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## **RE: Assurance over Climate and Other Sustainability Information**

### **Who we are**

Governance Institute of Australia (Governance Institute) is a national membership association that advocates for a community of governance and risk management professionals, equipping over 8,000 members with the tools to drive better governance within their organisation. Our members have primary responsibility for developing and implementing governance frameworks in public listed, unlisted, and private companies, as well as the public sector and not-for-profit organisations. They have a thorough working knowledge of the operations of the markets and the needs of investors.

We regularly contribute to the formation of public policy through our interactions with Treasury, ASIC, APRA, ACCC, ASX, ACNC and the ATO. We are a founding member of the ASX Corporate Governance Council. We are also a member of the ASIC Business Advisory Committee, the ASX Business Committee and the ACNC Sector Users Group.

Overall, our members support standards that are internationally aligned, interoperable, flexible and allow for reduced or voluntary disclosure requirements for not-for-profits and smaller entities. Our members response to the consultation issues is set out below.

### **Summary of recommendations**

#### **Group 3 entities**

Governance Institute members do not support the mandatory reporting requirements on Group 3 entities as currently drafted in the proposed legislation. The burden of the proposals on Group

3 entities is disproportionate to the benefits of requiring these entities to make climate-related financial disclosures, given that many of them currently have no external reporting obligations. Treasury's own policy impact analysis on climate-related financial disclosures estimated that 95 per cent of Group 3 entities would have no material impact.<sup>1</sup> Requiring these entities to attain assurance for non-material claims is regulatory overreach and will bear no significance on financial flows or in reducing greenhouse gas emissions in Australia. The Senate Economics Legislation Committee recommended that Group 3 entities be removed entirely from the regime. Alternatively, that the threshold for Group 3 entities be increased to \$100 million in gross revenue or \$50 million in gross assets.<sup>2</sup>

***Do you consider that the systems and processes for 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?***

There are general concerns amongst Group 1 and 2 entities that the level of expertise across the auditing and assurance industry will be challenged by the yet to be determined reporting standards in the timeframes proposed. Lack of sufficient technical expertise may limit the number and quality of auditing and assurance services provided.

It is a high probability that Group 3 entities will have inadequate systems and processes in place to facilitate the assurance processes outlined in Attachment 1. The removal of these entities from mandatory disclosure requirements and assurance processes will drive down overall deadweight loss and compliance costs and alleviate the demands placed on auditing and assurance services from Group 1 and 2 entities. Larger entities share the greatest proportion of emissions and attract greater interest from global investors.

**Recommendation 1 – Mandatory financial disclosure standards for Group 3 entities be removed and the proposed assurance obligations for non-material assessments be removed.**

#### **Levels of assurance and phasing in**

Reasonable assurance provides a higher degree of confidence than limited assurance that information disclosed by entities is not materially misstated. Reasonable assurance acts to limit the potential litigation risks as there is a higher degree of certainty and assurance that information disclosed is correct. The express opinion of auditors that comes with reasonable assurance will also increase investor and stakeholder confidence that information disclosed complies with the reporting requirements. However, obtaining reasonable assurance is practically difficult where technical expertise or standards of practice are not well established.

The consultation paper notes that the work effort required to meet limited assurance could be similar to reasonable assurance if inherent risks are identified, systems and processes are not sufficiently reliable, internal controls cannot be relied upon, or issues are identified, and the

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<sup>1</sup> <https://treasury.gov.au/sites/default/files/2024-01/c2024-466491-pia.pdf>

<sup>2</sup> The Senate, Economics Legislation Committee, Treasury Laws Amendment (Financial Market Infrastructure and Other Measures) Bill 2024 [Provisions]

auditor needs to review corrected information. Our members disagree with this sweeping proposition. The level of effort and engagement required to meet reasonable assurance requires auditors to affirm that information reported is materially correct and involves greater levels of scrutiny and testing of internal processes and controls. It requires auditors to check metrics and disclosures back to its source to confirm their accuracy. On the other hand, most limited assurances are reliant upon representations made by management rather than having to verify or cross-check back to its source. As a result, there is less understanding of the processes and controls and hence, lower levels of scrutiny on the data and topics included in the report. In general, a reasonable assurance audit is anticipated to run over a longer period, contingent on the complexity of the organisation and may tie up the resources of auditors for a much longer period.

***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.***

There would be limited practical benefit in moving to reasonable assurance earlier for disclosures that are matters of fact and based on historical information as the sustainability standards are still under consideration and not yet established. If reasonable assurance is brought early, there may be an unintended consequence of fewer auditing and assurance providers offering their services, as this would attract higher risks and uncertainties to the services provided. The disclosure reforms will take entities time to adopt with a core focus on ensuring data quality and integrity via documented policies and processes. Given the extent of the changes, an earlier reporting period may only create greater issues, risks, and drive-up costs. This may also create barriers of entry to smaller entities that may be seeking this service voluntarily.

This will act to provide certainty to investors whilst data certainty and integrity improvements are adopted throughout the reporting supply chain. We express concerns that no assurance will be provided to quantitative scenario analysis for Group 1 entities to 1 July 2027 as improper disclosures of this information may expose entities to litigation risk.

**Recommendation 2 – Reconsider the time frame for reasonable assurance requirements for Group 1 and 2 entities on disclosures related to matters of fact and historical information as to provide the auditing and assurance service firms sufficient time to upskill on the yet to be finalised sustainability reporting standards.**

**Recommendation 3 – Reconsider the proposed time frame for reasonable assurance on Scope 1 and 2 emissions for Group 1 entities to years commencing after 1 July 2026, to provide the time for assurance providers to prepare reasonable assurance services on mandatory reporting obligations.**

### **Monitoring and review**

We note that the merger of the Financial Reporting Council, AASB (Australian Accounting Standards Board) and AUASB (Assurance Standards Board) is proposed to take effect on 1 July 2026. Whilst efforts to restructure the nation's financial reporting bodies to make them more



efficient, effective and fit for purpose, are welcome, the administrative operationalisation of new standards and reporting requirements may prove challenging in these early years.

**Recommendation 4 – A review of the standards and reporting requirements be subject to a review in late 2026, to report in early 2027 to determine the effectiveness of the assurance phasing model 2 years after Group 1 entities have been subject to reporting and assurance.**

### **Matters for local pronouncement**

Local pronouncement should be made in a way that increases the confidence, credibility and certainty of information obtained, monitored, and disclosed by entities. Local pronouncements by local regulatory authorities should be made iteratively in line with international standards setting bodies such as the ISSB (International Sustainability Standards Board). Pronouncements should be made where it is likely to improve investor confidence whilst allowing reporting entities to improve the quality of disclosure. The following areas have been highlighted as possibly requiring further rigor and certainty.

#### *How to address different users and report on both mandatory and voluntary sustainability information*

- Entities will require further guidance on how to address different users, for example, investors or social users when assessing materiality under both the proposed AASB framework and the GRI/European framework.
- Whether an auditor can give assurance only over mandatory and not voluntary information, where the information is not separated.

#### *Materiality and error evaluation*

- Whether separate directors' reports for financial report and climate statements affect materiality assessments or work effort
- Assessing materiality of qualitative and quantitative disclosures
- Challenges in aggregating and evaluating errors across different disclosures

#### *Certainty across value chains*

- Providing and receiving assurance through value chains
- Response to lack of reliable data and information
- Consideration for data and audit when entering supplier contracts

#### *Disclosures on governance processes, controls, and procedures to monitor, manage and oversee climate-related risks and opportunities*

- Determining whether disclosures about existing governance arrangements are factual and driven by documentary evidence and knowledge of the business

#### *Corporate strategy on risks and opportunities*

- Effectiveness of strategy relevant to scenario analysis and transition plans
- Extent of work on risks and opportunities throughout the value chain
- Auditor's assessment of short, medium, and long-term horizon planning

- Current and anticipated effects of climate-related risks and opportunities on business model and value chain
- Risk management including processes embedded to identify, prioritise and monitor risks and opportunities, overall risk profile and overall risk management processes

*Metrics and targets for Scope 3 emissions*

- Reasonableness of assumptions in estimates
- Consideration for use of information from third party sources
- Information and assurance received and provided through the value chain
- Availability of data and estimates of Scope 3 emissions where there is significant uncertainty or a limitation on scope

*Climate-related metrics and targets and scenario analysis*

- Whether the auditor should challenge the entity's choice of industry metrics, and relevance of the industry classification
- Appropriateness of scenarios, assumptions, and disclosures
- Completeness and accuracy of key assumptions and uncertainties disclosures

*Transition plan strategies*

- The appropriateness of disclosures and assumptions including the completeness and accuracy of key assumptions and uncertainties disclosures
- Whether to take carbon credits and offsets into account
- Assumptions on future technologies.

**Recommendation 5 – Adopt local pronouncements in line with international standard setting bodies, taking priority over:**

- i- how entities can deal with different users, voluntary and mandatory sustainability information,**
- ii- materiality and error evaluation,**
- iii- certainty across value chains,**
- iv- corporate risk management,**
- v- disclosures on governance processes, controls and procedures to monitor, manage and oversee climate-related risks and opportunities,**
- vi- Scope 3 metrics and targets, and**
- vii- climate-related scenario analysis and transition planning.**

**Other matters**

Further consideration is required in determining whether audits undertaken for CER (Clean Energy Regulator) purposes under the NGER Act (National Greenhouse and Energy Reporting), and Safeguard Mechanism scheme is equivalent and/or interoperable with the new climate-related financial disclosure requirements. There would be little value in requiring a double audit of data and information audited under NGER requirements. This could act to further exacerbate constrained resources.

**Recommendation 6 – Consider interoperable auditing and assurance under existing requirements within the NGER Act and the Safeguard Mechanism Scheme.**

For further information regarding this submission, please contact me or Senior Advisor, Policy, and Advocacy, [Daniel.popovski@governanceinstitute.com.au](mailto:Daniel.popovski@governanceinstitute.com.au).

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Megan Motto', written in a cursive style.

Megan Motto

CEO