

**Your ref:** Consultation on assurance on climate and other sustainability information  
**Our ref:** Comments from GHD's climate assurance team

**03 May 2024**

**Office of the Auditing and Assurance Standards Board**  
**Forwarded via email to: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)**

## **Comments to consultation on climate and sustainability assurance**

Dear Sir / Madam

Thank you for the invitation to provide comments on the consultation paper in respect of Assurance over Climate and Other Sustainability Information that the Auditing and Assurance Standards Board (AUASB) recently issued.

In this letter GHD's climate assurance team provides our comments as one of Australia's leading providers of assurance services relating to climate related matters using AUASB's standards.

GHD's climate assurance team generally supports AUASB's role in setting appropriate Australian auditing and assurance standards relating to the assurance of climate and sustainability related matters – and for these standards to be internationally aligned. Our comments to the consultation paper are set out in the following sections:

- **Section 1 – GHD's credentials as climate assurance providers** – providing context and credibility to our comments.
- **Section 2 – Key comments**, including comments relating to key contextual factors that we believe the AUASB should not ignore even if they are set by Government policy – because they cannot be ignored when considering the objectives of the consultation.
- **Section 3 – Australia's current climate assurance practice** – significant context in considering the challenge of achieving the significant mandatory climate assurance scope.
- **Section 4 – Comments to AUASB's specific questions**, providing comments to most of the questions posed by the AUASB.

## **1. GHD's credentials as climate assurance providers**

GHD is an employee-owned global professional services company with over 11,000 employees in 200 offices on five continents – and with approximately 5,000 of our employees in Australia in 44 locations across the nation. Our professional services are primarily within engineering and environmental services focussing on making water, energy, and communities sustainable for generations to come.

### **1.1 We are a leading climate assurance practice in Australia**

We are currently one of Australia's leading assurance providers in respect of climate aspects, with nine (9) Registered Greenhouse & Energy Auditors (RGEAs) registered with the Clean Energy Regulator (CER) practicing as lead auditors for National Greenhouse and Energy Reporting (NGER), Emissions Reduction Fund (ERF) projects and under the Safeguard Mechanism. We also conduct assurance of climate disclosures contained within annual corporate sustainability reporting, as well as broader corporate sustainability report assurance – primarily for several ASX 200 companies.

Our RGEAs annually lead up to 80-100 or more such assurance engagements. GHD is also on the CER's panel for auditors leading assurance engagements under its regulatory compliance programme – with the CER over the last five years having commissioned more such engagements to GHD than from any other firm, including more than any big-4 accounting firm.

## 1.2 We deliver climate assurance applying AUASB's standards

To deliver these assurance engagements GHD and its RGEAs must deliver assurance aligned with the requirements for climate assurance under the Bill – including assurance in accordance with assurance standards issued by the AUASB – including ASAE 3000 and ASAE 3410<sup>1</sup>, as well as applying AUASB's quality management standards such as ASQM1<sup>2</sup> and meeting relevant professional, ethical and independence requirements set out in APES 110<sup>3</sup> – equivalent to the requirements of Registered Company Auditors under the Corporations Act. It is mandated in a legislative requirement for performing audits and assurance engagements under the CER's scheme – and is subject to regulatory oversight and inspection by the CER, with GHD's RGEAs being subject to regulatory inspections by the CER's audit inspectors.

## 2. Key comments

Noting AUASB's proposed role in the Bill currently tabled in Parliament relating to climate-related financial disclosures (climate disclosures) – with:

1. Proposed enduring assurance scope for corporate reporting years commenced 1 July 2030 or later that includes mandatory reasonable assurance of all the required climate disclosures (climate assurance), and.
2. AUASB being made responsible for enabling this through:
  - a. Defining a phasing in of the enduring assurance scope in the transitional years leading up to 1 July 2030, and
  - b. Issuing of relevant standards, pronouncements and/or guidance.

It is understood that the AUASB does not set Government policy, however, AUASB's consultation cannot be considered outside of the obvious flaws of the proposed assurance framework set out in the Bill – indeed, due to these flaws, the AUASB may experience significant obstacles in achieving the role set for it under the Bill – in summary, key concerns in this respect are:

- **The final assurance scope may not be technically feasible and may be overly expensive.** A fixed enduring (final) and very ambitious assurance scope of all climate disclosures to be subject to reasonable assurance is included in the Bill's proposed Section 307AA of the Corporations Act – however:
  - **It may not be technically feasible**, due to some aspects being unlikely to be possible to assure, e.g., due to lack of suitable criteria to inform professional standards-based assurance conclusions. If it is not technically feasible to achieve reasonable assurance, the AUASB cannot enable it through its standards and guidance.
  - **It has not been appropriately impact assessed for costs and benefits**, with final costs unknown but significantly higher than Treasury's cost estimate of \$83,000 average per company per year. It will be significantly more expensive, perhaps 5-10 times as expensive (i.e., possibly \$400-800,000 annual average cost per company, possibly even more due to the uncompetitive nature of the 'market' for providing this assurance, refer further below). The cost of assuring different aspects and the total cost of assurance needs to be considered vis-à-vis the incremental benefit for the development of any credible framework for what needs to be assured – when Treasury is not considering this, we believe the AUASB will have to consider it in not only setting

<sup>1</sup> That is the Australian Standard on Assurance Engagements 3000 *Assurance Engagements other than Audits of or Reviews of Historical Financial Information* (ASAE 3000), and Australian Standard on Assurance Engagements 3410 *Greenhouse Gas Statements* (ASAE 3410)

<sup>2</sup> That is AUASB's Australian Standard for Quality Management 1 (ASQM1).

<sup>3</sup> That is the Code of Ethics for Professional Accountants (APES 110) by the Accounting Professional & Ethical Standards Board (APESB) referred to in AUASB's standards.

out the phasing, but also in considering what the final enduring assurance scope realistically should be.

- It is **not internationally aligned**, as to our knowledge no other jurisdiction currently is making enduring mandatory requirements for reasonable assurance of all sustainability or climate disclosures. Noting in this respect the EU requirements also has an ambitious aspiration but acknowledges that it may not be technically possible or economically viable, and they are not setting any such ambitious enduring assurance scope at this point in time. Therefore, the Bill's enduring assurance scope is contrary to Treasury's objective of the climate disclosure framework being internationally aligned and may therefore also be contrary to AUASB's remit in this respect.

We note the objective of AUASB's consultation paper only appears to consider demand, maturity of systems and ability of auditors to be relevant factors to consider for the phasing to achieve the enduring assurance scope – which excludes the critical issue of costs, as well as whether some aspects may simply not be realistic or possible to assure even if all those other factors are addressed – and fails to consider international alignment of the assurance scope. We do not think it is possible to consider assurance phasing without also considering these critical aspects.

- **Financial auditors without climate competence required to lead climate assurance.** The Bill requires the company financial auditor to perform the assurance, whether competent or not at delivering high-quality climate assurance cost-effectively. Whilst some may have appropriate climate competence, many will not be appropriately climate competent, noting also existing and increasing complexity for some of these disclosures, e.g., relating to fugitive emissions reporting from coal mining companies. Key concerns in this regard include:

- **No competitive market for climate assurance** – it simply 'gifts' climate assurance to the financial auditor whether competent or not at delivering it well and cost-effectively. We believe this will drive a non-compete fee premium that may well cost companies an additional average \$100-200,000 per year for the enduring assurance scope with no or little discernible benefit – which in turn is likely to impact the perception of the value of the climate assurance scope that AUASB is defining – a potential reputation risk for AUASB.
- Given the dominance of Big-4 accounting firms in performing financial audits for Australia's larger and more complex companies, it probably '**gifts at least 90-95% of a billion dollar plus market to the big 4 accounting firms**' without necessarily having to be particularly competent at delivering climate assurance. The notion of involving relevant specialists when required will, contrary to Treasury assumption, not lead delegation to 3<sup>rd</sup> party providers – including no or limited delegation to specialist RGEAs at non-financial audit firms like GHD, despite this also being stated as Treasury's objective. This is because it will not be in the self-interest of the big-4 to leak this revenue when they can use it to invest in building up their own teams and their own revenue. This makes it contrary to Treasury's objective of broadening the market as necessary to address the capability and capacity gap – instead it will narrow the market and make it harder to address the capability and capacity gap – which in turn makes it harder to achieve the assurance phasing the AUASB is responsible for defining.
- **Lack of international alignment due to no climate competence requirement for auditors** – contrary to likely requirements of ISSA 5000, and thereby possibly undermining the credibility of mandatory climate assurance contrary to Treasury's and AUASB's objectives. It makes it unlikely that ISSA 5000's requirement for sufficient subject matter competence of the assurance engagement leader can be achieved. This cannot be achieved through delegation to or reliance on experts – and thereby making internationally aligned mandatory climate assurance impossible. Which in turn is not per Treasury's objective of AUASB enabling an internationally aligned climate assurance framework.
- **Stifles innovation in better climate assurance.** Significant investment among different professions to deliver effective climate assurance is required to address the significant capability and capacity gap. However, only big-4 accounting firms will have any significant incentive to invest in building capability and capacity – but with no commercial incentives to invest in being sharp at delivering climate assurance – in turn making it more challenging and likely more

expensive to address the capability and capacity gap, thereby impacting AUASB's role in defining the phasing and in defining what the final assurance scope implies.

Given the Bill sets up this flawed assurance framework that is contrary to Treasury's objective of RGEAs with specialist skills ideally playing a role, it becomes critical for AUASB to further this aim for it to be achieved and address the capability and capacity gap, and in furtherance of high quality climate assurance – including pronouncements that acknowledges the need for this competence to play a role in achieving the phasing and the enduring assurance scope cost-effectively. This could for example include an AUASB pronouncement specifically encouraging auditors to accept appropriate assurance reports by RGEAs, as well as how auditors can usefully involve RGEAs in achieving the assurance scope.

### 3. Australia's current climate assurance practice

Assurance of some climate matters is already being performed in Australia – most notably through the schemes of the CER – predominantly mandatory ERF audits, mandatory Safeguard Mechanism audits and audits requested by the CER under its regulatory compliance monitoring programme – as well as voluntary audits of NGER reporting requested by companies (NGER audits), and voluntary assurance of climate matters in corporate sustainability reporting.

#### 3.1 Intelligence regarding the current climate assurance market

Comprehensive intelligence about the climate assurance market is hard to obtain, but some useful information is available, based on:

- The CER's register of lead auditors<sup>4</sup> (i.e., RGEAs), which is Australia's only current accreditation of assurance engagement leaders in respect of assurance of climate matters.
- Publicly available information in respect of the CER's procurement of climate assurance services as part of its compliance monitoring programme – for example over the past five (5) years.

CER's procurement of climate assurance is relevant due to the CER likely being the largest and most sophisticated buyer of climate assurance services in the Australian market. Figure 1 below provides a summary of the publicly available information on the CER's procurement of climate assurance over the past 5 years:

| Provider                 | CER's register 17/01/2024 |           |               | Audit contracts with CER last 5 years (19/01/2024) |               |                        |               | Analysis of CER audit costs |                       |
|--------------------------|---------------------------|-----------|---------------|--|---------------|------------------------|---------------|-----------------------------|-----------------------|
|                          | Lead auditors             | Share     |               | No. of audits                                      | Share         | Value of audits        | Share         | Avr value                   | Compared to non-big 4 |
| KPMG                     | 1 firm                    | 12        | 20.0%         | 18   | 11.9%         | \$ 1,126,289.90        | 13.5%         | \$ 62,571.66                | 22.2%                 |
| Deloitte                 | 1 firm                    | 4         | 6.7%          | 8  | 5.3%          | \$ 658,527.00          | 7.9%          | \$ 82,315.88                | 60.7%                 |
| Ernst and Young          | 1 firm                    | 8         | 13.3%         | 7  | 4.6%          | \$ 458,452.40          | 5.5%          | \$ 65,493.20                | 27.9%                 |
| PwC                      | 1 firm                    | 6         | 10.0%         | 3  | 2.0%          | \$ 233,074.00          | 2.8%          | \$ 77,691.33                | 51.7%                 |
| <b>Big-4 total</b>       | <b>4 firms</b>            | <b>30</b> | <b>50.0%</b>  | <b>36</b>  | <b>23.8%</b>  | <b>\$ 2,476,343.30</b> | <b>29.6%</b>  | <b>\$ 68,787.31</b>         | <b>34.3%</b>          |
| Other financial auditors | 5 firms                   | 10        | 16.7%         | 46   | 30.5%         | \$ 1,959,170.31        | 23.4%         | \$ 42,590.66                | -16.8%                |
| Non-financial auditors   | 4 firms                   | 20        | 33.3%         | 69   | 45.7%         | \$ 3,930,324.95        | 47.0%         | \$ 56,961.23                | 11.2%                 |
| <b>Non-big 4 total</b>   | <b>9 firms</b>            | <b>30</b> | <b>50.0%</b>  | <b>115</b>   | <b>76.2%</b>  | <b>\$ 5,889,495.26</b> | <b>70.4%</b>  | <b>\$ 51,213.00</b>         | <b>0.0%</b>           |
| <b>Total</b>             | <b>13 firms</b>           | <b>60</b> | <b>100.0%</b> | <b>151</b>   | <b>100.0%</b> | <b>\$ 8,365,838.56</b> | <b>100.0%</b> | <b>\$ 55,402.90</b>         | <b>8.2%</b>           |

Figure 1 Summary of CER's climate assurance audit contracts over the past five years

Key aspects are highlighted in yellow – in summary:

- As of 17 January 2024, there were 60 lead auditors (RGEAs) on the CER's published register – 30 of these were with big-4 accounting firms, 10 were with other accounting firms, and 20 were with non-accounting firms (of which 7 were with GHD<sup>5</sup>).
- Over 5 years to January 2024 the CER procured 151 engagements, on average 30 climate assurance engagements per year, from 13 different firms, at an average cost of approximately \$55,400 (inclusive of GST and expenses).

<sup>4</sup> Refer [Register of auditors \(cleanenergyregulator.gov.au\)](https://www.cleanenergyregulator.gov.au)

<sup>5</sup> Since 17 January 2024 GHD has had two more lead auditors registered with the CER.

- More than three quarters (76.2%) of these engagements were delivered by firms other than big 4 accounting firms – with more than 30% by other accounting firms and more than 45% by non-accounting firms (including GHD).
- Big-4 accounting firms delivered less than a quarter (23.8%) of these climate assurance engagements, with these engagements being on average 34% more expensive than engagements from other firms. KPMG delivered half of the big-4 engagements while PwC delivered only three (3).

### **3.2 The Bill’s climate assurance framework excludes RGEAs**

The Bill’s proposed climate assurance framework will effectively not allow us (and other RGEAs that are not financial auditors) any meaningful role in delivering mandatory climate assurance. This is despite:

- Treasury specifically stating that this is desirable, given our and other RGEAs obvious capability and capacity for delivering climate assurance to the standards required to drive better quality climate disclosures.
- Stated concerns (including by Treasury as well as many stakeholder comments) about the significant gap in capability and capacity of assurance providers in delivering the mandatory climate assurance.

This exclusion of capable RGEAs:

- Risks climate assurance of poorer quality to the detriment of the credibility and quality of the mandated climate disclosures, which in turn risks the policy objectives of high-quality climate disclosures to inform the market’s allocation of capital, including in attracting international capital to Australia.
- Likely makes climate assurance significantly more expensive for the companies that must obtain it, without any discernible benefit (indeed, it may be more expensive climate assurance of poorer quality).

This therefore also impacts the realistic options and costs available to AUASB when defining the transitional assurance phasing towards the enduring assurance scope.

### **3.3 Other intelligence of current climate assurance**

We understand that both Treasury and the AUASB has intelligence of voluntary climate assurance – whilst we do not know all the different types of assurance scopes that have been delivered, we know it generally (and likely almost exclusively) includes assurance of only some of the aspects required under the proposed enduring mandatory climate assurance – mostly driving proven market experience of providing limited assurance of emissions and other historical metrics that have occurred and that relatively easily should be possible to upgrade to reasonable assurance – but without proven experience in the market in assurance of forward looking statements involved in disclosures regarding scenario analysis, transition plans and climate-related targets and risk management. This lack of practical and proven experience is likely related to the technical feasibility with assuring these matters but may also be related to costs of and perceptions of potential liability in providing this assurance.

The issue here is that whilst a significant update of capacity and broadening of capability is required to achieve climate disclosures, there is already an emerging better practice experience across most of the mandatory climate disclosures. This emerging disclosure experience across all the climate disclosures is not mirrored in respect of assurance of the same climate disclosures. Without proven practical market experience to draw on, it makes it harder to define guidance and standards for how this assurance should be performed. This is therefore a significant obstacle the AUASB needs to consider, as it impacts costs, ability and even feasibility of phasing in the enduring assurance scope.

## **4. Our comments to AUASB’s specific questions**

In this section we provide our responses to many of the 17 specific questions posed by the AUASB – responding question by question.

#### **4.1 AUASB Q1 – Considering the importance and cost of assurance, what do we believe may be the appropriate assurance phasing?**

As outlined above, we consider that AUASB's consultation paper misses significant context that should also be considered, including:

- **What is the technical feasibility of assuring the different aspects** – given the requirement for suitable criteria to enable professional assurance, and the lack of practical proven experience in the market for assuring several of the aspects in the assurance phasing?
- **How may it align with international assurance requirements** – given, to our knowledge, no other jurisdiction is looking to require mandatory reasonable level assurance over all climate disclosures – and the objective of Australia's framework to be internationally aligned.
- **The lack of cost-benefit impact analysis of the enduring assurance scope** – Treasury's impact assessment does not include any assessment of the enduring full assurance scope set out in the Bill that the AUASB must enable. Additionally, Treasury has not performed appropriate public consultation on this assurance scope. In its public consultation it has had a binary view on assurance that considers only limited or reasonable assurance of all the climate disclosures. However, this is a false as it is not a binary choice – and of course stakeholders will express that reasonable assurance is to be preferred when it is not tied to any further consultation that outlines cost consideration and impact assessment, nor to any consideration as to whether it is technically feasible. Insufficient consultation and impact assessment for the enduring assurance scope therefore poses a significant obstacle and risk to the process the AUASB is being asked to enable.

Given this additional context, we believe the AUASB will need to consider all the three above factors when setting out both the assurance phasing, as well as what the enduring assurance scope in fact implies – noting, for example, forward looking statements will be unlikely to be possible to assure, but their preparation based on reasonable assumptions may be assured – but that in fact changes the assurance subject matter to the basis for how the disclosures were prepared, rather than assuring the disclosures. Without considering this, it is impossible to make any appropriate consideration of assurance phasing.

With this in mind and given the enduring assurance scope set out in the Bill has expanded the phasing from three years to six-seven years due to feedback Treasury obtained, a phasing based on three-year implementation would not be welcome, and likely not possible due to cost and capacity (as well as likely impossible due to aspects not being technically feasible to assure).

It also follows that the AUASB should consider earlier phasing of aspects for assurance that the assurance profession will be more comfortable assuring given widespread experience from voluntary assurance – in particular assurance of data representing historical or current climate performance, as well as assurance of current facts – with assurance of aspects with a forward-looking nature requiring more work on what technically is feasible to assure before it can be phased in. These more challenging aspects may also require that practical experience in how to assure them is obtained through voluntary assurance protected from possible 3<sup>rd</sup> party liability – prior to being defined as mandatory and subject to 3<sup>rd</sup> party liability.

#### **4.2 AUASB Q2 – Ability of audit firms to resource assurance engagements using partners and staff with appropriate competence, skills expertise, as well as own internal and external experts.**

Noting GHD will likely not be part of this challenge, given:

- GHD, despite having appropriate climate assurance competence and being keen to play a role, will likely not be allowed to lead any mandatory climate assurance, and
- The Big-4 likely will dominate the 'market' due to being 'gifted' the assurance scope, and therefore it being unlikely that any delegation to 3<sup>rd</sup> party providers will occur.

Therefore, this is probably a question to ask the Big-4 predominantly, as the current framework will imply that they will likely end up delivering 90-95% of all the mandatory climate assurance.

We would, however, suggest:

- That whilst the Big-4 accounting firms have partners and staff in their sustainability and climate divisions that have appropriate climate competence to build on for climate assurance, these divisions

will not have enough of these professionals to meet the rapidly increasing demand that the enduring mandatory climate assurance scope will imply in the short to medium term.

- Big-4 (alongside all other assurance providers) also lacks practical proven experience in assuring the full enduring assurance scope, even within their sustainability & climate divisions. For several of the aspects to be assured there is no or very limited practical proven experience and expertise in how it is to be assured – this will therefore be a challenge for a small group of people within the Big-4 to try to address, which therefore makes it harder to resource.
- In the longer term, the Big-4 accounting firms obviously can build up this competence provided there is sufficient fees paid by companies to pay for the required investment and upskilling – which links to the cost of the assurance required. Noting that the possibly climate assurance fees across the regulated community may be in excess of \$1-1.5bn total, compared to total current revenues across Big-4's total audit and non-audit services of \$11bn<sup>6</sup> – accordingly, this may require around 10% more staff employed at Big-4 accounting firms with dedicated skills to perform climate assurance – this is no small challenge to achieve in the short to medium term – but can obviously be achieved in the long term if assurance fees funds it<sup>7</sup>.

Additionally, Big-4's use and building of its specialist sustainability and climate assurance professionals in its dedicated divisions cannot address the ISSA 5000 requirement of the assurance engagement leader needing to be sufficient competent in the subject matter. Delegation to internal or external competent professionals and experts in that respect is not appropriate to achieve that requirement. This implies that all Registered Company Auditors acting as the lead auditor for companies with climate disclosures will have to upskill to meet this requirement, whilst ensuring they also remain appropriately competent to lead financial audits of at times complex financial audit matters – or to resign as the company's auditor to meet the expected requirement of ISSA 5000.

This will create a significant challenge especially where the climate matters to be assured are complex or uncertain, as that implies the assurance engagement leader needs more climate competence to accept the role as auditor for the company. This may impact auditors even when assuring scope 1 and 2 emissions for companies with complex industrial and fugitive emissions. To lead assurance of such aspects requires that the assurance engagement leader has specific knowledge of the risks of material misstatement that are inherent in these matters, as well as how such inherent risks can be affectively addressed both by the audited company's internal controls and by the audit firm's audit procedures. In this respect it is also less likely that the Big-4 firms will have deep technical expertise in the matters to be assured, as it may require deep instrumentation, engineering, or geology expertise. Noting for example that the Minister for Climate Change appears likely to increase the required complexity for estimating more accurately the fugitive emissions from open cut coal mining by disallowing an approximate and inaccurate method based on coal production that financial auditors would be well placed to audit. The updated requirement will require considerable subject matter competence by the lead assurance practitioner to be able to plan, direct and quality control the assurance process.

Accordingly, we would suggest that it is a very significant challenge for a small number of firms, predominantly the Big-4 only, to address this challenge. Even as these firms have considerable resources to invest, the possible assurance phasing of 3 years in the AUASB's consultation paper for achieving the full enduring assurance scope within 3 years is unrealistic.

### **4.3 AUASB Q3 – Consideration of the systems and processes to enable assurance**

The challenge for companies to prepare climate disclosures will be considerable and achieving it in ways that makes all climate disclosures ready for reasonable assurance across the cohort of companies that require assurance within a few years is unrealistic.

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<sup>6</sup> Per article in the Financial Review dated 14 November 2023.

<sup>7</sup> Noting further that research by University of NSW suggests that Big-4 accounting firm's mean financial audit fee for ASX listed clients was around \$739k in 2022, suggesting that climate assurance will be a very substantial part of the total audit role – which in turn suggest how much of a capability and capacity gap that needs to be addressed.

Obviously, a lot can be achieved by if throwing more resources and effort (and therefore higher costs) at it – which implies that requiring assurance earlier can realistically only be achieved through bigger investments in time, effort and cost by companies preparing the disclosures.

#### **4.4 AUASB Q4 – do we agree that, subject to seeing the final standard, ISSA 5000 should apply to assurance over:**

##### **4.4.1 For climate disclosures under the Australian framework**

In principle ISSA 5000 should apply for international alignment and credibility of the provided climate assurance. However, it likely will be impossible to make an Australian version of ISSA5000 mandatory for the mandatory climate assurance scope due to:

- The Bill’s proposed requirement of the company’s financial auditor to lead the climate assurance and involve relevant specialists when required, which
- Does not align with ISSA 5000’s expected quality requirement for the assurance engagement leader to have sufficient subject matter competence to lead the assurance engagement. This requirement *cannot* be met simply with further AUASB standards or guidance on when specific specialists need to be involved. To address this requirement, it must be by requiring appropriate sufficient subject matter competence of the individual assurance engagement leader, which per the Bill is to be the company’s financial auditor whether climate competent or not.

Noting that comments to Treasury from small accounting firms has included concerns that they may not be able to continue as financial auditors for mid-market companies if they must perform the mandatory climate assurance scope too due to it possibly not being desirable otherwise for them to become appropriately climate competent to accept the role. Accordingly:

- Either, to apply ISSA 5000, this should disqualify several Registered Company Auditors from accepting the role as auditor for companies where climate assurance is required. If so, then this should be clearly set out in AUASB’s standards and guidance – i.e., clarifying that not accepting or resigning the role as the company’s auditor must be the consequence if the individual lead auditor for the company does not obtain appropriate sufficient climate competence to accept both the role as lead financial auditor as well as the role as assurance engagement leader for the mandatory climate assurance scope – and ideally with ASIC willing to follow through with potential disciplinary action for auditors that fail to follow this requirement.
- Or ISSA 5000 cannot be made mandatory for mandatory climate assurance.

For voluntary additional or early disclosure provided with the mandatory disclosures that a company may choose to make, the same considerations would apply. For example, if a company includes nature-based financial disclosures, the company financial auditor cannot accept the role as auditor for the company if the individual that becomes the assurance engagement leader personally has insufficient nature-based competences to be able to lead that part of the assurance engagement.

Given the Bill gives the Minister the power mandate further environmental sustainability disclosures that then become part of the mandatory assurance requirement, one wonders how the lead auditor responsible for both the financial audit and the climate and sustainability audit is likely to keep appropriately competent to lead both assurance scopes?

##### **4.4.2 For voluntary assurance over any other sustainability information**

Yes, when ISSA 5000 is implemented, including in an aligned Australian standard, it would be appropriate to expect that it is applied for assurance over any other sustainability disclosures, including any other climate disclosures not provided as part of the mandatory disclosures.

#### **4.5 AUASB Q5 – should any part of ISSA 5000 that may not be relevant to mandatory climate assurance be identified in guidance?**

Yes – to the degree that there are aspects of ISSA 5000 that are not relevant to climate assurance, it should be identified in local guidance – this is important also because without either a standard,



pronouncement or guidance, it will be difficult for auditors to manage potential 3<sup>rd</sup> party liability in a new area of uncertainty as to what the assurance implies – given other parties, including regulators and courts, may have differing and divergent views as to what constitutes appropriate auditor and assurance practice. Standards, pronouncements, or guidance from the AUASB therefore becomes significantly important for auditors to effectively manage this risk.

#### **4.6 AUASB Q6 – are there 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**

Yes, refer also above, including our response to AUASB Q4. We consider it impossible to require ISSA 5000 or an equivalent Australian standard to mandatory climate disclosures when the company's financial auditor must lead it whether climate competent or not – this contradicts ISSA 5000's expected requirement that the assurance engagement leader must have sufficient subject matter competence – as a fundamental quality requirement.

We consider that should ISSA 5000 be applied, then it would require individual Registered Company Auditors without sufficient climate competence to refuse to accept or resign as the company's auditor, including as the company's financial auditor. Accepting and continuing in that role will basically require that the auditor continues to keep up-to-date with financial accounting requirements, as well as having acquired sufficient appropriate climate competence – noting the latter will vary according to the complexity and uncertainty of the climate matter to be assured – but can, per above, be very complex even for scope 1 and 2 emissions assurance for a number of Australia's larger companies.

#### **4.7 AUASB Q7 – are there principles and practices considered appropriate to maintain or improve, or which may conflict with the proposed standard**

The proposed non-competitive nature of the climate assurance market will be an indirect impediment to improving assurance quality. This is because there will be no or limited competitive pressure for the company's financial auditor to be sharp and innovative in delivery of climate assurance – because they win the climate assurance scope by winning the role as the company's financial auditor – accordingly, it is likely that they will be more focussed on ensuring financial audit quality, and be less concerned about the quality of climate assurance outside of simply meeting required minimums and manage potential liability – which in turn makes it likely that they may over-scope assurance work through detailed assurance procedures, rather than achieving better quality assurance through innovative assurance practices.

#### **4.8 AUASB Q8 – Should the AUASB develop or issue a local pronouncement to supplement the final ISSA 5000 dealing with assurance matters under the Australian climate assurance framework?**

Yes. There will be significant uncertainty in understanding what the assurance will imply – both for preparers, assurance providers and users – this increases risks of material expectation gaps that could lead to claims and possible class-action lawsuits against auditors. It therefore becomes important as without either a standard, pronouncement, or guidance, it will be difficult for auditors to manage potential 3<sup>rd</sup> party liability in a new area of uncertainty as to what the assurance implies – given other parties, including regulators and courts, may have differing and divergent views as to what constitutes appropriate auditor and assurance practice. Standards, pronouncements, or guidance from the AUASB therefore becomes significantly important for auditors to effectively manage this risk.

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

Yes, these are among the matters that need to be clarified to address the risks noted in our response to Q8 above. Noting:

- It seems inappropriate to address required lead auditor subject matter competence only outside of the requirements set directly in legislation.

- However, as the Bill proposed not to set it in legislation, it obviously becomes even more important that it is clarified by AUASB pronouncements, ideally at standard level for an absolute requirement, and possibly with further guidance to assist with interpretation.

Given the Bill sets up an assurance framework that is contrary to Treasury's objective of RGEAs with specialist skills ideally playing a role, it becomes critical for AUASB's pronouncements to further this aim – including pronouncements that acknowledges the need for this competence to play a role in achieving the phasing and the enduring assurance scope cost-effectively. This could for example include an AUASB pronouncement specifically encouraging auditors to accept appropriate assurance reports by RGEAs, as well as how auditors can usefully involve RGEAs in achieving the assurance scope.

Obviously, given the challenges with some aspects of the enduring assurance scope, it will likely be critical for the AUASB to clarify what appropriate assurance practice involves – e.g., when assuring climate scenario disclosures, or disclosures about climate risks and opportunities.

**4.10 AUASB Q10 – Are there any matters identified in Attachment 2 that should not be addressed in a possible local pronouncement?**

No comment.

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

No comment.

**4.12 AUASB Q12 – 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?**

No comment.

**4.13 AUASB Q13 – Should guidance be provided on materials that might be referred to by the auditor in assessing disclosures**

No comment,

**4.14 AUASB 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**

No comment.

**4.15 AUASB Q15 – The CER has assurance requirements of some entities required to prepare climate disclosures. 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**

Firstly, the Consultation paper's understanding of the emissions intensity determination assurance scope per Section 17 of the Safeguard Rule is erroneous. It does not include assurance of any scope 2 emissions, and it is also a one-off assurance exercise considering 5 historical years' scope 1 emissions – being the five years ending 30 June 2022, so firmly outside the scope of the mandatory climate disclosures.

Irrespective, the AUASB should certainly consider the CER's assurance requirements for the following reasons:

- Per Treasury's consultations, the auditors under CER's framework should be closely involved in addressing the capability and capacity gap. Given the Bill's framework works against this, it is

important that the AUASB develop pronouncements that seek to address this to enable better involvement of these auditors – especially given how important Treasury has emphasised they are in addressing the capability and capacity gap. This means, AUASB will need to enable this to occur more despite the discouraging framework set forth in the Bill.

- The CER’s audit framework has delivered significant experience in how to perform effective assurance of key aspects of climate disclosures – including in respect of complex scope 1 emissions, e.g., fugitive emissions in oil & gas and coal mining sectors, and industrial emissions in various heavy industry sectors. The AUASB should encourage and enable auditors that will lead mandatory climate assurance to seek out this competence for effective and credible climate assurance.
- The CER’s framework also includes assurance of offsets, which will also feature in climate disclosures – accordingly, the AUASB should make pronouncements that encourage synergy with assurance performed for that purpose.

**4.16 AUASB Q16 – Some entities that will be subject to mandatory climate reporting requirements have cross-border activities and operations. Are there any international factors that the AUASB should consider when developing its proposed pronouncements relating to assurance over climate disclosures or other sustainability information?**

Yes, to achieve international alignment, the AUASB should monitor and consider the emerging climate and sustainability requirements among relevant foreign jurisdictions, including in the EU as their requirements will likely be among the leading requirements. This should be done to consider how this could or should impact Australia’s framework.

Noting additionally, California is introducing mandatory climate disclosures that will require mandatory verification – whilst the specific requirements are yet to be defined, California’s current climate verification scheme would suggest that Australia’s climate assurance framework is incompatible with the one California is likely to implement. This will likely lead to redundancy of effort and costs for Australian companies that may also be subject to California’s climate disclosure requirements. The AUASB should consider how this can be leveraged for reduced costs, rather than creating redundancy and additional costs.

**4.17 AUASB Q17 – Do we have any other suggestions on any matter that the AUASB should consider in this regard?**

Yes, refer our section on key concerns set out in section 2 above.

## 5. Thank you for considering our comments

Thank you again for the opportunity to comment. Should you have any further questions or inquiries relating to our comments, please feel free to contact the undersigned, who is also one of our practicing Category 2 Registered Greenhouse and Energy Auditors and responsible for encouraging quality across our audit and assurance engagements.

Regards



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