disclosures, other types of disclosures).

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?

Nothing further noted other than what is currently known with respect to the development of the sustainability standards in Australia, and relevant frameworks for the proposed disclosure topics.

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?

The provision of assurance by non-accountants and therefore the monitoring and measuring of the quality control to an equivalent standard and rigour to that of ASQM1 and 2 is a potential challenge.

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?

The reasons for developing any local pronouncements are sound, in particular to ensure alignment of interpretation between regulators and assurance providers.

We acknowledge that the AUASB has purposely not specified the type of local pronouncement(s) as this is yet to be determined and is likely to be different depending on the matter. We take the opportunity to emphasise the preference to minimise local requirements in a standard and advocate for local pronouncements (wherever possible) to take the form of guidance, illustrative examples, FAQs, etc.

The “right” balance needs to exist between the speed at which local pronouncements are released versus the quality, usability, and usefulness of these pronouncements. Also, it needs to be taken into consideration as to the phasing/priorities of release, accessibility and potential future updates of local pronouncements when determining the best type of pronouncements.

For reference purposes only:
“45. Reasons to develop a local pronouncement may include: Promoting audit quality and supporting confidence of investors and others seeking reliable climate information;

Creating certainty for practitioners in the approach to matters arising under the Australian reporting framework; and

Promoting a consistent approach to matters arising across audit firms, as well as supporting a consistent understanding between auditors, experts, preparers, users, regulators and others.”

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

Overall and in principle we agree with the possible matters for local pronouncement identified in Attachment 2 and the draft priority classifications.

We believe the local pronouncement should also include the following matters:

- The differences (and similarities) between the scope and work effort of auditor’s when providing limited versus reasonable assurance and the expectations of the breadth and quality of work and documentation from the client’s perspective.
- What is needed and expected from the client’s perspective to support a disclosure stating there are “no material risks and opportunities” and the considerations and expectations for auditors when providing assurance on such disclosures.

We also provide the following specific commentary on the possible matters in Attachment 2:

- No. 2 – we believe consideration needs to be given to the interplay between the auditor’s responsibilities under ASA 720 and assurance on climate/sustainability information, especially if a modified assurance opinion is applicable and the flow on impacts of this to the auditor’s report on the financial report. It is likely that at least some entities will have modified opinions on the climate and sustainability information and whether this means the financial statement audit opinion is then impacted is unclear.

- No. 5 – we suggest including how competency of the engagement partner can be obtained in the early years as potentially no one in a firm has prior experience (or a partner(s) has(ve) limited experience) to challenge the expert's criteria to be considered an "expert" and review and evaluate the work performed by the expert.
- No. 6 – we suggest including what qualifications are appropriate or what criteria would be appropriate for the auditor's experts (internal and external), in particular in the transition phase. It is expected that there will be many people claiming to be an "expert" in climate/sustainability, and given in the initial years even "experts" may not have actually executed an engagement how does the auditor address this?
- No. 8 – we suggest emphasising that those charged with governance are responsible for the conclusion and disclosure that the climate risks and opportunities are not material, and / or providing clarity as to whether this is in fact considered to be a viable response given the uncertainty regarding climate and the measurement of its impact.
  We would like the example text for the auditor's report to include wording relating to a potential modification(s) in these circumstances and whether this would be a qualification or a disclaimer on the report as a whole.
- No. 11 – we suggest including clarity on the extent of work required relating to whether the disclosures about existing governance arrangements are factual. For example, can procedures be limited to inquiry (in conjunction with the understanding of the entity and sighting of documentary evidence) or are further procedures necessary (such as walk throughs of the processes, design and implementation of the controls, testing operating effectiveness of controls, etc)?
- No. 12 – we suggest including what would be appropriate documentation to support the disclosures on an entity's strategy for managing climate-related risks and opportunities and how it would be tested. For example, is the existence (and sighting) of documentary evidence sufficient or are further procedures required (such as walk throughs of the processes, design and implementation of controls, testing operational effectiveness, etc)?
- No. 13 – we suggest including how the completeness of the risks and opportunities can be addressed, given the uncertainties of scenarios and other factors is unclear.
- No. 18 – we highlight that especially in the transition year it may be challenging for the auditor to access industry metrics and/or know what the industry metrics are given the entity and their competitors may not have disclosed anything previously.
- Nos. 19 & 20 – we highlight that completeness (of key assumptions and uncertainties disclosures) in an environment where everything is constantly in flux is a challenging area.
- No. 22 – it is noted we have interpreted the reference to COVID-19 in this context (relating to uncertainties in forward looking information) to be that the approach taken in the early phase of the COVID-19 pandemic may be considered and provide a starting point when determining what might be covered in a local pronouncement.
- No. 23 – we highlight the commercial versus regulatory considerations of "undue costs or effort" guidance would be extremely helpful as this has a broad range of interpretations. Also, what "should" a company and/or auditor be aware of as being 'available' to reference to.
- No. 24 – we suggest including example wording for the auditor's report relating to modifications on comparative information, given many will face this situation.
- No. 27 – we would be expecting this to include the importance of "at least as demanding" quality management and ethics standards and how this will be monitored and regulated, as this depends substantially on whether only Registered Company Auditors can perform sustainability assurance engagements.

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

No further comments from those included in response to question 9 above.

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

We believe the inclusion of a matter relating to Independence should be addressed in a possible local pronouncement. This would include what the expectations are of experts in relation to independence, objectivity and competence, especially in regard to objectivity, and when their independence obligations cease.

For example, the expert is independent, objective and competent at the time of signing and issuing their report. Presumably their obligations to remain independent cease beyond that date, and do not extend to the date of the release of the auditor's report? If so, presumably there are no obligations on the auditor to perform further procedures on the independence, objectivity, etc of the expert (internal or management's), however, if something comes to the auditor's attention then they may reconsider whether it remains appropriate to rely on the expert's report.

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?

Yes, further guidance and clarity on the connectivity and expectations would enhance both the applicability and the confidence that users could place on the information. It would be particularly beneficial to include a practical application element using real scenarios.

Refer also to our response to other questions, including specifically question 9 (point No. 2).

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

We believe it would be beneficial to assist with consistency and efficiency to provide guidance on acknowledged / known / common sources (while others will always emerge) that might be referred to by the auditor. It would also be useful if information was provided on procedures that may be expected or required to use that material (if applicable).

We don't believe it is beneficial to refer to a long list of "other" materials without providing some context or guidance as to why it might be useful and how it may be used. The focus needs to remain on the specific local requirements with appropriate guidance referenced, without adding unnecessary complexities or creating confusion.

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)?

Yes, we believe it is important and useful to reinforce the connectivity between the climate and sustainability risks and opportunities and various areas in the financial report, as well as the relevant considerations and flow on impacts.

We believe this would not be dissimilar in concept to the guidance, considerations and reminders issued during the COVID-19 pandemic.

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?

No response provided to this question, as we currently do not perform work under CER.

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?

Consistency, in so far as possible across borders in obligations and assurance expectations. Alternatively, practical guidance on how to resolve differences. Presumably there will be scenarios where the differences are acceptable/immaterial and those where they are material. In scenarios where the differences are material, guidance on what to document and the nature of the documentation in each of those scenarios would be beneficial for ease of transition.

Clarity on the approach to jurisdictions which either do not have standards, have standards which are substantially different and or are simply unwilling or unable to provide the necessary information.

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?

Although not directly within their mandate, we believe it is critical for the AUASB to consult, liaise and communicate with different bodies, stakeholders and groups to reinforce key aspects associated with climate-related financial disclosures and sustainability reports including the responsibilities of those charged with governance, the extent of what will be required by the entity in meeting their requirements, the expectations of the auditor when providing limited versus reasonable assurance, the interplay between auditing standards and the potential impact on auditor's reports. This will assist in the process of implementation and transition by setting realistic expectations on both cost and effort for all parties and minimising the expectation gap as much as possible.

Additionally, the assurance over forward looking statements and strategy may be better addressed by someone other than the auditor, so the existing mandate that the financial statement auditor provide the assurance over these matters is potentially flawed.