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

Sub 16 -ASSA5010

15 November 2024

Dear Chair,

KPMG response: Proposed Australian Standard on Sustainability Assurance – ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001

As a leading professional services firm, KPMG Australia (KPMG) is committed to meeting the requirements of all our stakeholders – not only the organisations we audit and advise but also employees, Governments, regulators – and the wider community. We strive to contribute in a positive way to the debate that is shaping the Australian economy, and we welcome the opportunity to comment on the Exposure Draft (ED 02/24).

KPMG is passionate about the role we play as assurers, increasing confidence in investment grade information, both for financial as well as non-financial disclosures. This is critical to support the integrity of capital markets, and we are proud of the public interest role we play.

KPMG has been actively involved in recent consultation processes on the topic of climate and sustainability disclosures, including a May 2024 submission to the AUASB Consultation Paper on *Assurance over Climate and Other Sustainability Information*, and 2023 submission to Treasury's Consultation Paper on *Climate-related financial disclosure*.

KPMG supports an assurance phasing model. We agree with the approach of commencing with limited assurance and transitioning to reasonable assurance over time. In the context of climate disclosures, this transition would offer a robust degree of credibility, supporting informed decision-making in the sector.

To support assurance practitioners and achieve consistency in practice, we consider that guidance materials and education campaigns would be highly beneficial. In particular, the provision of example template reports would be useful in achieving consistency in how Australian assurance practitioners are communicating their assurance conclusions which is critical for investors. Examples of where assurance practitioners would value example report wording is how to communicate the varying levels of assurance that could occur in one assurance period or differences in the level



of assurance over current year disclosures vs comparatives, example inherent limitation paragraphs and modified assurance conclusions.

In relation to KPMG and the sector more broadly meeting the resourcing requirements set out in the proposed assurance roadmap, KPMG is largely on track to meet the resources needed, given the size and maturity of both our Audit and Assurance and Climate Change and Sustainability practices. It will however be critical that 'external auditors' remain on the Draft Core Skills Occupations List (CSOL) and that guidance is released that clarifies that this role extends to external assurance of non-financial information as well as financial information.

KPMG has responded directly to the consultation questions below. We would be pleased to discuss our comments with the Auditing and Assurance Standards Board, and we look forward to working with the Government and our clients on this important matter.

Yours sincerely,

Julian McPherson

National Managing Partner,
Audit & Assurance

KPMG Australia

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Response to consultation 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.**

As stated in KPMG's previous submissions, we support a staged approach or assurance phasing model. We support requiring limited assurance and moving to reasonable assurance over time. Overall, we believe the market needs certainty for entities to develop and implement their strategies and overall readiness.

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?

We consider that we will be able to appropriately resource engagements under the roadmap as we have a mature sizeable Audit and Assurance and Climate Change and Sustainability specialist practice, and our strategy includes training our Audit and Assurance practice. Importantly, we have had some clients who have requested a private opinion before assurance is mandated.

In relation to resourcing, it is critical that 'external auditors' remain on the Draft Core Skills Occupations List (CSOL) and that guidance is released that clarifies that this role extends to external assurance of non-financial information as well as financial information. The clearer guidance also needs to acknowledge that the 'Environmental consultant' role does not reflect the activities of a person engaging in external sustainability assurance. The key role of an external sustainability assurer is providing external assurance over non-financial information.

Ensuring that external sustainability assurers can access a skilled migration pathway may help with any future resourcing challenges.

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

As per KPMG's May 2024 submission to the AUASB Consultation Paper on Assurance over Climate and Other Sustainability Information, we would support the inclusion of Governance requiring assurance in year 1. We would be supportive of starting with reasonable assurance over Governance as we do not believe that there will be a substantial difference in the level of work required between limited and reasonable assurance for this pillar given it is largely a qualitative disclosure.

KPMG notes that paragraph 10(a)(ii) of ED02/24 scopes in climate-related transition plans for limited assurance in year 1 which is inconsistent with the *Diagrammatic Representation of Assurance Phasing* in the appendix.



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?

Yes. KPMG supports requiring the same level of assurance for any statements that have no material risks or opportunities identified. The role of assurance is to check the reasonable basis on which that conclusion has been reached.

We are pleased to note that the draft ASIC Regulatory Guide 000 *Sustainability Reporting* seeks to provide guidance for preparers in making and documenting assessments of where there are no material financial risks or opportunities relating to climate. KPMG will also be providing a response to the ASIC Consultation Paper (CP) 380 – *Sustainability Reporting*.

5. Do you agree that assurance phasing requirements for Group 1, 2 and 3 entities should commence with the same settings and progress at the same pace?

Yes. As per KPMG's May 2024 submission to the AUASB Consultation Paper on *Assurance over Climate and Other Sustainability Information*, we support having the same timeline for phasing of assurance over disclosure topic areas across Group 1, 2 and 3 entities so that entities have the same amount of time to prepare to move from limited to reasonable assurance.

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)?

KPMG considers that the requirements should follow the same rules as the *Corporations Act 2001* for financial reporting thresholds, including the same transitional requirements that align with those thresholds. Bringing in another exception would increase complexity.

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

Yes. However, where comparatives are either unassured or assured to a different level than the current year metrics, KPMG recommends that this difference is communicated to users.

It would be beneficial for the AUASB to develop and release alongside ASSA 5010, guidance materials including example reports to facilitate consistency.

There is also a further opportunity to continue to educate users of sustainability reports on the difference between limited and reasonable assurance to manage expectation gaps.



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

KPMG is not aware of any laws and regulations that have not been considered in the proposed Standard.

9. What are the costs and benefits of the proposals, whether quantitative or qualitative and whether financial or non-financial? The AUASB is particularly seeking information on the nature and, where possible, estimated amount of any expected incremental costs of the proposals.

Cost and benefit amounts vary considerably depending on size, geographic spread, industry, and business model. We note that Treasury has issued an impact analysis, and this question may be better addressed by Treasury, ASIC, and the AUASB.

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

Resourcing

Given the timing of sustainability reporting and assurance occurring at the same time as the financial statement audit, which we are supportive of, policymakers may want to consider whether financial year ends for entities captured by Corporations Act requirements are staggered to smooth reporting and assurance workloads across the year - similar to what occurs in the UK rather than the majority of year ends occurring at 30 June. While this is not the subject of this consultation, this would not only improve the health and wellbeing of our people across audit busy season, but also help alleviate future resourcing challenges.

Independence considerations for the value chain

We recognise that the independence considerations for an assurance practitioner within the value chain of a sustainability reporting engagement is still being determined by the International Ethics Standards Board for Accountants (IESBA).

We consider a pragmatic approach is required to addressing this matter to help prevent significant practical issues in its application.

Education

To support the transition of assurance requirements, we consider that guidance materials and education campaigns would be highly beneficial.

Example assurance reports and other guidance materials would be useful on a range of issues including:

- modifications to assurance reports, including guidance for users on how to interpret;
- communicating the different levels of assurance across reporting years (including comparatives); and
- example inherent limitations paragraphs.



We note that the draft ASIC Regulatory Guide 000 *Sustainability Reporting* confirms that information may be included via cross-reference, so templates that demonstrate how this is dealt with in the assurance report would be useful.

Timing

The effective date for International Standard on Sustainability Assurance (ISSA) 5000 General Requirements for Sustainability Assurance Engagements (ISSA 5000) is for periods beginning on or after 15 December 2026 (or as at a specific date on or after 15 December 2026).

Clarity is required from the AUASB on whether the assurance requirements within the Exposure Draft are to be performed in accordance with ISSA 5000, or an Australian equivalent, or whether they continue to be performed under Australian Standards on Assurance Engagements (ASAE) 3000 series until the ISSA 5000 effective date.