

Submission – Assurance over climate and other sustainability information consultation paper

10 May 2024

Overview

The Responsible Investment Association Australasia (RIAA) thanks the Office of the Auditing and Assurance Standards Board for the opportunity to comment on the assurance standards over climate and other sustainability information (consultation).

RIAA congratulates the Government on the introduction of a mandatory climate-related disclosure regime in Australia, having long campaigned for this. Existing and potential investors, lenders and other creditors need high-quality, comprehensive, comparable information about companies to make decisions about where to direct capital to align with both financial and sustainability objectives. Internationally, company sustainability reporting is developing rapidly. Audit and assurance provide important 'checks and balances' by suitably qualified experts, and the assurance process is key to the credibility of any mandatory disclosure regime. This is important to investors, who make significant long-term decisions on behalf of clients and fund members partly based on information within sustainability disclosures.

RIAA's submission to this consultation comprises this written submission with high-level comments, informed by the contribution of the RIAA Policy Technical Expert Group, as well as a meeting with AUASB and members of the RIAA Policy Technical Expert Group for direct engagement.

In preparing this submission, RIAA has been informed by its previous submissions to:

- [Submission – EDSR1 – AASB Sustainability Reporting Exposure Draft](#) (March 2024)
- [Submission – Climate-related financial disclosure: exposure draft legislation](#) (February 2024)
- [Submission – Draft Sustainable Finance Strategy](#) (December 2023).

As an industry group that covers Australasia, and therefore possessing unique insights into the experiences of investors and others in New Zealand as it has implemented its mandatory climate disclosures regime, RIAA recommends that the AUASB and other appropriate government entities observe closely and understand the practical implementation of the mandatory disclosures regime in New Zealand, with a view to reflecting these lessons and learnings in Australia. RIAA will provide an outline of what we and our members have observed in relation to assurance to AUASB separately including New Zealand's experience with timelines.

About RIAA

The Responsible Investment Association Australasia champions responsible investing and a sustainable financial system in Australia and Aotearoa New Zealand. It is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy.

RIAA has more than 500 members and represents US\$29 trillion in assets under management (AUM) globally, making it by far the largest and most active network of people and organisations engaged in

responsible, ethical and impact investing across Australia and New Zealand. Our membership includes super funds, KiwiSaver providers, fund managers, banks, consultants, researchers, brokers, impact investors, property managers, trusts, foundations, faith-based groups, financial advisers and individuals. RIAA's membership makes up 75% of all managed funds in Australia.

RIAA achieves its mission through:

- a) providing a strong voice for responsible investors in the region, including influencing policy and regulation to support long-term responsible investment and sustainable capital markets;
- b) delivering tools for investors and consumers to better understand and navigate responsible investment products and advice, including running the world's first and longest-running fund certification program and the online consumer tool Responsible Returns;
- c) supporting continuous improvement in responsible investment practice among members and the broader industry through education, benchmarking and promotion of best practice and innovation;
- d) acting as a hub for our members, the industry and stakeholders to build capacity, knowledge and collective impact; and
- e) being a trusted source of information about responsible investment.

General comments on audit and assurance

RIAA considers that, given the reliance investors will place on the accuracy of the disclosures in making investment decisions, assurance of sustainability disclosures should be equivalent to audit requirements for financial statements, subject to targeted transitional arrangements. While a number of companies and accounting firms have invested in building appropriate levels of internal capability in this area, RIAA notes that there exists in general a skills gap, both in terms of knowledge and expertise (technical and scientific) across the market, which includes the audit and assurance sector. Robust assurance by appropriately skilled and accredited auditors is critical not only within Australian markets, but also for Australian companies operating overseas.

RIAA recommends AUASB investigate ways to immediately support upskilling across the sustainable finance ecosystem, such as:

- mandatory accreditation of audit and assurance providers, and associated training and clear articulation of expectations;
- the accreditation and licensing of suitably qualified non-accountants to provide technical advice to auditors and undertake, to a limited degree, climate assurance activities, leveraging a broader pool of expertise within the assurance ecosystem;
- focusing on the reasonable assurance of governance to ensure that the governance arrangements implemented by reporters to ensure quality information is sufficiently robust, leading to better reporting which may have otherwise been of a lower quality and required extensive engagement by the auditor. The credibility & plausibility of data governance leads to improved data quality. In particular, data governance will be important for issues such as the incorporation of both third-party data and Artificial Intelligence in reporting.

With the release of the Australian Government's [Policy Position Statement](#) in January 2024 and the subsequent [draft legislation](#), there is a clear mandate for mandatory reporting with assurance over climate-related information for certain entities. RIAA supports the phased implementation of reporting and assurance requirements. This recognises the importance of gradual adoption to allow for capability development among auditors, preparers, and users of financial information. The proposed assurance framework outlined by the AUASB presents an opportunity to enhance the credibility and reliability of

sustainability disclosures, as well as setting the right standard to ensure both the quick adoption and success of the regime.

Phasing model for assurance requirements

RIAA agrees with AUASB that there is value in a phased approach to mandatory assurance. This acknowledges the capability and capacity limitations and skills gap not only in the audit and assurance industry but across the market. It also acknowledges that the existence of underlying data for climate-related financial information may not as fulsome in the early days of the regime.

Furthermore, a 2023 [report](#) by the Global Sustainable Investment Alliance (GSIA) found that 85% of asset managers globally consider ESG factors in their investment decisions. Domestically, RIAA's [2023 Benchmark Report](#) shows that a record 272 professional investment managers in Australia are now engaged in responsible investment, amounting to \$3.3 trillion or 93% of all professionally managed assets in Australia. This highlights the increasing importance of reliable climate disclosures for investors seeking to make informed and sustainable investment choices, and to attracting international capital.

RIAA submits that it is important to consider the value of audited information in the context where the early days of the reporting regime is focused on building capacity and capability and managing data limitations. Although there may be a sufficient difference between limited assurance and reasonable assurance in financial reporting, the degree to which this difference is evident in climate reporting at this time may be minimal. In addition, there may be cause for considering the degree to which the current framework needs to be adjusted for the nature of sustainability reporting – this is best done through guidance.

A measured transition period alongside targeted upskilling initiatives would best align the concerns raised in the consultation regarding the potential strain on the assurance sector if the transition is too rapid. However, the timeframe for this transition should be informed by ongoing assessments of industry readiness and investor needs. A [report](#) from the International Federation of Accountants (IFAC, 2023) on assurance of sustainability information suggests a potential benefit-cost analysis could be conducted to determine the optimal pace of implementation.

Beyond the phasing model, a robust framework hinges on clear and comprehensive assurance requirements. These requirements should provide a strong foundation for high-quality climate assurance engagements, ensuring investor confidence in the credibility of reported information. The framework should clearly define the boundaries of assurance engagements. Ambiguity in the scope could lead to incomplete or misleading assurance reports, undermining investor confidence, as highlighted by the in the AUASB consultation. The framework should also consider incorporating guidance on how to address emerging climate-related risks, such as those associated with physical climate change impacts.

RIAA recommends a risk-based approach (similar to that proposed for climate-related financial disclosures in RIAA's previous submission) to prioritise assurance efforts. The AUASB rightly acknowledges the complexities of Scope 3 emissions (point 25). RIAA notes that upskilling to properly report Scope 1 and Scope 2 data will itself be steep for the majority of the market without considering Scope 3, including for data providers who may be currently focused on Scope 1 and Scope 2.

Furthermore, RIAA agrees with AUASB that governance be subject to reasonable assurance earlier. Where the data governance is appropriate and robust, the timing and degree of assurance of information and metrics can be phased in across an appropriate period of time, allowing for proper data and capability build. Close and continues engagement with users, preparers and professionals within audit

and assurance should be used to determine a point-in-time assessment of the market (e.g. data availability, skills and capability development) to determine this period of time.

Endorsement of ISSA 5000 Standards

International alignment and interoperability will be central to the success of the mandatory climate-related disclosure regime. Existing and potential investors, lenders and other creditors need high-quality, comprehensive, comparable information about companies to make decisions about where to direct capital to align with both financial and sustainability objectives

Subject to final review of the global standards, RIAA supports the AUASB's proposal to adopt the upcoming ISSA 5000 standard for assurance over sustainability information. This fosters international alignment, promoting efficiency and reducing duplication of effort for issuers and assurance providers. The ISSA 5000 standard represents a significant step forward in establishing a global baseline for climate assurance best practices.

RIAA recommends the AUASB issue complementary guidance alongside ISSA 5000 to address specific Australian requirements. This could include tailoring assurance methodologies for the unique characteristics of the Australian market and regulatory landscape. For instance, the guidance could address:

- **Integration with existing Australian auditing standards and guidance:** The AUASB should ensure clear articulation of how ISSA 5000 interacts with existing Australian standards and guidance for financial statement audits. This fosters a smooth integration of climate assurance into existing audit processes.
- **Guidance on specific industry considerations:** The Australian market has a strong presence of resource extraction and energy companies. The AUASB's guidance could provide tailored assurance methodologies for these sectors, addressing the unique challenges associated with assuring their climate-related disclosures.

Recommendations for potential local pronouncement

- **Fit-for-purpose assurance for climate disclosures:** The AUASB consultation acknowledges the evolving nature of climate-related disclosures. The local pronouncement should emphasise the need for assurance engagements to be tailored to the specific risks and complexities of climate information. For instance, a higher level of assurance may be warranted for core metrics like Scopes 1 & 2 emissions compared to some forward-looking information. The pronouncement should provide clear guidance on how assurance providers can determine the appropriate level of scrutiny for different types of climate disclosures.
- **Formally incorporating non-accountants into the regime:** The AUASB consultation mentions the Government's policy stating the financial auditor will be responsible for assurance (point 34). However, it acknowledges the potential need for auditors to leverage the skills and knowledge of specialists. RIAA reiterates its support for the accreditation and licensing of suitably qualified non-accountants to support auditors or undertake climate assurance activities, as highlighted in our submission to the Draft Sustainable Finance Strategy. This would broaden the pool of qualified assurance providers and leverage expertise from environmental and sustainability professions. The pronouncement should establish a clear framework for the accreditation and licensing of

non-accountants, ensuring they possess the necessary competence and qualifications to deliver high-quality climate assurance engagements.

- **Ensured Alignment with Post-Implementation Review of New Zealand XRB Standards:** the consultation highlights the importance of considering international developments (point 9b). RIAA recommends the AUASB closely monitor the upcoming post-implementation review of the XRB's climate-related disclosure standards in New Zealand, and collaborate if and where appropriate to ensure alignment. Ensuring consistency with any refinements made in New Zealand would promote harmonisation across the Tasman Sea, streamlining reporting for companies operating in both markets. The local pronouncement should outline a clear process for ongoing monitoring of international developments in climate assurance standards and best practices.

By incorporating these elements alongside the adoption of ISSA 5000, the AUASB can establish a robust and adaptable framework for assurance over climate and other sustainability information in Australia. RIAA remains committed to collaborating with the AUASB and stakeholders to achieve this objective.

On potential costs and metrics

RIAA acknowledges that there may be concerns regarding potential cost increases associated with mandatory climate assurance, particularly in comparison to financial audits. This concern is valid and requires careful consideration. The initial stages of implementing climate assurance are likely to incur higher costs, particularly for smaller companies. The lack of established methodologies and a limited pool of qualified assurance providers may contribute to these initial cost pressures.

In addition, costs will increase due to the degree to which some information is 'assurable' to begin with. For example, there may be much material in sustainability reports may be forward-looking, particularly transition plans. The degree to which these can be audited to the level of reasonable assurance, balancing cost and benefit, may be low.

RIAA emphasises the importance of establishing a globally consistent framework for core climate assurance metrics. Alignment with international standards, such as those being developed by the ISSB, will foster data comparability and improve the credibility of reported information. This international harmonisation will ultimately benefit companies operating across borders by streamlining their reporting requirements.

Within this globally consistent framework, there is room for some flexibility in the selection of additional metrics to address company-specific risks and opportunities. However, these additional metrics should adhere to a set of minimum principles, ensuring they are not overly obscure and generally aligned with established frameworks. This balance between global consistency and room for tailored disclosures is crucial for achieving a robust and effective climate assurance regime. By adopting a thoughtful approach that balances cost considerations with the need for high-quality, decision-useful climate disclosures, the AUASB can ensure a sustainable and effective framework for climate assurance in Australia. RIAA remains committed to working collaboratively to achieve this objective.