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Sub 11 - ASSA5010

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

Submitted electronically via: https://www.auasb.gov.au/projects/open-for-comment/

# EY Submission 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

Ernst & Young Australia (“EY”) welcomes the opportunity to comment on the Auditing and Assurance Standards Board’s (“AUASB”) exposure draft ED 02/24 of proposed Australian Standard on Sustainability Assurance ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* (“ED”).

EY is very supportive of the AUASB’s proposed timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001 with consideration of our responses within. Overall, this approach ensures Australia is moving towards sustainability disclosure that aligns with AUASB’s International Strategy Mission to contribute to the development of a single set of auditing and assurance standards and guidance for world-wide use, thereby lowering the cost of capital for Australian entities. Moreover, it ensures that the assurance on financial statements, inclusive of sustainability-related data, for both Australian firms and local subsidiaries of international corporations, meets global standards, reinforcing their credibility in the eyes of international capital markets.

Our responses to the specific questions on which the AUASB is seeking feedback are set out below.

Should you wish to discuss our comments further, please contact me at ryan.fisk@au.ey.com.

Yours sincerely

Ryan Fisk
Ernst & Young

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:<br>a. Their relative importance of assurance to users of the information;<br>b. Their interconnectivity;<br>c. The likely cost of assurance; and<br>d. The readiness of Group 1, 2 and 3 entities' systems and processes. |
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| We generally concur with the phased approach outlined for the audit and review requirements of disclosure topics in the proposed AASB S2. This approach ensures Australia is moving towards sustainability disclosure that maintains relevance and comparability with global reporting standards.<br><br>We agree with prioritising the limited assurance phasing of disclosure topics, particularly Governance and Strategy. These areas are foundational to the development of sustainability reporting processes for reporting entities and thus provides a smoother pathway to manage the evolution of sustainability reporting and assurance practices effectively. We believe the Strategy disclosures in particular contain critical information that enables users of general purpose financial reports to understand the climate-related risks and opportunities and acts as a building block to the other disclosure topic areas. Therefore we agree with the AUASB's proposal for limited assurance over Strategy disclosures in year 1.<br><br>We believe the investment required of entities to mature the underlying systems and processes across the Strategy disclosure topic area to be "reasonable assurance ready" will be more significant than governance and scope 1 and scope 2 disclosures and accordingly, we support the AUASB's proposed phasing which defers reasonable assurance until year 4.<br><br>We believe that the difference in work effort between limited and reasonable assurance for Governance-related disclosures may not be substantial. Accelerating the phasing to reasonable assurance for this disclosure topic area, to align with the proposed scope 1 and scope 2 phasing, could be beneficial by underscoring the importance of governance-level buy-in, driving overall reporting maturity for reporting entities.<br><br>We believe the proposed assurance phasing for the other topic areas is in balance taking into account the importance of assurance, the interconnectedness of disclosures, cost implications, and the preparedness of entities' systems. |

| 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? |
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| Yes. We are supportive of the proposed assurance phase-in timeline. We have been actively investing in upskilling both our non-financial assurance teams and financial statement auditors to meet these expectations within the timeframes proposed. |

| 3. Do you consider that governance disclosures and disclosures of risks and opportunities should be subject to review in year 1? |
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| Yes, we believe it is appropriate for disclosures over governance and risks and opportunities should be subject to review in year 1. These areas are essential for entities as they lay the groundwork for compliance with AASB S2 and foster the development of effective reporting processes. Therefore, subjecting these areas to review constitutes a logical starting point for the assurance phasing across the disclosure topic areas.<br><br>However, we wish to highlight the broad scope of Strategy (Risks and Opportunities) as outlined in the Exposure Draft. In particular, the inclusion of current and anticipated financial effects in the first year's assurance may be overly ambitious. These elements, along with Climate Resilience Assessments / Scenario Analysis, involve a more advanced level of reporting maturity and we believe should be considered for deferral. We believe this recommendation would strike a balance between incorporating substantial strategy elements into early reporting phases–thereby enhancing the quality of initial reports–and allowing entities and audit firms sufficient time to evolve their comprehension and reporting capabilities regarding these more complex matters.<br><br>Transition Plans: The ED appears to present an inconsistency regarding the assurance of transition plans. In ASSA5010 paragraph 10, the text suggests that all strategy disclosures, including those from subparagraphs 9(a-d) and paragraphs 10-21 of AASB S2, are to be assured in year 1. Conversely, the Diagrammatic Representation of Assurance Phasing in the appendix indicates that transition plans, as outlined in paragraph 14 of AASB S2, are not within the scope until year 2.<br><br>We expect that the intention is to exclude transition plans from assurance in year 1, and we recommend that this be explicitly clarified to prevent confusion. The rationale for this exclusion is that climate-related transition plans are a complex aspect of an entity’s overall strategy. They depend on prerequisites such as the refinement of the entity’s targets, actions and quantification of greenhouse gas emissions, and therefore we find it is reasonable to allow entities the additional year to develop these plans before they are subject to assurance. |

| 4. Do you agree that any statements that there are not material risks or opportunities should be subject to the same level of assurance as identified risks and opportunities for any given financial year? |
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| We agree that any statements claiming the absence of material risks or opportunities should be subject to the same level of assurance as identified risks and opportunities for any given financial year. We expect the threshold for an entity to assert that there are no material risks or opportunities would be high, necessitating a comprehensive and detailed analysis to substantiate such a claim.<br><br>We agree with the need for assurance on these statements because it is fundamental to the assurance standard that the auditor forms a conclusion or opinion on the entity's sustainability reporting. Assurance over these statements therefore ensures that when a company reports no material risks or opportunities, this position has been thoroughly vetted and is not merely unsubstantiated.<br><br>To aid companies, it would be useful for the AUASB to provide examples or guidance on the type of analysis and documentation required to support a claim of no material risks or opportunities. This would help ensure that entities have a clear understanding of the expectations and the rigour needed in their analysis, ultimately contributing to the credibility, reliability, and consistency of sustainability reporting and assurance. |

| 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? |
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| Yes, we believe the proposed tiering and phasing requirements of the three Groups is appropriately designed. We also agree to ultimately require all climate-related financial disclosures to be subject to reasonable assurance so that investors can place the same level of reliance on that information as audited financial statements, by FY31. |

| 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)? |
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| We agree with the proposition that entities entering a Group after the first reporting year should adhere to the same assurance requirements as their counterparts within the Group for the relevant reporting year. This approach aligns with the principles of general purpose financial reporting, which mandate that an entity must comply with the requirements to prepare and lodge financial statements in the year it meets these criteria, such as an increase in size.<br><br>This ensures consistency and comparability across entities of a comparable size and simplifies the regulatory landscape by providing clear guidelines for entities that change Groups. |

| 7. Do you agree with the approach to assurance over comparative information? |
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| Yes, we agree with the approach to assurance over comparative information as outlined. The progression is logical and represents an appropriate measure to support the maturity of the reporting and assurance processes.<br><br>Requiring companies and auditors to perform current year level assurance on comparative figures would be unduly onerous, and the additional cost incurred may not provide a commensurate benefit to users of the financial statements.<br><br>We suggest that the provision of Illustrative Guidance on how to present comparatives under these scenarios would be beneficial to ensure clarity and consistency in reporting. |

| 8. Have applicable laws and regulations been appropriately addressed in the proposed Standard? |
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| We wish to seek clarity from the AUASB regarding the applicability of ISSA 5000. The current effective date for ISSA 5000 is for reporting periods commencing on or after December 15, 2026. This suggests it will apply from year 2 onwards for Group 1 entities here in Australia. The AUASB should provide explicit guidance on the assurance standards expected to be applied in year 1.<br><br>We suggest that the AUASB consider updating and clarifying that the Clean Energy Regulator (CER) requirements are encompassed within the Australian equivalent of ISSA 5000.<br><br>We are not aware of any other additional issues concerning the integration of applicable laws and regulations in the proposed Standard. |

| 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. |
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| We recognise that incurring costs is necessary for listed and large entities, such as those in Groups 1 and 2, to align with global reporting and assurance standards. The proposed tiered grouping and phased approach to assurance offer a balanced consideration of costs related to sustainability reporting against the benefits for entities, investors, and other stakeholders.<br><br>The rationale for applying the same standards to Group 3 entities and not-for-profits has not been clearly substantiated. We recommend that the AUASB, in collaboration with other regulatory bodies, reassess the appropriateness of extending the full scope of the standards to these groups. For instance, the AASB's ongoing project, which aims to explore the scalability and cost-benefit concerns for not-for-profit and smaller entities as detailed in the Basis for Conclusions (AASB S2), reflects the need for such a re-evaluation:<br>*BC83 The AASB noted scalability and cost-benefit concerns raised by stakeholders representing not-for-profit private and public sector entities and smaller entities (large proprietary companies) that would be required to comply with AASB S2 under the phase-in requirements of the Corporations Act amendments. Some of those stakeholders commented that:*<br>*(a) the proportionality mechanisms in the baseline of IFRS S2 are insufficient to address scalability and cost-benefit concerns for not-for-profit entities and smaller entities in Australia; and*<br>*(b) the level of education and upskilling required by preparers in order to implement the proposed Standards, including involving external consultants or specialists, would be expensive, require significant time and investment, and be potentially cost-prohibitive for not-for-profit entities and smaller unlisted entities.*<br><br>*BC84 The AASB observed that the areas of concern mainly related to the requirements to measure Scope 3 GHG emissions and to undertake climate-related scenario analysis, which are specifically mentioned in the Corporations Act amendments. The AASB decided to undertake a project to explore potential solutions for addressing scalability and cost-benefit concerns for not-for-profit entities and smaller entities*<br>Costs are necessary for Assurance to keep pace with global standards of reporting and assurance.<br>The tiered grouping and assurance phasing approach contains a reasonable balance of the costs around sustainability reporting measured against the benefits of entities, investors and other stakeholders will gain from the greater reliance on that information. |

| 10. Are there any other significant public interest matters that you wish to raise on the proposals in this exposure draft? |
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| We have no other matters that we wish to raise on the proposal. |