Sub 18 - ASSA5010

Mr Doug Niven
Chair, Auditing and Assurance Standards Board
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via email: enquiries@auasb.gov.au

15 November 2024

Dear Mr Niven,

Exposure Draft: Proposed Australian Standard on Sustainability Assurance ASSA 5010 ***Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001***

We welcome the opportunity to respond to your invitation to comment on the Auditing and Assurance Standards Board (AUASB)'s Exposure Draft: Proposed Australian Standard on Sustainability Assurance ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* (September 2024) (the ED).

Overall, we are supportive of the phasing of mandatory assurance requirements and believe that the timeline outlined in the ED is logical in terms of complexity of subject matter and entities' readiness to report. Early adoption of International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements,* will require Australian assurance practitioners to develop methodology and guidance around sufficient and appropriate assurance evidence in a relatively short time. Whilst we consider the proposed timeline to be achievable, we welcome the AUASB's ongoing guidance in helping practitioners address any interpretation and / or implementation matters that may arise.

We have responded to each of the questions within the ED in Annex 1.

We look forward to further engagement with the AUASB as this area continues to develop. We would be pleased to discuss our comments with you.

Yours sincerely

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Annex 1 - 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.

a. We agree that the audit and review requirements for the disclosure topics in the proposed AASB S2 are appropriate and firmly believe that the role of assurance is vital in the confidence in the information being reported, whilst balancing the readiness of entities to have their sustainability-related reported information assured. We believe the proposed timeline in ED 5010 to be achievable by both entities and auditors.

b. We consider the subject matters of Governance and Risk Management are inherently intertwined and believe that assurance requirements for Risk Management could be brought forward into year 1 of the proposed timeline.

c. Given we are an assurance provider, we do not believe it appropriate to comment on the cost of assurance.

d. We see varying degrees of readiness at our clients:
- Group 1 entities: There is a mix of those who have already been subject to voluntary assurance to those who have not, but we believe that assuring the year 1 requirements per the ED is achievable.
- Group 2 entities: This group is more limited in terms of those who are currently voluntarily reporting and subject to assurance and many entities in Group 2 continue to require significant uplift to get to the reporting and assurance requirements within the proposed timelines. That said, we are having conversations with a number of Group 2 entities who have commenced planning activities for future reporting (particularly in the asset management industry) and are starting to engage in readiness for reporting and assurance.
- Group 3 entities: We have had limited interaction with Group 3 entities to date and we believe this group will require significant uplift in processes and controls to enable accurate reporting.

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?

Yes. We are a large firm with a substantial Assurance practice including financial auditors and experienced sustainability assurance practitioners and therefore we are in the position to adequately resource the audit and review requirements in accordance with the timeframe proposed in the ED.

Attracting and retaining sufficient and appropriate assurance practitioners is a continued challenge for the profession. It is vital that the domestic and international supply of assurance professionals grow as Australian entities' assurance requirements increase, and that the structures to enable this are in place, such as the ANZSCO occupation of External Auditor be included in the Core Skills Occupations List.

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

Yes we believe it is logical to include Governance and Risks and Opportunities from year 1 as this will be important to users' understanding of the entity / foundation upon which the sustainability reporting will be performed.

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 do agree with the principle that where there are statements that there are no material risks or opportunities, this should be subject to the same level of assurance as identified risks and opportunities. However, we believe that further guidance is needed in this area in terms of the process of determining materiality and the level of assurance evidence required in order to be satisfied with such statements.

In addition, we seek clarity and direction from the AUASB as to whether statements of immateriality over other elements of an entity's climate report (such as immaterial Scope 1 and 2 emissions) would also be subject to the same level of assurance as reported information.

We believe further guidance will be necessary to assist assurance practitioners in determining how much assurance evidence would be required in order to assure such statements.

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 believe that the assurance phasing is logical. Whilst lessons may be learned from Group 1 and applied to Groups 2 and 3, some of these entities will need the additional preparation time for reporting and assurance, and may be more resource constrained, and therefore the same settings and progression is reasonable.

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)?

Yes.

However, entities require further clarity on the definitions of ‘revenue’ and ‘assets under management’ in order to ensure they are determining their Group requirements appropriately. This will also aid them in planning if they are close to the thresholds and be ready for reporting in an alternative Group.

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

We agree with the ED’s approach over comparative information as a change in the assurance evidence required between a prior ‘limited assurance’ year versus a current ‘reasonable assurance’ year, would be challenging.

However, we believe the assurance profession will need guidance and illustrative examples from the AUASB as to what the Assurance Report content will be where there are different levels of assurance within the current year and vs the comparative year.

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

No comment.

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?

No comment.

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

Adoption of 'International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements' and possible local standard.

If the AUASB chooses to adopt ISSA 5000 in Australia (or develop a local equivalent) for the first year of mandatory assurance reporting, this will be globally pioneering and significantly in advance of the ISSA 5000 'effective date' (ISSA 5000 para 15) of periods beginning on or after 15 December 2026, or as at a specific date on or after 15 December 2026.

When performing Group 1 assurance engagements, there will be precedent setting and many first time scenarios. Given ISSA 5000 will not be globally adopted until 2027, Australian assurance practitioners will be required to develop methodology and guidance around sufficient and appropriate assurance evidence over the next six to twelve months. The AUASB's role will be critical in ensuring consistency in the assurance profession. As such, we seek ongoing guidance from the AUASB to assist practitioners address any interpretation and / or implementation matters that may arise in relation to conducting assurance under ISSA 5000.

Limited Assurance

The concept of limited assurance is not well known within the Australian market, other than in the context of a half year review for financial audit purposes. Communications and education will be required from the AUASB to upskill the users of the assurance report on the meaning of the various levels of assurance contained within.

Materiality guidance

We believe guidance is required to assist assurance practitioners in determining materiality for each element of the climate report. Specific consideration will be required with regards to elements which may be considered immaterial in the context of the full report, for example, Scope 1 emissions in some industries may be significantly immaterial to their Scope 3 emissions.