Sub13 - ASSA5010

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Dear AUASB members

We appreciate the invitation to comment on 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* ('Exposure Draft'). Our response reflects our position as auditors and business advisers to the Australian business community. We work with listed and privately held companies, government, industry, and not-for-profit organisations and are a leading business advisor to mid-market businesses internationally.

Grant Thornton primarily serves the mid-market, with a large proportion of our client base captured in Group 2 and 3, or private Group 1 companies that until recently were grandfathered. While some of our clients are in the process of preparing for sustainability reporting, many of them do not currently have the capacity or in-house expertise over sustainability reporting. Many of our clients that will be required to prepare an annual sustainability report under s292A of the *Corporations Act 2001* (Corporations Act) are unlisted entities.

Exposure Draft 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.**

    We understand the need from the director community for alignment with the limitation of liability being removed to have reasonable assurance across the sustainability report, however we have concerns on the speed at which we move in the transitional approach and what is included in the phasing. We agree that the broad disclosure topics are appropriate, however, we consider that reducing the number of strategy disclosures subject to assurance in the first year would be preferable, specifically, reducing paragraphs 9 b) c) and d) and paragraphs 13 - 21 of AASB S2 *Climate Related Disclosures* ('AASB S2') will reduce the cost of assurance.

    The following sets out our rationale:

    Many of our clients are mid-size entities that are building their sustainability reporting capability and of the larger entities, many were previously grandfathered. If entities start early enough, we consider it reasonable to expect that they will be able to implement the systems and processes required to report, but we acknowledge this will be more of a challenge for Group 1 entities and for some Group 2 entities given the upcoming reporting timelines. There are risks that these Group 1 and Group 2 entities may face additional difficulties and costs associated with compliance, and there may be higher risks of modified assurance opinions, which may undermine trust in the market and have broader unintended consequences.

We understand the reason for including governance and strategy (risks and opportunities) in the first year based on the reasons outlined in paragraphs 13b) and 13c) of the Exposure Draft. In our view, determining the climate related risks and opportunities relevant to the entity are fundamental to the sustainability report and these disclosures are therefore likely to be relatively more important to the users of the sustainability report. We also consider it appropriate that strategy (risks and opportunities) is considered by assurance practitioners at the same time as governance disclosures, as the two are interrelated. However, the inclusion of assurance over governance and strategy (risks and opportunities), in particular quantification and transition plans, will increase the expected cost of assurance and in our view the inclusion of the requirement to provide limited assurance over paragraphs 9 b) c) and d) and paragraphs 13 - 21 of AASB S2 *Climate Related Disclosures* ('AASB S2') will increase the cost substantially when compared to initial estimates provided either by practitioners in responses to the AUASB or used by Treasury in their initial cost impact assessments. We are unable to provide a quantitative impact of the increased assurance requirements on engagement pricing, because the number of risks and opportunities identified, and the level of judgement and estimation applied to each of the quantitative disclosures, will be different for each entity.

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?**

In Australia, mandatory sustainability assurance will be provided by the financial statement auditor. It is reasonable to expect that audit firms will leverage their existing resources to perform sustainability assurance engagements, supplemented by non-assurance experts where appropriate. However, this will place significant demand on resources and may cause people shortages similar to those that occurred during covid. The ability to firms to leverage their international networks to meet these resource demands will also be limited by the fact that other jurisdictions are also introducing sustainability assurance requirements in the short-to-medium term, meaning that these resources are in demand globally. Increased demand and a shortage of resources will likely increase the cost of sustainability assurance.

Given the above, we are making significant additional investments to ensure that we will be able to adequately resource the required sustainability engagements, subject to final adoption of assurance timelines not being quicker, more extensive, or to a higher assurance level than that included in the Exposure Draft. However, we note that the phasing in of assurance requirements is quick (all disclosures subject to assurance in the second year) and that slowing the phase-in of assurance requirements will provide further time for preparers and practitioners to develop the necessary skills, expertise, systems, and processes to facilitate efficient and effective assurance engagements.

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

Refer to our response in question one. We are in support of governance and strategy (risks and opportunities) being subject to assurance at the same time and in year 1, however, the inclusion of paragraphs 9 b) c) and 9d) and paragraphs 13 - 21 of AASB S2, poses risks, including: increases in the cost of assurance in the first year and increased risk of modified assurance opinions due to insufficient expertise in the market to support preparers.

A more cost-effective approach for year 1 would be to exclude paragraphs 9b) c) and 9d) and 13 - 21 of AASB 2 in the first year of assurance and include these in the requirements in year 2. However, this would then further increase the already extensive additional assurance requirements in year 2. As such, consideration could be given to slowing the transition to assurance to delay some of the limited assurance requirements from year 2 to year 3.

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 that a statement 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 reporting year. A different level of assurance, when there is a statement made that there are no material risks or opportunities, may impact the quality of sustainability reporting in Australia as it could be used a means to avoid mandatory reporting.

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?**

   We agree in principle that the assurance phasing requirements should apply evenly to Groups 1-3.

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)?**

   We observe this is consistent with assurance requirements for financial reporting. We agree with the approach.

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

   The new reporting regime significantly increases the reporting burden for entities, so relief over the assurance of comparatives is likely to be welcome for preparers and assurance practitioners. We agree with the approach.

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

   We have no comments related to laws and regulations.

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.**

   We understand the benefit of having more consistent levels of assurance over the disclosures in a sustainability report as this will assist readers of the assurance practitioners report, however, the proposed assurance timeline is a quick scale up of assurance and we believe it is quicker than most entities and assurance practitioners were expecting. As set out in response to questions 4 – 5, we believe there are benefits, also, in each of the Groups having the same transition to assurance pathway, and statements that there are no material risks or opportunities being subject to the same level of assurance as if there were material risks or opportunities.

   As outlined in our response to questions 1 – 3, the addition of governance and strategy (risks and opportunities), in particular quantitative disclosures and transition plans, to the first year of assurance will increase the cost of assurance in the first year. We expect significant assurance effort will be required over these disclosures. We are unable to provide you with a quantitative impact of the increased assurance requirements on engagement pricing, because the number of risks and opportunities identified, and the level of judgement and estimation applied to each of the quantitative disclosures, will be different for each entity. Further, the impact in years 2 and 3 of making all disclosures in the sustainability report subject to assurance increases the cost of assurance requirements for entities in years 2 and 3. The increased costs in years 2 and 3 are likely to be above the market's original expectations around the cost of assurance. We expect many entities to take the optional transitional relief available in AASB S2 relating to Scope 3 emissions disclosures in year 1 because it will take time for entities to obtain and/or estimate reliable information. Limited assurance over Scope 3 emissions in year 2 will provide users with greater confidence in reporting but will increase costs for entities in year 2, both in getting ready for reporting and in increased assurance fees. A delay of one year to limited assurance over Scope 3 emissions may allow entities more time to prepare and reduce the risk of modified assurance opinions.

   Where entities seek assurance earlier or beyond what has been mandated by AUASB, they would continue to have the option to do so.

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

Other matters that we wish to raise are summarised as:

- We recommend increased education to the director community to understand the differences between a limited vs reasonable assurance, noting the sustainability assurance standards require a different level of procedures and assurance compared to half year reviews within the Australian environment;
- We understand that independence considerations related to the value chain of a sustainability reporting engagement are still being determined by the International Ethics Standards Board for Accountants (IESBA). We consider a pragmatic approach is required to addressing this matter to help prevent significant practical issues in its application
- Many companies will benefit from assurance readiness assessments over sustainability reports, these services are likely to reduce the level of modifications because they will allow preparers to improve processes after matters are identified. We would welcome independence guidance over non-assurance services provided for readiness (i.e agreed upon procedures or gap analysis) and how this will be considered by the regulator following recent communications to audit partners and firms and the findings from the JPC over the extent of non-assurance services provided by assurance practitioners.
- In ISSA 5000, there are several requirements which are pervasive to the assurance engagement – including, but not limited to, understanding the entity's system of internal control and management override of controls. In other areas, ISSA 5000 notes that the level of understanding obtained would be higher in a reasonable assurance engagement than a limited assurance engagement (e.g. understanding the entity and its environment). Where there are different levels of assurance provided in a period (i.e. reasonable assurance over Scope 1 and Scope 2 emissions disclosures, limited assurance over other disclosures), this would require the practitioner to perform these pervasive requirements at the higher level of assurance. We are not aware of other jurisdictions which are proposing different levels of assurance in a single reporting period while applying ISSA 5000. We would welcome guidance from the AUASB or the addition of Australian specific paragraphs outlining how to apply the assurance standard when two levels of assurance are provided in a single reporting period. We have also suggested several changes to the [Draft] ASSA 5010 standard in the accompanying Appendix.

Yours sincerely

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Appendix (Subject to Confidentiality)

We have suggested below some changes to the [Draft] ASSA 5010 standard as drafted.

[Draft] ASSA 5010 paragraph	Comment
5	Comparative disclosures are not specifically mentioned in the *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill* 2024 as part of the Contents of the Sustainability Report. AASB S2 paragraph C3 is an optional transition relief, and therefore there may be some entities that choose to provide comparative information in the first annual reporting period in which it applies AASB S2. Consequently, we do not believe the inclusion of [Draft] ASSA 5010 paragraph 5 to be relevant to the [Draft] Standard. We recommend this paragraph is deleted in totality.
7	[Draft] ASSA 5010 paragraph 7 notes that the terms "auditor", "audit" and "review" are used consistent with the Act. The table in paragraph 7 provides the meaning of the Terms in [Draft] ASSA 5010, compared to the AUASB Standards. However, the term "Auditor" is not included in the table. We believe it would be appropriate to clarify, for avoidance of doubt, that the term "Auditor" is consistent with the meaning of "Practitioner" as used in ISSA 5000 (assuming the same term is expected to be used by AUASB in the Australian equivalent of ISSA 5000 when adopted).
9(f)(i)	We are of the opinion the First year of reporting for Group 1 entities should be the first financial year commencing on or after 1 January 2025 (i.e. omit 'to 30 June 2026').
9(g)(i)	We are of the opinion the Second year of reporting for Group 1 entities should be the first financial year commencing on or after 1 January 2026 (i.e. not '1 July 2026 to 30 June 2027', as Group 1 entities with a 1 January 2025 First year of reporting would have a Second year of reporting commencing 1 January 2026).
9(h)(i)	We are of the opinion the Third year of reporting for Group 1 entities should be the first financial year commencing on or after 1 January 2027 (i.e. not '1 July 2027 to 30 June 2028', as Group 1 entities with a 1 January 2026 Second year of reporting would have a Third year of reporting commencing 1 January 2027.)
9(i)(i)	We are of the opinion the Fourth year of reporting for Group 1 entities should be the first financial year commencing on or after 1 January 2028 (i.e. not '1 July 2028', as Group 1 entities with a 1 January 2027 Third year of reporting would have a Fourth year of reporting commencing 1 January 2028.)
9(j)	Section 292A defines which entities are required to prepare an annual sustainability report. We recommend for clarity that the definition is revised to refer to "An annual sustainability report required to be prepared under section 292A of the Act".
10(b)	We observe that the assurance requirements in [Draft] ASSA 5010 paragraph 10(b) includes (specific to the reasonable assurance of greenhouse gas emissions) the words "(including related general disclosures in Appendix D to AASB S2)". We observe that AASB S2 Appendix D has general requirements, but no "general disclosures". We are unsure from the wording in this paragraph what specific disclosures the AUASB intends to refer to, as all other disclosures in the sustainability report are also captured by paragraph 10(b) for limited assurance. Furthermore, entities are required to comply with all of the requirements in Appendix D, as well as the other requirements of AASB S2. Therefore an entity shall apply the requirements of Appendix D to all of its disclosures, irrespective of disclosure area, and we would consider Appendix D considerations to be an inherent requirement for all areas of disclosure. We suggest that the reference to Appendix D is therefore deleted.

10(b)	We observe that the wording in paragraph 10(b) refers to "all other disclosures in the Sustainability Report" – which would indicate that all disclosures in the Sustainability Report, including any disclosures on non-climate topics outside the scope of AASB S2, such as those disclosures prepared in accordance with voluntary standard AASB S1, is in scope of assurance. We note the recent draft regulatory guidance published 7 November 2024 by ASIC that clarifies the precise meaning of the Sustainability Report under the Corporations Act. We suggest that this clarification is incorporated into [Draft] ASSA 5010 to clarify that the scope of the assurance standard does not extend to voluntary sustainability statements or other voluntary sustainability-related information. For all of the reasons set out previously supporting reducing the breadth and pace of the transition to assurance, we would not support mandating assurance over disclosures beyond climate related financial disclosures within the scope of AASB S2. Where entities seek assurance beyond that which is mandated by AUASB, they would continue to have the option to do so.
Appendix	We observe that the Diagrammatic Representation of Assurance Phasing is inconsistent with the requirements outlined in [Draft] ASSA 5010 paragraphs 10(a) -10(d). In particular, transition plans are depicted as requiring no assurance in year one. However, transition plans are part of AASB S2 paragraph 9(c) ("the effects of those climate-related risks and opportunities on the entity's strategy and decision making, including information about its *climate-related transition plan"*) and therefore limited assurance is required in First Year of reporting. Additionally, although Scope 3 emissions is listed as not applicable to the First year of reporting, we observe that AASB S2 provides optional transition relief from disclosing Scope 3 emissions in the first year of applying AASB S2, and therefore an entity may voluntarily disclose Scope 3 emissions in the first year of reporting. Therefore, it would be more correct for Scope 3 emissions to require no assurance in the first year. We have included a revised version of the table to match [Draft] ASSA 5010 paragraph 10 below. For clarity, this is not our proposed timeline for assurance. We refer AUASB to our proposed timeline for assurance set out in response to question 9.

Corrected version of the table to match [Draft] ASSA 5010 paragraph 10:

Disclosure topic areas	First year of reporting	Second year of reporting	Third year of reporting	Fourth year of reporting onwards
Governance	Limited	Limited	Limited	Reasonable
Strategy (risks and opportunities, excluding climate resilience)	Limited	Limited	Limited	Reasonable
Climate resilience and scenario analysis	None	Limited	Limited	Reasonable
Transition plans	Limited	Limited	Limited	Reasonable
Risk management	None	Limited	Limited	Reasonable
Scope 1 and 2 emissions	Limited	Reasonable	Reasonable	Reasonable
Scope 3 emissions	None	Limited	Limited	Reasonable
Other metrics and targets	None	Limited	Limited	Reasonable