

7 May 2024

Office of the Auditing and Assurance Standards Board (AUASB)

Submitted via email: enquiries@auasb.gov.au

Dear Sir/Madam,

Consultation Paper Assurance over Climate and Other Sustainability Information

About ACSI

Established in 2001, ACSI exists to provide a strong voice on financially material environmental, social and governance (ESG) issues. Our members are Australian and international asset owners and institutional investors with over AU\$1.9 trillion in funds under management.

Through research, engagement, advocacy and voting recommendations, ACSI supports members in managing ESG investment risk and exercising active ownership to strengthen investment outcomes. Active ownership, including the management of climate related risk, allows institutional investors to enhance the long-term value of retirement savings entrusted to them to manage.

Summary of ACSI's position

ACSI welcomes the release of the Office of the Auditing and Assurance Standards Board (AUASB) Consultation Paper *Assurance over Climate and Other Sustainability information* ('Consultation Paper'). We welcome and strongly support the introduction of mandatory climate-related financial reporting, its proposed timeframe and phased implementation. Climate change risks are material financial risks that are deeply embedded across the economy. Mandating the disclosure of climate-change related information will assist investors' investment analysis, risk assessment, stewardship activities and due diligence processes.

The comments in this submission relate to assurance only and aim to support an appropriate end-state definition and related pathway. ACSI supports audit requirements, noting that not all climate disclosures will need audit. It will be important to balance the benefits of assurance and the costs of these requirements, as well as design an appropriate phase-in of requirements to match the capacity and capability of assurers and reporters in the market. This will require careful consideration of which reporting elements require audit, and which do not, as well as international approaches to assurance reporting.

There is confusion about how the end-state assurance arrangements outlined in the Consultation Paper align with legislative intent and potentially differ from the approach of the financial auditing framework. We recommend the AUASB consult with stakeholders on appropriate settings for end-state assurance requirements. While it is important to get this balance right initially, the review of the mandatory climate reporting framework, scheduled for mid-2028 should also be used to reevaluate the phase-in timetable and whether end-state assurance requirements remain appropriate.

Our views on specific issues raised in the consultation paper are set out in more detail below.

End-state assurance arrangements

ACSI notes that the Consultation Paper defines end-state assurance arrangements as reasonable assurance over all mandatory climate disclosures (p.8). The Consultation Paper references the Government's Policy

Proposal Statement as the source of end-state assurance arrangements. The Policy Statement provides that end-state will be 'assurance of all climate disclosures'.¹ ACSI considers that this is a high level statement and does not necessarily require assurance of all elements of climate disclosures and does not state to which level of assurance (i.e. limited or reasonable assurance).

Further commentary in the Explanatory Memorandum accompanying the climate-related financial reporting legislation suggests that the nature of end-state would be defined by the AUASB. The Explanatory Memorandum states that 'climate-related financial disclosures will be subject to similar assurance requirements to those current in the Corporations Act for financial reports... The extent and level of assurance required will be set out in Australian assurance standards for climate disclosures...'² Generally, the financial information, i.e. the metrics and related information, is the focus of audit requirements in financial reports. Therefore, the perceived assumption that 'end-state' should consist of reasonable assurance over all elements of the climate disclosures is confusing as this appears to be inconsistent with the approach taken in the Corporations Act and has not been mandated in the proposed legislation.

The AUASB should therefore consult on identifying the appropriate end-state, which should consider the costs of audit and the benefits, and, if it is proposed, clearly articulate the reasoning why a departure from an approach similar to audit arrangements for the financial statements and Annual Report would be necessary.

Assurance phasing model

The assurance phasing model provided in Attachment 2 is challenging and other jurisdictions have taken a more conservative approach. We note that the Consultation Paper has provided these assurance phasing models 'to facilitate feedback on the likely demand for assurance, the preparedness of audited entities, and the ability of auditors and their experts to meet the likely demand' (p.8). ACSI provides comments on the assurance phasing model in that spirit.

ACSI considers that key principles to guide the timing of assurance requirements should include:

- **Relevance.** The value of each element of assurance should be weighed against its cost. For example, while we agree that it should be fairly simple to assure governance disclosures, it is unclear what value assurance of governance reporting will provide. More value will be provided by assurance of metrics reported as part of climate disclosures, such as the level of emissions or the use of assumed carbon prices in asset valuations, for example.
- **Maturity.** It will also be important to consider the capacity and capability of reporters and assurers. For example, assurance of scope 1 and 2 emissions is fairly developed, while other areas will require more work. It would be of limited value to require reasonable assurance for areas that are fairly immature and where the majority of audit sign-offs will need to be qualified.

Examples from international jurisdictions

The timing and design of assurance requirements internationally are also relevant, as a key reform principle underpinning the introduction of mandatory climate reporting is to be internationally aligned.³ Table 1 outlines the timetable for the introduction of reporting requirements, assurance requirements and the specific reporting elements that are audited in three jurisdictions. ACSI supports assurance of climate-related disclosures, however there remains opportunity to clearly define 'end state' and consider the appropriate level of international alignment.

¹ Treasury, January 2024, [Mandatory climate-related financial disclosures, Policy position statement](#).

² [Treasury Laws Amendment \(Financial Market Infrastructure and Other Measures\) Bill 2024](#)

³ Reform principle 4, "Internationally aligned", in The Treasury, December 2022, [Climate-related financial disclosure, Consultation Paper](#).

Table 1 Climate reporting assurance requirements in New Zealand, UK and United States

Country	New Zealand ⁴	UK ⁵	United States ^{**6}
Reporting standards commence	1 January 2023	1 January 2021	On hold but originally 2026.
Assurance commences	27 October 2024	Not required	On hold but originally 2029.
Disclosures requiring assurance	Scopes 1, 2 and 3	Not required	Scopes 1 and 2.
Limited/Reasonable assurance	Limited assurance	Not required	For Scopes 1 and 2 only: Limited assurance until 2032. Reasonable assurance from 2033.

* For Premium Listed Companies, the first group to report.

** For Large Accelerated Filers, the first group to report.

Reporter and assurer maturity

There is existing expertise in the Australian market for assurance. However, it will take time to build up assurer and reporter capability in other areas of climate reporting. For example, the ISSA 5000 Standard covering sustainability assurance engagements is being drafted, with finalisation expected later in 2024.

ACSI recommends a phase-in assurance timetable that incorporates time to further develop these capabilities by new and existing assurance providers.

Recommendations to improve phasing model

ACSI recommends that the AUASB conduct an extensive consultation on what end-state assurance arrangements should be. The 2028 review of climate-related financial disclosures framework should then be used to consider whether end-state assurance requirements remain fit for purpose along with the phase-in timetable to support those arrangements.

ACSI also considers that it would be more appropriate to adopt an assurance phasing model that has similar timing to international climate reporting frameworks. This would suggest that assurance should be:

- Focused on emissions and financial metrics in the first instance; and
- Limited assurance would be appropriate for a period to allow for the development of greater capability, capacity and more mature systems and processes, of assurers and reporters.

This would allow time for the development of reporters' systems and processes.

ISSA 5000

ACSI agrees that, subject to the finalisation of the standard, ISSA 5000 *General Requirements for Sustainability Assurance Engagements* ('ISSA 5000') should apply to assurance engagements over mandatory Australian climate disclosures. As noted above, the Australian climate reporting regime is designed to be as

⁴ External Reporting Board (XRB), December 2022, [Aotearoa New Zealand Climate Standard 1, Climate-related Disclosures \(NZCS 1\)](#)

⁵ Financial Conduct Authority (FCA), December 2020, [Proposals to enhance climate-related disclosures by listed issuers and clarification of existing disclosure obligations, Policy Statement PS20/17](#).

⁶ Securities and Exchange Commission (SEC), 2024, [The Enhancement and Standardization of Climate-Related Disclosures for Investors](#)

internationally aligned as possible, and consequently it will also be important to align with international sustainability assurance engagement standards.

Local pronouncement

ACSI supports the proposal for the AUASB to issue a local pronouncement to supplement the final ISSA 5000. We agree with the reasoning to issue a local pronouncement that is outlined in Paragraph 45 of the Consultation Paper, particularly the need to provide 'certainty for practitioners in the approach to matters arising under the Australian reporting framework' (p.14). Guidance that addresses the specifics of the Australian climate reporting regime is appropriate to build consistency of approach and support investor confidence in audit quality. In particular, we would encourage the development of guidance for particular sectors, such as assurance on multi-asset class portfolios. This work should aim to avoid unnecessary audit burdens, such as by providing clear direction around the application of materiality.

I trust our comments are of assistance. Please contact me or Kate Griffiths, Executive Manager Policy and Research (kgriffiths@acsi.org.au), should you require any further information.

Yours faithfully,



Louise Davidson AM
Chief Executive Officer
Australian Council of Superannuation Investors