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Sub 21 CP-Climate and Sustainability

Auditing and Assurance Standards Board
530 Collins Street
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Consultation Paper: Assurance over Climate and Other Sustainability Information

Deloitte welcomes the opportunity to respond to the Auditing and Assurance Standards Board's (AUASB) Consultation Paper on Assurance over Climate and Other Sustainability Information. Our response draws on the breadth and depth of expertise including acting as assurance providers and auditors, management consultants and financial advisors.

We commend the AUASB for their continued efforts to develop a globally consistent assurance standard in Australia. We strongly endorse the AUASB's proposal to adopt ISSA 5000 *General Requirements for Sustainability Assurance Engagements; and Proposed Conforming and Consequential Amendments to Other IAASB Standards* (ISSA 5000) in full, subject to seeing the final standard, supported by the issuance of a local pronouncement. We believe this is an important step in facilitating the convergence of international and national auditing and assurance standards, and enhancing the quality and consistency of global practice. Internationally aligned assurance standards will also reduce the reporting burden and costs, particularly for those Australian entities that operate internationally, and will help facilitate seamless movement of professionals between jurisdictions to assist with the availability of resources in Australia.

Relative to financial reporting, sustainability reporting is still in its infancy, and consequently there is a heightened level of uncertainty relating to sustainability disclosures and the approach to assuring such information. We are supportive of the AUASB issuing a local pronouncement, including guidance relating to disclosures under the mandatory climate reporting framework in Australia, to assist in creating certainty for practitioners in executing assurance engagements, and promote audit quality and consistency.

The timely issuance of a sustainability assurance standard in Australia is critical to facilitate the preparation for, and execution of, consistent and quality sustainability assurance engagements. We understand the constraints faced by the AUASB given that ISSA 5000 and the Australian Sustainability Reporting Standards (ASRS) are still to be finalised. In the case where the effective dates for mandatory climate reporting legislation in Australia and the assurance standard do not align, clarity from the AUASB will be required on whether ASAE 3000 or ISSA 5000 should be applied. If required, guidance for the transition from ASAE 3000 to ISSA 5000 will also be important, including the form and content of communicating the need for the different assurance standards to users.

Possible Assurance Phasing Model

We acknowledge the challenges that are faced with developing a pathway to mandatory assurance in the context of proposed Federal Government policy and exposure draft sustainability reporting standards. The rapid pace of change in the requirements and expectations for climate disclosures is placing pressure on the ability of reporting entities and assurance practitioners to prepare for mandatory assurance from 1 January 2025. We recognise the challenge with balancing stakeholder needs and expectations for climate disclosures, against supporting reporting entities who need time to prepare for mandatory reporting and assurance. In principle, we are supportive of the phased assurance approach which will allow practitioners time to develop internal processes and assurance methodology, and to train and recruit sufficient competent resources.

Recognising that the possible phasing model presented in the Consultation Paper is not a proposal by the AUASB, we make the following observations for the AUASB's consideration:

Alignment with the "modified liability" framework

We would be supportive of a phasing approach that results in mandatory reasonable assurance for all disclosures for Group 1 reporting entities within the final period of the director's modified liability framework. We believe this would better align to decisions by Treasury, and will result in a simplified phasing model that may be more understandable for all participants, including company directors, assurance practitioners, users of reports and regulators. We note that there is currently an inconsistency in the first year of mandatory reasonable assurance for all disclosures for Group 1 entities (years commencing 1 July 2027 to 30 June 2028) as proposed, where reports commencing 1 July 2027 to 31 December 2027 will receive relief under the modified liability framework and be subject to reasonable assurance, whereas reports commencing 1 January 2028 to 30 June 2028 will not be subject to reasonable assurance until the period after the relief has ended.

For Group 2 and 3 reporting entities we are supportive of later phasing of reasonable assurance and would be cautious in bringing forward mandatory reasonable assurance on all disclosures, to align with the modified liability framework as these entities are more likely to have less mature reporting systems and processes and therefore may not be prepared for reasonable assurance in the shorter timeframe.

Interrelated topics and disclosures

Foundational to the relevance of an entity's climate-related financial disclosures is the connectivity of the information, both within its climate-related financial disclosures and with other information in annual reports. We are supportive of a phasing approach that requires, where possible, consistent levels of assurance over climate topics and disclosures that are strongly interrelated, to enable more efficient audit and assurance engagements and to manage user expectations. Specifically, we highlight the following:

- Whilst we agree that governance is an important and overarching pillar, due to its connectivity with all other climate-related matters that are the subject of disclosure, there may be challenges with providing reasonable assurance only on governance disclosures and limited assurance on other topics such as strategy, risk management and transition plans. Additionally, it is likely that users may assume reasonable assurance over governance disclosures to represent assurance over the effectiveness of an entity's governance processes. In the absence of further guidance and the education of users, mandating reasonable assurance for governance disclosures only, with limited assurance over other climate disclosures, may create an expectation gap and result in users taking greater comfort from reasonable assurance on governance disclosures than is intended.
- For certain reporting periods, the assurance requirements for "Other metrics and targets (excluding appropriateness of metrics)" and "Other metrics and targets (appropriateness of metrics)" are inconsistent. We would expect that for any given reporting period, the assurance requirements over the metrics and targets, including the appropriateness of the metrics, are consistent. The assurance requirements would be phased by group, and for each group starting with limited assurance in earlier years of reporting followed by reasonable assurance. This would be a more straight-forward approach and reduce the risk of confusion of users.
- Entities may choose to obtain voluntary assurance or assurance at a higher level on certain information for earlier years than specified by the mandatory phasing model. Guidance should be provided regarding factors that may be considered when making this decision during the pre-acceptance phase of the engagement. We would expect there to be a reasonable basis for obtaining early or higher levels of assurance than mandated, and should not result in inconsistent levels of assurance obtained on interrelated information.

Expectations of limited and reasonable assurance

Although the assurance standards provide a clear distinction between the objectives of a limited and reasonable assurance engagement, given the unfamiliarity with climate-related financial disclosures, there is likely to be inconsistency amongst user understanding and a risk of misinterpretation regarding the comfort provided under the different levels of assurance.

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Additionally, in practice, the work effort between providing limited and reasonable assurance may not be significantly different, particularly in early years of reporting or in situations where, for example, inherent risks are identified, systems and processes are not sufficiently reliable, or issues are identified that requires additional procedures to be performed. Guidance to both users and assurance practitioners will be required to minimise any expectation gap and ensure consistency in the execution of climate assurance engagements.

Phasing of Group 2 and Group 3 entities

We are supportive of the approach for Group 2 entities to commence with the same settings in their first year of mandatory assurance as Group 1 entities for the years commencing 1 July 2025 to 30 June 2026, , and for Group 3 entities to have a similar phasing to Group 2 entities but commencing one year later (subject to our comments above). This approach allows smaller entities additional time to prepare, who will also have the benefit of learning from Group 1 reporting, as well as the opportunity to obtain voluntary assurance to prepare for mandatory assurance. We also consider this approach to be appropriate in order to reach a position of reasonable assurance over all mandatory climate disclosures made by an entity from financial years commencing 1 July 2030.

Audit and Assurance Quality and Regulation in Australia

External assurance plays an important and necessary role within the reporting ecosystem to enhance the credibility of climate and sustainability disclosures in the external market. We strongly support Treasury's proposal that financial auditors would lead climate disclosure assurance engagements, supported by technical climate and sustainability experts, as required. We believe this will enable the most efficient and effective execution of mandatory climate disclosure assurance in Australia. The foundations of the ASRSs are intended to facilitate greater connectivity and consistency between climate-related financial disclosures and financial information disclosed in annual reports. It is expected that there will be significant crossover of underlying data and information used in preparing climate-related financial disclosures and financial information. Given their experience and existing knowledge of auditing and assurance standards and the reporting entities' financial information, we believe that financial auditors are best positioned to lead climate disclosure assurance engagements. This will result in more efficient audits, and more importantly, lead to higher quality audits and support confidence of investors and users.

The ability for practitioners to provide high-quality assurance remains contingent on the quality of information produced by reporting entities. We expect that entities will be better prepared to provide information for disclosures that are based on historical information or within their control, than for disclosures that may involve forward looking information or assumptions.

We note that there will likely be an increase in assurance reports with modifications or emphasis of matters reported by auditors with the extension of auditor reporting to sustainability reports. This is particularly expected in the early years of a mandatory reporting regime as data reporting systems evolve, familiarisation of disclosure standards by preparers grows, and reporting skills and experience develop. Such an increase in modified auditor reporting could have a negative impact on markets and investor perceptions unless the situation is put in the right context by the right participants within the reporting ecosystem (such as regulators, preparers and assurance standard-setters and assurance providers). We believe regulators and standard-setters, including the AUASB, have an important role to play in raising awareness of the challenges of transitioning to a new reporting and assurance regime.

Regulation of climate and sustainability assurance engagements will also be critical to enhancing public interest confidence. We continue to encourage the AUASB to work closely with ASIC and the Clean Energy Regulator to determine division of responsibilities and to provide a pragmatic approach to implementing Australian assurance standards and providing regulatory oversight over the quality of sustainability assurance services in Australia.

Thank you for the opportunity to provide our views. Should you wish to discuss the responses within our submission, please reach out to me jacqustrydom@deloitte.com.au.

Yours sincerely

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Questions		Deloitte Response
Part I – Demand for Assurance and Ability to Meet that Demand		
1.	Consideration should be given to the relative importance of each type of disclosure and the cost of assurance over that information. In that context, do you believe that limited assurance or reasonable assurance should be required earlier or later for any disclosures in the possible assurance phasing model in Attachment 1? Please provide reasons.	Refer to comments in the cover letter.
2.	We are seeking information on the expected ability of audit firms to resource assurance engagements using partners and staff with appropriate competence, skills expertise, as well as their own internal or external experts. If you are an auditor, do you consider the possible assurance phasing in Attachment 1 could be adequately resourced by your audit firm for entities whose financial reports are audited by your firm? If not, please identify any pressure points in the model and reasons.	The rapid pace of change in the requirements and expectations for climate disclosures, together with the fact that neither the Australian reporting framework or assurance standards are finalised, places additional pressure on the ability of audit firms and practitioners to prepare for mandatory assurance from 1 January 2025. Significant time and resources continue to be required to train and upskill practitioners to facilitate Treasury's target of reasonable assurance over all mandatory climate disclosures made by an entity from financial years commencing 1 July 2030. In principle, we are supportive of the phased assurance approach which will allow practitioners time to develop internal processes and assurance methodology, and to train and recruit sufficient competent resources. However, the ability for practitioners to provide high-quality assurance remains contingent on the quality of information produced by reporting entities. We expect that entities will be better prepared to provide information for disclosures that are based on historical information or within their control, than for disclosures that may involve forward looking information or assumptions.
3.	Do you consider that the systems and processes of entities in Groups 1, 2 and 3 will be developed, implemented and sufficiently reliable to facilitate the assurance processes as outlined in the possible assurance phasing model in Attachment 1?	Particularly in Group 1 entities, we have observed an uplift in company directors and management's awareness of the need to prepare for mandatory climate-related financial disclosures and assurance, which is reflected in the focused attention of boards, hiring and training of staff, and investments in implementing and developing internal processes and systems to meet the requirements of mandatory climate-related financial disclosures and assurance.

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Part I – Demand for Assurance and Ability to Meet that Demand		
3. cont..		However, we also note that there continues to be resourcing pressure across many of the disciplines that will be required for the implementation of climate reporting including for example sustainability and financial reporting experts and information technology experts. This is expected to be an on-going challenge in Australia as the sustainability reporting regime continues to evolve beyond climate-related financial disclosures. As noted above, we expect that entities will be better prepared to provide information for disclosures that are based on historical information or within their control, than for disclosures that may involve forward looking information or assumptions. We also expect that there will likely be an increase in assurance reports with modifications or emphasis of matters reported by auditors with the extension of auditor reporting to sustainability reports. This is particularly expected in the early years of a mandatory reporting regime as data reporting systems evolve, familiarisation of disclosure standards by preparers grows, and reporting skills and experience develop. Such an increase in modified auditor reporting could have a negative impact on markets and investor perceptions unless the situation is put in the right context by the right participants (such as regulators, preparers and assurance standard-setters and assurance providers). We believe regulators and standard-setters, including the AUASB, have an important role to play in raising awareness of the challenges of transitioning to a new reporting and assurance regime. Additional considerations - Group 3 reporting entities Although entities in Group 3 will have disclosure relief where governance and risk management processes undertaken by the Board appropriately conclude no material climate risks and opportunities exist, a statement to this effect, as well as an explanation of how this conclusion was reached, will need to be disclosed. Where the exemption applies, entities would still be required to include a directors' declaration covering that statement and have the statement audited. This is expected to have a significant burden on Group 3 entities, who although they have more time to prepare, are still more likely to struggle to have the systems, processes and resources to undertake the assessment. Refer to Q11 below regarding guidance needed to clarify the work effort required by auditors to audit the statement.

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Part I – Demand for Assurance and Ability to Meet that Demand		
3. cont..		**Additional considerations - Superannuation entities** We believe that superannuation entities are likely to initially face challenges in complying with climate-related financial disclosure requirements, and we believe Australian superannuation funds share these challenges with their global counterparts. The data necessary for reporting on scope 3 emissions and other relevant metrics at the fund level is still in its early stages of development, with only an extremely small percentage of major global pension scheme entities currently engaging in such reporting practices. Our global outreach has revealed that this observation applies to funds even in more advanced markets such as the UK and among the largest asset manager businesses worldwide. However, we expect that technology solutions will emerge with time that will reduce these challenges and allow superannuation entities to report on a comparable basis with other entities. We believe that the data limitations in the superannuation industry will also impact the ability of assurance providers to provide Treasury's proposed levels of assurance, at least in the short term. We recommend that the AUASB work collaboratively with the superannuation industry and the AASB to consider a phase in of assurance requirements that is appropriate given the proportionality considerations relevant to the industry and the availability of assurable data. We recommend that the AUASB work closely with the AASB to ensure that any reporting requirements specifically developed for the superannuation industry will be capable of being assured once processes and data reach a sufficient level of maturity and consistency.
Part II – Adoption of ISSA 5000 *General Requirements for Sustainability Assurance Engagements*		
4.	Do you agree that, subject to seeing the final standard, ISSA 5000 should apply to assurance over: a) For climate disclosures under the Australian reporting framework; i. Assurance mandated by the final phasing model developed by the AUASB; and ii. Any earlier voluntary assurance or adoption of reasonable assurance than mandated by the AUASB's assurance phasing; and b) Voluntary assurance over any other sustainability information in annual or other periodic reports, including climate disclosures that are not required by the final AASB reporting framework.	In principle, we are supportive of the AUASB's proposal to adopt the final ISSA 5000 in full, subject to seeing the final standard, for both mandatory and voluntary assurance under the final AASB reporting framework, and other voluntary assurance over other sustainability information. The adoption of a framework-neutral standard to be applied in Australia for assurance over both mandated reporting by the AASB and voluntary assurance under other reporting frameworks, will be important for maintaining consistent expectations and understanding of investors and users. A globally consistent assurance standard in Australia will also reduce the reporting burden and costs, particularly for those Australian entities that operate internationally.

Part II – Adoption of ISSA 5000 *General Requirements for Sustainability Assurance Engagements*		
5.	Should any parts of ISSA 5000 that may not be relevant to assurance of disclosures under the mandatory climate reporting framework in Australia be identified in guidance in a local pronouncement?	Refer to response to Q8 below regarding local pronouncements covering assurance matters under the Australian reporting framework.
6.	Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed equivalent of ISSA 5000?	Consistent with our response to the AUASB Consultation Paper "Exposure of the IAASB's Proposed ISSA 5000 *General Requirements for Sustainability Assurance Engagements; and Proposed Conforming and Consequential Amendments to Other IAASB Standards*" we highlight the following areas where guidance will be required to clarify the application of the proposed equivalent of ISSA 5000 in Australia. **a) Applicability of Australian specific Assurance Standards** Where Australian specific assurance standards are available (e.g. ASAE 3100 and ASAE 3150) and the sustainability matter and sustainability information for an engagement are within the scope of these Australian standards (e.g. compliance engagements or engagements on controls), guidance will be required from the AUASB to determine which standard should apply. **b) Applicable standard for assurance engagements under the NGER Act** For assurance engagements conducted in Australia required under the NGER Act, the assurance standard(s) applicable for the engagement are typically specified by the CER or by the relevant legislation. Guidance from the AUASB, in conjunction with the CER, regarding the applicable standards for such assurance engagements will be required. Revisions to Guidance Statement GS 021 *Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes* may also need to be considered. **c) Application of ISAE 3410 / ASAE 3410 or ISSA 5000** Clarification of which standard applies when an assurance engagement includes GHG information but there is no separate GHG Statement. We understand that this is currently being considered by the IAASB.

Part II – Adoption of ISSA 5000 *General Requirements for Sustainability Assurance Engagements*		
7.	Are there principles and practices considered appropriate in maintaining or improving assurance quality in Australia that may, or do, prevent or impede the application of the proposed equivalent of ISSA 5000, or may conflict with the proposed standard?	We are not aware of any principles and practices considered appropriate in maintaining or improving assurance quality in Australia that may, or do, prevent or impede the application of ISSA 5000, or may conflict with the proposed standard.
Part III – Possible Local Pronouncements		
8.	Should the AUASB develop and issue a local pronouncement to supplement the final ISSA 5000 dealing with assurance matters under the Australian climate and sustainability reporting framework? Please provide your reasons. Do you agree with the reasons for developing a local pronouncement in paragraph 45?	We are supportive of the AUASB developing and issuing a local pronouncement to supplement the final ISSA 5000, that addresses assurance matters under the Australian climate and sustainability reporting framework, consistent with the reasons outlined in paragraph 45 of the Consultation Paper. Relative to financial reporting, sustainability reporting is still in its infancy, and consequently there is a heightened level of uncertainty relating to sustainability disclosures and the approach to assuring such information. Issuing a local pronouncement that specifically addresses assurance matters under the Australian climate and sustainability reporting framework (including parts of ISSA 5000 that may not be relevant to assurance of disclosures under the mandatory climate reporting framework in Australia) will assist in creating certainty for practitioners in applying the assurance approach, promote audit quality and consistency, and support confidence of investors and users.
9.	Should the AUASB consider covering the matters identified in Attachment 2 in a possible local pronouncement?	Yes, we are supportive of the AUASB issuing a local pronouncement that addresses the matters identified in Attachment 2 of the Consultation Paper. Refer to additional comments in Q11 below.
10.	Are there any matters identified in Attachment 2 that should not be addressed in a possible local pronouncement? Please provide reasons.	No comments.

Part III – Possible Local Pronouncements		
11.	Are there any matters that should be addressed in a possible local pronouncement in additional to those identified in Attachment 2?	To the extent that they are not addressed by the IAASB in the final ISSA 5000 standard or additional guidance material, we also suggest the AUASB include the topics listed in paragraphs 39(c) and 50 of the Consultation Paper in a local pronouncement. Specifically: • The practitioner's work effort on the entity's materiality process and identified disclosures in the pre-acceptance phase; • The approach for group engagements and consolidated information; • differentiation of work effort between limited assurance and reasonable assurance engagements; and • Fraud and professional scepticism. We also welcome additional Australian specific guidance with respect to the following: • Applicability of Australian specific Assurance Standards (refer to response to Q6 above for further details) • Applicable assurance standards under the NGER Act (refer to response to Q6 above for further details). Other matters and considerations: • Topic #11 - *Disclosures on governance processes, controls and procedures to monitor, manage and oversee climate-related risks and opportunities.* We suggest the AUASB consider this as a high priority rather than medium priority, given the importance of governance as a topic itself and the proposed timing of assurance. Refer also to comments in the cover letter. We strongly recommend the AUASB provide guidance on the assurance objectives and work effort required for providing both limited and reasonable assurance over governance disclosures. • For Group 3 entities seeking disclosure relief on a materiality basis, given that the statement concluding no material climate risks and opportunities will be included in the Directors' Declaration, clarity will be required with respect to the work effort required to audit that statement.

Part III – Possible Local Pronouncements		
12.	To assist the auditor in considering the adequacy of disclosures, should any local pronouncement include material on applying aspects of the reporting framework in addition to that available in sustainability standards and material from other standard setters or regulators? For example, should the auditor be reminded about their obligations under ASA 720 to consider omissions of material non-climate sustainability risks and opportunities in the Operating and Financial Review? If so, should guidance be provided on reporting frameworks that could be referred to in that regard?	Yes. We are supportive of the AUASB providing additional guidance that provides connectivity between reporting frameworks and material from other standard setters and regulators, to assist with facilitating the transition to the new sustainability reporting and assurance regime.
13.	Should guidance be provided on materials that might be referred to by the auditor in assessing disclosures (e.g. standards on Financed Emissions, Facilitated Emissions and Insurance-Associated Emissions at The Global GHG Accounting and Reporting Standard for the Financial Industry)?	Yes. To the extent that reference to other materials, standards or frameworks is required or may be considered, under the Australian mandatory climate and sustainability reporting framework, guidance on assurance considerations in such circumstances would be helpful.
14.	Should any local pronouncement cover considerations about the impact of climate and sustainability risks and opportunities on recognition, measurement and disclosure in the financial report (e.g. impairment of assets, provisions)?	Yes. We are supportive of the AUASB issuing such guidance, to assist practitioners in identifying areas of connectivity between climate-related financial disclosures and other information in annual reports. This will ultimately help facilitate consistent execution of assurance methodology (e.g. risk assessment) and higher quality assurance engagements. We recommend the AUASB work closely with the AASB to first identify key areas of connectivity between climate-related financial disclosures and other information in annual reports, followed by sustainability topics other than climate, as the suite of sustainability standards evolves.

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Part IV – Other Matters		
15.	The Clean Energy Regulator (CER) has assurance requirements for some of the entities that will be covered by the climate reporting requirements under the Corporations Act. These include obtaining external assurance on Scope 1 and 2 emission intensity determination pursuant to section 17 of the Safeguard Mechanism Rule. Are there any aspects of the CER's current reporting and assurance regime that the AUASB should consider when developing pronouncements on assurance over climate-related financial disclosures and other sustainability information?	Refer to response provided in Q6, regarding clarification on the applicable standard for assurance engagements under the NGER Act, and application of ISAE 3410 / ASAE 3410 or ISSA 5000.
16.	Some entities that will be subject to the mandatory proposed climate reporting requirements have cross-border activities or operations. Are there any international factors that the AUASB should consider when developing its proposed pronouncements relating to assurance over climate-related financial disclosures and other sustainability information?	Alignment of local standards and pronouncements with global standards is critical to minimising compliance costs and duplication of effort, for both reporting entities and assurance providers. We encourage the AUASB to minimise deviation from ISSA 5000 as much as possible. Where additional guidance is issued with respect to reporting frameworks other than the mandatory climate reporting framework in Australia, these should align to global standards or those relevant to the respective reporting jurisdictions.
17.	Do you have suggestions on any other matters that the AUASB should consider in relation to assurance over climate-related financial disclosures and sustainability reports?	No further comments.