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Dear AUASB members

We appreciate the invitation to comment on the Consultation Paper for Assurance over Climate and Other Sustainability Information ("Consultation Paper"). 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.

### **Demand for Assurance and Ability to Meet that Demand**

Overall, we are supportive of assurance requirements being phased in over time for sustainability reports. However, our view is that, in general, it will be difficult for entities in Groups 1, 2 and 3 to develop and implement sufficiently reliable systems and processes to facilitate assurance in line with the phasing set out in Attachment 1.

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. From engagement with our clients many of them do not currently have the capacity or in-house expertise over sustainability reporting.

Consequently, we believe it is necessary to phase in assurance requirements slowly and consistently across the Groups<sup>1</sup>. Delaying the phase in of reasonable assurance until all disclosures have at least been subject to limited assurance, and avoiding, where possible, having varying levels of assurance included in the one sustainability assurance report in a single year will improve audit quality and reduce the number of modified opinions.

We will be able to adequately resource the required sustainability engagements, subject to final adoption of assurance timelines being reasonable (i.e. not quicker, more extensive, or to a higher assurance level than that included in Attachment 1). However, delaying the phase-in of assurance requirements, and particularly delaying reasonable assurance requirements, will provide further time for entities and audit firms to develop the necessary skills, expertise, systems and processes to facilitate efficient and effective assurance engagements.

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<sup>1</sup> References to 'Groups' being Groups 1, 2 and 3 for the purposes of mandatory climate-related disclosures as set out within *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024*.

**Q1: 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.**

The possible timelines set out in Attachment 1 to the Consultation Paper create various and inconsistent timelines to assurance, dependent on the entity's Group (and year end for Group 1) for the purpose of mandatory climate-related disclosures.

We see challenges for entities, and a higher risk of modified assurance reports, where the first year of reporting is also the first year of reasonable assurance. We would propose the approach set out below to phasing in assurance requirements over climate and other sustainability information, regardless of which Group the entity is in, to give entities time to improve systems and processes after the initial assurance process:

Disclosure topic areas****	First year of reporting*	Second year of reporting	Third year of reporting	Fourth year of reporting***
Governance	None	Limited	Reasonable	Reasonable
Strategy (including risks and opportunities, but excluding climate resilience)	None	Limited	Reasonable	Reasonable
Climate resilience and scenario analysis (see bullet point 3 below)	None	None	Limited	Reasonable
Transition plan and climate-related targets	None	None	Limited	Reasonable
Risk management	None	None	Limited	Reasonable
Scope 1 and 2 emissions	Limited	Limited	Reasonable	Reasonable
Scope 3 emissions	None	None	Limited	Reasonable
Other metrics and targets (excluding appropriateness of metrics)	None	None	Limited	Reasonable
Other metrics and targets (appropriateness of metrics)	None	None	Limited	Reasonable
Industry based metrics**	None	None	None	None

\* Approach to assurance for Group 1, Group 2 and Group 3 should be the same, however the dates for their first, second, third and fourth year of reporting will be later (e.g. first year of reporting for Group 1 will be years commencing 1 January 2025 to 30 June 2026; Group 2 will be years commencing 1 July 2026 to 30 June 2027; and Group 3 will be years commencing 1 July 2027 to 30 June 2028, respectively).

\*\* Reasonable assurance over industry-based metrics not earlier than for years-commencing 1 July 2030.

\*\*\* Our proposed timeline anticipates that reasonable assurance is provided over all disclosure topic areas by the fourth year of reporting, to meet the requirement set out in *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* for reasonable assurance to be phased in for years commencing 1 July 2030. However, a number of submissions received by the Senate Standing Committee on Economics<sup>2</sup> have raised concerns about the technical feasibility of providing

<sup>2</sup> As set out within *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024*

reasonable assurance, and the likely prohibitive cost for entities receiving this assurance. Where there are revisions to the Bill permitting the delay of reasonable assurance, we would support that delay.

\*\*\*\* Where applicable, we consider that it would be appropriate to phase in limited assurance over a statement that climate-related risks and opportunities are not material in the first year that such a statement is made.

We anticipate that our proposed timeline would address the following challenges we see with the timelines set out in Attachment 1 to the Consultation Paper:

- Notwithstanding that entities with a June year-end (in Group 1) and entities in Group 2 and 3 will have more time to prepare for reporting and assurance requirements, introducing varying timelines for assurance will likely increase the up-front costs of transition<sup>3</sup> for those entities with additional assurance requirements in their first year of reporting. An increase in assurance requirements will also result in those entities being impacted more severely by any supply shortages with regards to sustainability professionals (refer to Q2) and may lead to an increased number of modified or delayed assurance reports, which risks undermining public confidence in the reporting and assurance regime in Australia.
- Treasury's policy impact analysis<sup>3</sup> identified an estimated cost of assurance for limited assurance over Scope 1 and 2 emissions of approximately \$50,000. Requiring assurance in areas in addition to this, or requiring reasonable rather than limited assurance, will inevitably result in greater assurance costs, and these costs may be prohibitive (particularly for smaller entities in Group 3) where the assurance requirements are phased-in quickly, rather than spread over several years.
- Attachment 1 to the Consultation Paper sets out 12 discrete 'Disclosure topic areas', many of which are intrinsically interlinked and arise from interdependent sustainability reporting judgements. Separating out so many discrete areas may increase the difficulty of applying the assurance framework to an engagement in terms of the ability of practitioners to practically identify those disclosures in the sustainability report which are, or are not, subject to assurance in any given year. We note that one of the 'disclosure topic areas' included in the Consultation Paper is quantitative scenario analysis, with assurance requirements over quantitative scenario analysis phased in from years commencing 1 July 2027 in the possible timelines presented. However, the current Exposure Draft Australian Sustainability Reporting Standards ("ASRS") as published by the AASB in October 2023 requires only that an entity shall use climate-related scenario analysis in order to assess the entity's climate-resilience. Draft ASRS 2 at present does not contain any requirement for a quantitative scenario analysis, nor does it require beginning at a qualitative scenario-analysis and moving to a quantitative analysis. We note this is also consistent with the IFRS Sustainability Disclosure Standards ("IFRS SDS") as issued by the International Sustainability Standards Board ("ISSB"). As such, we would strongly recommend that the AUASB consider climate resilience assessments, qualitative scenario analysis and quantitative scenario analysis to be a singular area for assurance.
- The effect of phased introduction will likely add complexity to assurance reports, and will require clear delineation within sustainability reports between those disclosures subject to audit, those subject to review, and those subject to no assurance. This complexity may increase the audit expectation gap and may risk undermining confidence in the reporting and assurance regime.

**Q2: 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.**

We are confident that we will be able to adequately resource sustainability reporting assurance engagements for our firms financial reporting audit clients captured by the legislation (subject to final adoption of assurance timelines being reasonable – i.e. not quicker, more extensive, or to a higher assurance level than that included in

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<sup>3</sup> Treasury: Climate-related financial disclosures – Policy Impact Analysis

Attachment 1). This assumes that we will use a specialised group of assurance professionals with relevant skills to be the sustainability lead assurance practitioners and who may not be the same individuals as the financial statement auditor. If the sustainability lead assurance practitioner is required to be the same as the lead auditor of the financial report, this will take considerably more time to develop and upskill.

Our ability to resource assurance engagements in the timelines outlined in Appendix 1, or as we proposed in response to Q1, relies upon the firm being able to use individuals with appropriate competence, skills and expertise and relies on the firm using its discretion to appoint a suitable lead auditor to the sustainability assurance engagement, which for our firm may not be the same lead auditor responsible for the audit of the financial statements where the firm is the appointed auditor.

Treasury's legislation notes the registered company auditor would also be the sustainability auditor. In many cases this is a partnership or firm, not an individual. By restricting this further we are requiring the financial reporting auditor to further enhance their skills across a broader range of sustainability topics. This would be a departure from the international application and also from Treasury's explanatory memorandum. Using two auditors is currently common practice for specialists used in APRA entities, allowing each auditor to opine in their area of expertise. Where two auditors are used, some additional considerations will need to be brought in for the sustainability lead assurance practitioner, such as an independence declaration for the sustainability report and breach reporting such as s311 *Corporations Act 2001* ("Corporations Act") reporting obligations.

We believe that the reasons outlined below reinforce the appropriateness of a consistent and delayed approach to phasing-in of assurance requirements proposed in our alternative timeline in Q1 above.

- The ability to resource assurance engagements will be impacted by the readiness of entities receiving assurance. As discussed further in response to Q3, it will be difficult for entities in Groups 1, 2 and 3 to develop and implement sufficiently reliable systems and processes to facilitate assurance in line with the phasing models set out in Attachment 1. Where entities are not prepared for assurance, this will increase the resource requirements for audit firms and the costs for entities and could increase the risk of modified assurance reports.
- The requirements set out in [Proposed] ISSA 5000 *General Requirements for Sustainability Assurance Engagements* ("ISSA 5000") do not vary significantly between limited and reasonable assurance engagements, particularly with regards to planning, evaluating and concluding on the engagement. Given there will be no history of previously audited disclosures which can be used to inform analytical procedures, nor a history of performing work over the entity's internal controls over sustainability reporting which can be relied upon, there will be additional work required for limited assurance engagements in the first years of assurance. Delaying the phase-in of assurance requirements, and particularly delaying reasonable assurance requirements, will provide further time for entities and audit firms to develop the skills, expertise, systems and processes to enable efficient assurance engagements.
- The ability to resource engagements depends on the availability of suitably qualified and experienced practitioners, in addition to any sustainability experts required. We expect that financial statement auditors will require extensive training. Providing a consistent and staged 'timeline to assurance' as we have proposed in Q1 will enable practitioners to develop systematic and consistent approaches to transitioning to assurance for their clients. Where the phase-in timelines vary from Group to Group, this will require tailored training approaches, alternative practical experience requirements, and differences in assurance approaches that may increase the resource requirements of the firm and have a negative impact on assurance quality.
- There is already a shortage of sustainability skills<sup>4</sup>. It is unlikely there will be sufficient quality resources within the market to resource sustainability assurance engagements externally. It will be necessary for firms to develop that expertise in-house and may require additional quality control measures for sustainability assurance engagements in the first years of assurance. The need to resource sustainability assurance engagements from an already declining pool of graduates<sup>5</sup> may require audit firms to consider developing 'global' service centres for sustainability expertise or the resourcing model

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<sup>4</sup> LinkedIn Global Green Skills Report 2023

<sup>5</sup> CA ANZ: Declining University Enrolments

for financial statement audits (for example, making greater use of offshore resources). For example, Deloitte, EY, KPMG and PwC have all announced multi-billion dollar investments in global sustainability practices. This includes partnership with external organisations, for example, Deloitte, EY and KPMG have announced a global collaboration with IBM to leverage their sustainability solutions. The timeline we have proposed in Q1 provides additional time for firms to upskill their professionals, to accommodate the significant investment required in doing so, and to make changes to their resourcing model where necessary.

- The challenges with identifying and using experts, particularly given the quality control requirements, will require firms to either partner with specific experts, to hire-in that expertise where it does not already exist, or to make use of relationships with local or global firms (where applicable). This will diminish the pool of sustainability experts available to preparers and may increase reliance by preparers on the external assurance function or result in difficulties in providing the requisite assurance. This will take time to address and in the short-term may need to be addressed by a resource inflow from other jurisdictions. The timeline set out in Q1 provides additional time for firms to identify the expertise needed and put in place the measures necessary to obtain it, without prohibitively draining the supply of sustainability professionals from the wider market.
- The anticipated need to resource sustainability assurance engagements through an inflow of resource from other jurisdictions necessitates a migration system that allows audit firms to readily access that overseas resource. Therefore, it is necessary for external auditors to be included on the Core Skills Occupation List (“CSOL”), currently under consultation by Jobs and Skills Australia. Similarly, we understand that climate and sustainability expertise is not specifically addressed in the CSOL and the addition of these skills to the list would benefit both preparers and practitioners to build internal expertise. We recommend the AUASB respond to that consultation, clearly articulating the need for these skills to be included on CSOL.
- The draft ASRS currently incorporate several areas of Australian-specific departures from the IFRS SDS as issued by the ISSB. Among the proposed Australian-specific changes, the measurement of greenhouse gas emissions (“GHG”) by applying relevant methodologies in the *National Greenhouse and Energy Reporting (“NGER”) Scheme* legislation, where practicable, is likely to result in a difference in measurement basis for Australian preparers. This will require preparers and practitioners to familiarise themselves with the requirements of the NGER Scheme legislation (as well as the GHG Protocol) and will necessitate additional time to upskill. It will also reduce the ability of firms to resource engagements utilising global service centres or by relying on bringing in additional resources from other jurisdictions.

**Q3: 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?**

In general, it will be difficult for entities to develop and implement sufficiently reliable systems and processes to facilitate assurance in line with the phasing models set out in Attachment 1.

Entities within a Group may not be homogenous. For example, there are several entities within Group 1 (e.g. previously grandfathered companies) which may not be as sophisticated as entities within the ASX 100. As a result, it is difficult to conclude whether entities within each of the Group’s will be ready for assurance in line with the timelines proposed in Attachment 1.

There are varying knowledge levels of the proposed reporting framework and regulatory expectations amongst entities captured in Group 1, 2 and 3, ranging from entities building their awareness of the requirements, through to entities already considering their climate risks and opportunities and the impact on their processes and controls. From our discussions with our stakeholders, we are aware that most entities in Group 2 and 3 have not yet commenced detailed considerations of the requirements or the impacts on their systems, processes, and controls.

As a result of this uncertainty and the fact that the reporting framework is not yet finalised, nor the legislation passed<sup>6</sup>, there has been limited preparatory work undertaken by entities which will be captured in Groups 1, 2 and 3. The limited understanding and lack of certainty over requirements impacts the ability of entities to develop the necessary processes and systems to facilitate assurance. These issues will be particularly pronounced for areas which are entirely new concepts for reporting entities – for example, GHG calculations and climate-related scenario analysis. Even when processes and systems are developed, there will be a lag in refining them to account for the particularities of both reporting and assurance standards.

Internationally, entities are preparing to assure sustainability reports and there are many sustainability reporting systems and tools to assist in the preparation of sustainability reporting. The Australian specific amendments to the standards will limit the ability of entities to use off the shelf systems, impacting both the cost and the timing of when entities will be ready for assurance over sustainability reporting, particularly smaller and medium sized entities. We expect that the necessary systems and processes will largely be bespoke for each entity, adding to the complexity and potential limitations of the ability of practitioners to assure them.

While those entities in Group 2 and 3 will have additional time to prepare for sustainability reporting and assurance, the factors outlined above are compounded because they have smaller teams and fewer resources. It is unclear whether entities in these Groups will have sufficient resources and funding available to meet the significant transition and ongoing costs<sup>3</sup> necessary to develop the processes, systems and high-quality reporting which are sufficient to enable assurance. As a firm, we primarily serve the mid-market and have a large number of clients who will be captured in Group 2 and 3, and are aware from conversations with stakeholders that entities in these Groups do not currently have the capacity nor expertise in house to prepare for sustainability reporting and the assurance of it, and as such, the additional time to prepare does not necessarily mean that they will be more than, or equally as, prepared as entities in Group 1.

To address these risks, practitioners may undertake 'assurance readiness' assessments for their clients in advance of mandatory reporting, to enable them to make an informed assessment of whether the preconditions for any future sustainability assurance engagement are met. This assurance readiness assessment will, in effect, bring forward the timeline for when entities within Groups 1, 2 and 3 need to have these processes and systems developed.

The proposed timeline we have set out in Q1 – providing entities in all Groups with a number of years of limited assurance – will go some way to addressing these issues. Extending the timeline will provide entities with the necessary lead time to develop processes, systems and controls, refine them during the limited assurance period, and ultimately ensure they are suitable to facilitate reasonable assurance when those requirements are phased in.

### **Adoption of ISSA 5000 *General Requirements for Sustainability Assurance Engagements***

Subject to seeing the final standard, we are supportive of the adoption of ISSA 5000 in Australia.

The adoption of ISSA 5000 may require some existing legislative requirements and regulatory guides to be updated to remove inconsistencies or contradictions between them. There will also be a need for agreement and alignment on expectations of the various standard-setters, professional bodies and regulators to ensure that the requirements of ISSA 5000 are being consistently applied.

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<sup>6</sup> Current expectations being that the AASB has set an aspirational target to issue final Australian Sustainability Reporting Standards by 1 July 2024, and legislation passed within the 2024 calendar year.



**Q4: 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.**

We are supportive of the adoption of ISSA 5000<sup>7</sup>, and subject to seeing the final standard, we agree that ISSA 5000 should apply to all sustainability assurance engagements. Adopting the international standard for use in Australia will enhance the transferability of assurance expertise between jurisdictions, which may over the longer-term go some way to addressing the supply issues outlined in Q2 and Q3. The adoption of ISSA 5000 for use in Australia may require amendment to ensure it is appropriate for local purposes, and additional guidance may be necessary on implementation. We have addressed these in response to Q5 – Q14.

**Q5: 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?**

As ISSA 5000 is intended to be internationally applicable, framework agnostic and future-proof, it would not be appropriate to carve out parts of ISSA 5000 within the standard itself.

However, it may be appropriate to issue guidance to outline where certain aspects of ISSA 5000 are not directly applicable to the mandatory climate reporting framework in Australia (e.g. the application of double materiality). Care will be needed regarding the type of guidance issued (e.g. Guidance Statements or Technical Staff Papers), ensuring that guidance is in a form that the assurance practitioner can rely upon. This guidance will need to be limited in terms of its scope and effective dates (e.g. guidance would need to be explicit that it applies only to mandatory reporting under specific legislation and may not be appropriate for other assurance or if the reporting regime is updated).

Determining those parts of ISSA 5000 which may not be relevant under the mandatory climate reporting framework in Australia will require analysis and interpretation of ASRS. Guidance on any such analysis and interpretation would fall within the remit of the Australian Accounting Standards Board ("AASB"). Consequently, we would recommend that any guidance issued in this area is issued as joint guidance by both the AUASB and AASB.

**Q6: 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?**

ISSA 5000 is largely applicable by virtue of it being designed to be internationally applicable and framework agnostic. However, it may be necessary for guidance to be provided in the following areas:

- The auditor's obligations under s311 of the Corporations Act and Regulatory Guide 34 ("RG34") to report significant contraventions of the Corporations Act to the Australian Securities & Investments Commission ("ASIC"). RG34 may need to be updated to provide guidance on what would constitute a significant contravention with regards to sustainability reporting.
- ISSA 5000 anticipates that assurance practitioners will be permitted to resign from engagements and that this would be the appropriate course of action in certain circumstances. However, under the Corporations Act, resignation as auditor is only permissible with the consent of ASIC, with guidance on

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<sup>7</sup> Refer to Grant Thornton International Ltd response to IAASB's Exposure Draft of Proposed ISSA 5000, *General Requirements for Sustainability Assurance Engagements*

this set out in Regulatory Guide 26 (“RG26”). RG26 may need to be updated to address these inconsistencies.

- ISSA 5000 requires certain preconditions to exist before an engagement can be accepted. As the sustainability report is required to be audited by the financial statement auditor, this may create a conflict where the preconditions for the sustainability engagement are not met and the engagement cannot be accepted, but the financial statement auditor cannot resign. This would result in a contravention of the Corporations Act requirement for the sustainability report to be subject to assurance. RG26 may need to be updated to outline the appropriate response in this circumstance.
- The NGER Scheme audits are required to be performed by registered greenhouse and energy auditors, as defined in the legislation. To avoid the misconception that the assurance practitioner for the sustainability report under the Corporations Act is required to be a registered greenhouse and energy auditor, an explanatory note may be appropriate.

**Q7: 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 regulatory environment will ultimately inform how ISSA 5000 is applied in Australia. It is important that local pronouncements (Q8 – Q14) are accepted and applied by the relevant regulatory bodies. Where there is divergence of views between the regulator, the standard setters and practitioners, this will impede the practical application of ISSA 5000. In this light, it is important that any guidance is published by the appropriate bodies (e.g. AUASB for assurance, AASB for reporting, or joint where appropriate) and that this guidance does not increase the scope of work which is required to be undertaken as set out in ISSA 5000.

ISSA 5000 will apply to sustainability assurance engagements over Australian entities that may have overseas operations. In some cases, the information of overseas operations will be subject to assurance in other jurisdictions, and these assurance engagements may be completed in accordance with ISSA 5000 but will not always be undertaken by a registered company auditor (or equivalent). For example, in the European Union, the Corporate Sustainability Reporting Directive does not require that an equivalent of a registered company auditor undertake the required assurance. Given the requirement for a registered company auditor to complete the assurance work in Australia<sup>8</sup>, guidance on the extent to which reliance can be placed on assurance performed overseas by non-registered company auditors, or the extent of reperformance and “look through” required may be necessary.

It is anticipated that the proposed International Ethics Standard for Sustainability Assurance (“IESSA”) will be adopted in Australia and apply to sustainability assurance engagements. Given that ISSA 5000 was published prior to IESSA, and as both are currently undergoing modifications as a result of the consultation process, it is not possible to state whether the adoption of IESSA will prevent or impede the application of ISSA 5000, but we note the uncertainty and the need for cross-applicability of ISSA 5000 and IESSA here for completeness.

### Possible Local Pronouncement

Local pronouncements may assist assurance practitioners in applying ISSA 5000 when it is adopted. Whilst broadly supportive of local pronouncements being issued, the type of pronouncement issued is important in determining their level of effectiveness.

We believe that any pronouncements on the reporting framework should be issued by the AASB, pronouncements on regulation and regulatory expectations should be issued by ASIC, and pronouncements relating to general education and material for preparers should be issued by Australian Institute of Company Directors (“AICD”) or other appropriate professional bodies.

The Consultation Paper identifies 85 matters which may be subject to a local pronouncement. We believe that the seven matters below should be addressed as matters of high priority.

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<sup>8</sup> Corporations Act 2001, s50.



1. The auditor's assessment of the completeness of disclosures.
2. Materiality and error evaluation.
3. Auditor's report(s).
4. The extent of assurance work where the entity states climate risks and opportunities are not material.
5. Providing and receiving assurance through value chains.
6. Consideration as to the implications of information technology general controls ("ITGCs") on the processes and controls over the sustainability data and disclosures.
7. Group audits and using the work of another practitioners that is not a registered company auditor (or equivalent).

In addition, we have identified eight matters in our response to Q11 (in addition to those set out in Attachment 2 to the Consultation Paper) where a local pronouncement would be welcome. We consider that these eight matters would be of the same priority as the seven matters outlined above.

Where application guidance or local pronouncements are provided, it is important that consideration be given to international operability so unintended inconsistencies with ISSA 5000 are not created.

**Q8: 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?**

We agree that issuing local pronouncements can promote audit quality, create certainty for practitioners and promote a consistent approach to matters arising across audit firms, as well as supporting a consistent understanding between assurance practitioners, experts, preparers, users, regulators and others.

The extent to which these aims are achieved will depend on the type of pronouncement which is issued – for example, an appendix to the standard would provide the most certainty (but would include a risk of inconsistency with the Corporations Act where guidance conflicted – for example, on double materiality and ASRS considerations<sup>9</sup>), whereas FAQs may not necessarily promote consistency in the absence of certainty as to whether the FAQ will be applied by a regulatory body. The issuance of Guidance Statements or Technical Staff Papers may be an appropriate compromise between the necessary speed with which the pronouncements must be issued, and the need for practitioners to have confidence that the pronouncements will be accepted and applied by regulators.

As set out in Q5 and Q7, where pronouncements are to be made regarding the Australian reporting framework (as suggested in paragraph 45 of the Consultation Paper), these pronouncements should be issued by the AASB or jointly with the AUASB, rather than by the AUASB.

Any pronouncements issued locally must be aligned to ISSA 5000 and should not supplement or carve-out any of the requirements, so as not to undermine the rationale for adopting ISSA 5000 detailed in Q4.

**Q9: Should the AUASB consider covering the matters identified in Attachment 2 in a possible local pronouncement?**

Except as outlined in Q10, we are supportive of the AUASB considering the matters identified in Attachment 2. However, given the quantum of areas being considered, it may be difficult for the AUASB to develop and issue local pronouncements with the required support of regulatory bodies, which is fundamental to achieve the aims set out in Q8 in the timeframes needed by stakeholders.

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<sup>9</sup> Corporations Act 2001, s336.

It is possible that the users may be stakeholders more widely (including investors, preparers and other users of the sustainability report), rather than assurance practitioners and as such we would recommend any guidance is published by bodies which provide educational resources to directors and preparers, for example, AICD, or other professional bodies (e.g. CA ANZ).

**Q10: Are there any matters identified in Attachment 2 that should not be addressed in a possible local pronouncement? Please provide reasons.**

We believe that the following matters identified in Attachment 2 should not be addressed in local pronouncements issued by the AUASB:

1. *a) The auditor's responsibilities under ASA 720 in relation to other information, such as disclosure in the OFR and disclosure of material climate risks and opportunities in other documents*  
*b) ASA 720 considerations (e.g. unaudited OFR)*  
*c) Application of ASA 720 to mandatory information not subject to assurance during phasing*

ASA 720 sets out that the auditor is required to<sup>10</sup>:

- Consider whether there is a material inconsistency between the other information and the financial report;
- Consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit; and
- Remain alert for indications that the other information not related to the financial report or the auditor's knowledge obtained in the audit appears to be materially misstated.

The requirements to consider other information are largely aligned with ISSA 5000<sup>11</sup>.

Existing guidance on ASA 720 is appropriately clear and applicable to sustainability reporting. Regulatory Guide 247 ("RG247") on the Operating and Financial Review is largely applicable, and where necessary, should be revised by ASIC, rather than supplemented by the AUASB.

2. *Whether it is necessary and possible to separate information on an AASB basis and GRI or other basis, having regard also to the requirement not to obscure the mandatory information:* This is guidance on the application of the reporting framework and such guidance should be issued by AASB.
3. *Whether to provide guidance on the competency that the engagement partner needs to appropriately identify and engage experts and to challenge experts, etc.:* There is sufficient information included in ISSA 5000, APES 110 and the proposed IESSA for audit firms to determine whether the lead assurance practitioner and engagement team have the requisite skills and experience to perform the engagement, including through the use of experts. Issuing a local pronouncement may result in an overly restrictive approach to determining competency being applied, cause international inconsistencies and may have adverse outcomes in terms of the supply of appropriately qualified sustainability assurance practitioners more widely.
4. *Possible transparency on use (not name) of experts to promote use:* Experts should be used where the engagement team does not have the necessary skills or expertise to complete the engagement. Encouraging the use of experts where such use may not be necessary would not necessarily improve the quality of assurance.

Providing transparency on the use of experts in the audit report may result in the perception of different levels of assurance: users may incorrectly believe that the use of an expert results in higher quality assurance, when that is not always the case (e.g. where the engagement team has that expertise within the team and does not engage an expert).

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<sup>10</sup> ASA 720, paragraphs 14 – 15.

<sup>11</sup> Exposure Draft, paragraphs 154 – 159.

Responsibility for the assurance report rests with the lead assurance practitioner and cannot be reduced through engaging an expert. ASA 620 currently prohibits auditors from referencing the work of an auditor's expert where the audit opinion is unmodified, unless required by law or regulation to do so. ASA 620 permits reference to work of an expert where the audit opinion is modified and reference to the expert's work is relevant to understanding the modification to the opinion, but notes that the auditor's report must indicate that such reference does not reduce the auditor's responsibility for that opinion. Noting that the assurance practitioner has relied upon the work of an expert in forming the opinion may be seen as an attempt to delegate the assurance practitioner's responsibility to the expert. We would support an approach similar to ASA 620 being adopted for sustainability assurance engagements.

5. *Reminding auditors that NGERs calculation methodology adopted but covers the entity and its controlled entities, not the CER groups:* As this relates to the application of the reporting framework, we consider such guidance should be issued by the AASB.
6. *Role of auditor in identifying potentially misleading and deceptive information on auditor's report and obligations to report suspected contraventions of the Corporations Act 2001 to ASIC:* We would welcome such guidance being issued by ASIC.

**Q11: Are there any matters that should be addressed in a possible local pronouncement in addition to those identified in Attachment 2?**

In addition to those matters identified in Attachment 2, a local pronouncement in the areas set out below may assist in achieving the aims set out in paragraph 45 of the Consultation Paper.

1. ISSA 5000 draws heavily on existing auditing standards, however, the level of guidance within ISSA 5000 is significantly less than in auditing standards. In practice, assurance practitioners are likely to draw on existing approaches to financial statement auditing, in determining their approaches to assurance over sustainability reporting. It would be useful for the AUASB to issue a local pronouncement outlining the extent to which existing auditing standards may be considered persuasive when undertaking sustainability assurance engagements.
2. ISSA 5000 currently includes limited information on assurance requirements regarding ITGCs and their application. Given that sustainability information will be underpinned by the use of IT, guidance on the application of ITGCs and the approach to assessing those controls would be beneficial.
3. As set out in Q7, there are circumstances where overseas operations of the entity are assured by individuals who are not registered company auditors (or equivalent). Guidance on how the requirements of ISSA 5000<sup>12</sup> regarding group audits and component auditors can be applied in Australia, and how the Australian auditor should interact with and consider relying on practitioners who are not registered company auditors (or equivalent) would address this uncertainty.
4. Numerous entities with cross-border activities or operations will also be subject to reporting requirements in those jurisdictions, which will be unlikely to align with the reporting framework applied in Australia. This may result in difficulties in separately identifying which reporting obligation each disclosure addresses. Practical guidance for assurance practitioners related to this could be addressed by the AUASB.
5. ISSA 5000 has limited guidance over the differential in work effort between limited and reasonable assurance. A local pronouncement covering expectations over the differential in work effort or outlining procedures which may (or may not) be appropriate when undertaking a limited or a reasonable assurance engagement would assist practitioners and improve consistency in approach. It may also go some way to educating wider stakeholders.
6. It may be difficult to provide reasonable assurance over primary data-based calculations of Scope 3 emissions where the entities in the value chain are not receiving assurance over their Scope 1 and Scope 2 emissions. A local pronouncement providing guidance on procedures which may be appropriate where the Scope 1 and Scope 2 emissions within the value chain have not been subject to

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<sup>12</sup> As updated at the March 2024 quarterly IAASB Board meeting.

assurance (or have been subject to a lower level of assurance) will assist assurance practitioners in testing and forming an opinion over Scope 3 emissions. It may also be appropriate for the AASB to produce guidance as to the expected level of verification undertaken by preparers prior to utilising primary data in the calculation of Scope 3 emissions in accordance with the draft ASRS, perhaps jointly with ASIC or the AICD.

7. While ISSA 5000 does not include the concept of 'key audit matters' as would be included for a financial statement audit under ASA 701, a local pronouncement on expectations regarding communicating key audit matters would encourage consistency in reporting of assurance reports. This matter may appropriately be considered in a local pronouncement on the assurance report, as highlighted in Q9. We note that this topic will be considered by the IAASB at its June 2024 quarterly Board meeting.
8. ISSA 5000 requires assurance practitioners to understand the entity, internal controls, and various other matters. Interpretation of ISSA 5000 could result in the assessment of the entity and internal controls being completed across the whole entity or limited only to those items relevant to sustainability reporting. Clarification on the extent of understanding required – whether it is over the full organisational structure and controls, or limited to those items relevant to sustainability reporting – would promote efficiency and effectiveness of assurance engagements.

**Q12: 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?**

Pronouncements on the application of the reporting framework are within the remit of the AASB. Guidance on any such application should be issued by the AASB, or jointly by the AASB and AUASB.

For completeness, we refer to Q10 and our response regarding ASA 720. The requirements under ASA 720 (and the equivalent requirements included in ISSA 5000) do not require the assurance practitioner to opine on the completeness of the other information (including the Operating and Financial Review), except where the omission is materially inconsistent with the financial report or sustainability report (respectively), with the assurance practitioner's knowledge obtained in the course of the engagement, or otherwise appears materially misstated. Issuing local pronouncements which expand the requirements beyond what is set out within ISSA 5000 or the existing auditing standards would not assist assurance practitioners.

**Q13: 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)?**

There is a risk that guidance provided over materials that "might" be referred to by the assurance practitioner could be interpreted as materials which "should" be referred to by the assurance practitioner. None of the materials listed as examples are incorporated into the underlying reporting standards. An entity could prepare a compliant draft ASRS report without referencing these materials. Referring to these materials in guidance would increase the risk of misalignment of expectations between preparers and practitioners where not all preparers refer to these materials and there is a risk that any list would quickly become outdated compared to the requirement in the draft ASRS to use all reasonable and supportable information available to the entity at the reporting date. The requisite skills and experience that the engagement partner and engagement team are required to have before accepting the engagement would include knowledge of relevant standards and other technical literature which may be persuasive or otherwise useful to the assurance practitioner in performing the engagement. We note however that such guidance may be useful to preparers of sustainability reports. We would recommend that this guidance be issued and regularly updated by the appropriate body – for example, AASB, AICD, or other professional bodies (e.g. CA ANZ).

**Q14: 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)?**

There is sufficient guidance covering the impact of climate and sustainability risks and opportunities on recognition, measurement and disclosure in the financial statements, for example:

- The IFRS Foundation republished revised educational material on ‘Effects of climate-related matters on financial statements’ in July 2023<sup>13</sup>.
- CPA Australia published ‘Climate risk and audit of financial statements’ in January 2023<sup>14</sup>.
- CA ANZ published insights into ‘The impact of climate-related risks on statutory financial statements and auditors’ reports’ in June 2022<sup>15</sup>.

In addition, each of the large auditing firms have published information on the impact of climate change on financial statements<sup>16</sup>. We consider the guidance currently available to be sufficient.

We note that the AUASB and AASB jointly published guidance in this area in 2018<sup>17</sup>. It may be appropriate to update this guidance considering the revisions to the reporting framework and assurance landscape. We recommend any such guidance be published jointly by the AUASB and AASB, rather than the AUASB alone, given that it provides guidance on the reporting framework.

## Other Matters

**Q15: 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?**

There are three schemes regulated by the CER with assurance requirements, being the:

- National Greenhouse and Energy Reporting Scheme (“NGER”);
- Renewable Energy Target (“RET”); and
- Australian carbon credit units (“ACCU”).

Regardless of the scheme or the type of audit being undertaken, there is a requirement for CER audits to be undertaken by an auditor on the register of greenhouse and energy auditors. However, the CER auditor need not be the registered company auditor of the reporting entity, and the CER auditor may not have the requisite skills and competencies to be a registered company auditor for the purposes of the financial statement audit. Where the CER auditor and the auditor of the sustainability report and financial report are not aligned, it may be helpful to provide guidance on the extent of interaction (if any) which should occur between them.

Interaction between the CER auditor and sustainability report assurance practitioner may be complicated by differences in reporting timing. The NGER reporting period is from 1 July – 30 June, irrespective of the entity’s financial year, and the NGER report is due by 31 October (which may not align with the entity’s annual report lodgement date under the Corporations Act). This is likely to increase the risk of mismatches in timing in the release of the ASRS assurance report and the CER auditor’s report.

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<sup>13</sup> <https://www.ifrs.org/content/dam/ifrs/supporting-implementation/documents/effects-of-climate-related-matters-on-financial-statements.pdf>

<sup>14</sup> <https://www.cpaaustralia.com.au/-/media/project/cpa/corporate/documents/tools-and-resources/environmental-social-governance/cpa-australia-guide-on-climate-risk-and-audit-of-financial-statements.pdf>

<sup>15</sup> <https://www.charteredaccountantsanz.com/-/media/d8457c09b8c34fff873b81f336d922c6.ashx>

<sup>16</sup> Grant Thornton: How climate change is impacting financial statements

<sup>17</sup> Climate-related and other emerging risks disclosures, December 2018.

The information subject to assurance requirements by the CER, while loosely connected by topic, is fundamentally different to the information that would be included in an ASRS compliant report. There are differences in reporting boundaries, compliance requirements and disclosures. This is likely to result in differences in total Scope 1 and Scope 2 emissions reported to CER under NGER, and ASIC under the Corporations Act. Guidance on how the assurance practitioner should respond to any such differences would be useful.

It is unlikely that if a separate CER auditor is used for the entity's CER requirements, that the work could be relied upon for assurance provided over reporting under ASRS. Due to the difference in scope of the information subject to assurance there may be findings from the CER auditor's compliance work that are identified subsequent to the issuance audit of the ASRS report. Guidance as to how these matters are evaluated would be useful.

In our view, there will be minimal efficiencies to be leveraged between CER compliance audits and ASRS assurance, but this may not be appreciated by preparers and stakeholders more widely. It may be useful for the AUASB to communicate the additional work effort and cost, and inability to rely on that work, to preparers and wider stakeholders.

**Q16: 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?**

As set out in Q7 and Q11, there will be circumstances where overseas operations are subject to assurance by individuals who are not a registered company auditor (or equivalent). The responses to Q7 and Q11 apply equally here.

As also set out in Q7, it is anticipated that the proposed IESSA will be adopted in Australia. The adoption of IESSA is a factor which will have to be considered for entities with cross-border activities or operations and this should be considered by AUASB when developing any local pronouncements.

Entities with cross-border activities or operations will also be subject to reporting requirements in overseas jurisdictions, which may not align with the reporting framework applied in Australia.

This may result in:

- Additional disclosures in the annual report, which may obscure mandatory disclosures locally where disclosures are made that are mandatory in other jurisdictions;
- Difficulties in separately identifying which reporting obligation each disclosure addresses. The practical ability of preparers to address these requirements and for assurance practitioners to review them may need to be addressed by the AASB and AUASB, respectively; and
- The issues identified in response to Q2 and Q3 – namely, the supply of sufficiently qualified sustainability professionals to assist entities and to perform sustainability assurance engagements; and the ability of entities to develop and implement sufficiently reliable processes and systems to facilitate assurance – are likely to be exacerbated for entities which have cross-border activities or operations.

**Q17: 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?**

The *Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024* sets out that the auditor of the financial statements shall also be the auditor of the sustainability report. The Corporations Act states that an individual, a firm, or a company may be appointed as an auditor<sup>18</sup>. Where the appointment is of a firm, that appointment is taken to be an appointment of all members of the firm who are registered company

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<sup>18</sup> S324AA(1)



auditors<sup>19</sup>. As such, where the appointed auditor is a firm, the requirement in the Bill for the auditor of the financial statements to also be the auditor of the sustainability report is met if the appointed audit firm completes the audit of both reports. We understand that some have interpreted the draft legislation to mean the same assurance practitioner must sign both reports. Based on the draft legislation, we see no requirement for the individual auditor signing the financial statements to be the same individual signing off the sustainability report if the appointed auditor is the audit firm, although we appreciate that some firms may choose for the individuals to be the same. The appointment of the lead auditor to the engagement is a matter for firms to determine, based on the skills and expertise needed for the engagement. As sustainability assurance is a new area of expertise and the level of knowledge upskill and training investment is significant, this flexibility is fundamental to our ability to resource sustainability assurance engagements with appropriately skilled team members.

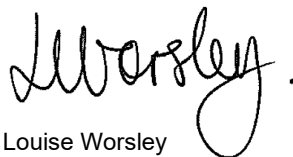
Considering the above, as a firm, we are making amendments to quality control systems to enhance our ability to comply with other related requirements, such as mandatory lead assurance practitioner rotation, s311 reporting requirements of the individual partners, independence declarations and other ethical considerations related to the individual partners.

Where an entity has an audit company or audit firm appointed as the auditor and that audit company or firm chooses to use two different individuals to sign the financial statement and sustainability assurance reports, we expect there will be two independence declarations. We also expect that over time, as sustainability and climate experience is expanded, the sustainability and financial statement auditor may become the same individual, but in the early stages, the flexibility for audit firms to appoint different individuals with the appropriate skills and expertise to engagements will result in higher quality assurance.

Yours sincerely



Andrew Rigele  
National Managing Partner - ESG



Louise Worsley  
Partner – Audit & Assurance

GRANT THORNTON AUSTRALIA LIMITED

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<sup>19</sup> S324AB(1)