

9 November 2023

Mr Douglas Niven  
Chair  
Auditing and Assurance Standards Board (AUASB)  
PO Box 204  
Collins St West  
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Via email: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

Dear Doug

**Consultation Paper – Exposure of the IAASB’s Proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements; and Consequential Amendments to other IAASB Standards.**

CPA Australia and Chartered Accountants Australia and New Zealand (CA ANZ) represent over 300,000 professional accountants who work in diverse roles across public practice, commerce, industry, government, and academia throughout Australia, New Zealand, and internationally. We welcome the opportunity to provide feedback on the above Consultation Paper (the CP) and make this submission on behalf of our members and in the public interest.

CPA Australia and CA ANZ are in the process of developing our respective submissions to the IAASB at the date of this letter and therefore we are unable to provide detailed comments relating to Attachment 2 in the CP (questions on the International Auditing and Assurance Standards Board (IAASB) proposals relating to ISSA 5000). Accordingly, our responses are limited to Attachment 1 in the CP (Australian-specific questions).

Our main observations and recommendations that include feedback from our stakeholder outreach activities undertaken as part of developing this submission are set out below:

- The significant effort by the IAASB and stakeholders in developing the ISSA 5000 proposals within a very short space of time is highly commendable. We strongly support the development and publication of this standard in September 2024 as scheduled. It is however, important to recognise that the proposed standard is a “minimum viable product” that will require further refinement and detail added to it for it to be a useful and reliable source of requirements and guidance on sustainability assurance. In the short term, there is a need for additional implementation guidance, transitional considerations, and further clarity on aspects of the standard. In the long term, there will be a need to develop further requirements on specific assurance aspects, some of which may need to be developed as separate standards under the sustainability assurance suite of standards.
- Based on our current understanding of the Australian Treasury’s proposals, it is likely that climate-related disclosures and associated assurance will become mandatory from 1 July 2024. To accommodate this “climate first” approach, there is a need for the AUASB to consider appropriate scoping of ISSA 5000, including the development of Australian-specific implementation guidance, to support adoption of the standard for both the mandatory climate-related disclosures regime and broader voluntary sustainability assurance in Australia.
- There is some concern that in some instances the proposed requirements in ED ISSA 5000 could be perceived as a shifting of some of the responsibilities that should rest with management and

those charged with governance to the assurance practitioner. These concerns are exacerbated by the recent Treasury Consultation Paper which does not envisage the modified liability approach, which is proposed for directors, being extended to assurance practitioners.

- The sustainability assurance standard will form part of a broader ecosystem that includes, amongst others, sustainability reporting standards, legislative requirements, quality management standards, ethical and independence requirements, and suitably qualified and competent professionals. Many of these elements of the broader ecosystem are likely to be tailored to meet Australian-specific requirements. The AUASB will need to engage with other stakeholders responsible for other aspects of the broader ecosystem to ensure the Australian variant of ISSA 5000 remains fit for purpose for use in Australia.

Our responses to the specific questions raised in the CP are included in the **Attachment** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Tiffany Tan (CPA Australia) at [tiffany.tan@cpaaustralia.com.au](mailto:tiffany.tan@cpaaustralia.com.au) or Melanie Scott (CA ANZ) at [melanie.scott@charteredaccountantsanz.com](mailto:melanie.scott@charteredaccountantsanz.com).

Yours sincerely

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## Attachment

### For all Australian Stakeholders:

#### Question 1

**When conducting GHG assurance engagements, are you currently using ASAE 3410 Assurance Engagements on Greenhouse Gas Statements along with ASAE 3000 Assurance Engagements Other than Audits or reviews of Historical Financial Information? If not, which assurance standards are you currently using? At a more granular level:**

- (a) Which assurance standards are you currently using for National Greenhouse Energy Reporting (NGER) and climate active assurance? Are you currently conducting a limited or reasonable level assurance engagement?**
- (b) Which assurance standards are you currently using for Emissions Reduction Fund and Safeguard audits?**

Feedback we have received indicates that assurance practitioners are currently using ASAE 3410 Assurance Engagements on Greenhouse Gas Statements (ASAE 3410) along with ASAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ASAE 3000) when conducting GHG assurance engagements.

#### Question 2

**When conducting wider sustainability engagements, are you currently using ASAE 3000 Assurance Engagements Other than Audits or reviews of Historical Financial Information? If not, which assurance standards are you currently using?**

Feedback we have received indicates that assurance practitioners are currently using ASAE 3000 when conducting wider sustainability engagements.

#### Question 3

**Proposed ISSA 5000 is neutral as to the disclosure framework. Should the AUASB develop guidance on applying the proposed assurance standard in the context of the upcoming Australian Accounting Standards Board climate disclosure framework? Are there any other topics, aspects of topics or elements of an assurance engagement that stakeholders would like the AUASB to issue guidance on? If yes, please provide specific details.**

Australian-specific guidance will be critical in providing additional clarity on how to operationalise the proposed ISSA 5000 for the forthcoming mandatory climate-related disclosures regime. Proposed ISSA 5000 has a broad scope to include all sustainability topics and reporting frameworks, and it is likely that some Australian entities will continue to, or begin to, report both the mandatory climate-related disclosures and other sustainability matters. Some entities that are not in scope of the mandatory climate-related disclosures regime may still do broader sustainability reporting and want to obtain external assurance on aspects of those reports. Therefore, we recommend that the AUASB develop guidance on applying the proposed assurance standard in the Australian context. Such guidance will need to address the proposed statutory reporting/assurance requirements and the upcoming Australian Accounting Standards Board (AASB) climate disclosure framework (Australian Sustainability Reporting Standards (ASRS Standards)).

First-time implementation guidance that includes transitional considerations would also be very useful. Depending on the outcome of the Treasury consultation on statutory requirements for climate-related disclosures, if the current financial statement auditor is expected to perform the climate-related disclosures assurance engagement, guidance would be beneficial on:

- The differences or similarities between the proposed ISSA 5000, and ASAE 3000 and ASAE 3410, and

- How they can make the transition from the 3000 series to the proposed ISSA 5000 if they:
  - have not used the 3000 series before, and
  - if they have previously used the 3000 series.

Even if the lead climate/sustainability auditor is the current financial statement auditor, it is possible that the audit team will include members from non-accounting professions. Therefore, detailed guidance for audit team members from non-accounting backgrounds who may not be familiar with auditing terminologies and concepts such as the use of audit assertions, materiality, professional scepticism, quality management standards, and ethical requirements (including the independence standards) would be helpful to ensure that the assurance work is consistently high quality.

If Treasury does not impose the requirement that the financial statement auditor should lead the engagement for the climate-related disclosures assurance, it would also be helpful to have guidance on the expected communications between the climate/sustainability auditor and the financial statement auditor as this is not currently addressed in proposed ISSA 5000.

Based on our analysis to date of proposed ISSA 5000, we have identified the need for topic-specific guidance on matters including materiality, work effort required for pre-acceptance, the differences between limited and reasonable assurance, working with qualitative information, estimates, forward-looking information, using the work of practitioner's experts or other practitioners, and group/value chain information. Since such guidance is directly related to proposed ISSA 5000, to assist with a globally consistent approach, our preference is for the IAASB to develop this. However, dependent on the pace at which such guidance may be developed and made available by the IAASB, the AUASB may need to develop interim Australian-specific guidance to assist local assurance practitioners.

#### Question 4

**While Appendix 2 of Proposed ISSA 5000 provides illustrations of assurance reports on sustainability information, should an Australian specific assurance opinion be developed?**

Yes. As it is likely that Australia will adopt a "climate first" approach to sustainability reporting and assurance, we believe it would be useful to have Australian-specific opinion(s) included as additional illustrations of assurance reports, akin to the approach taken in *ASA 700 Forming an Opinion and Reporting on a Financial Report (Compiled)*.

#### Question 5

**Do stakeholders foresee any implementation issues regarding Proposed ISSA 5000 in the context of the proposed assurance requirements as being discussed through the recent Treasury Consultation Paper?**

The proposed ISSA 5000 is one element within the broader sustainability ecosystem that includes, amongst others, sustainability reporting standards, legislative requirements, quality management standards, ethical and independence requirements, and suitably qualified and competent professionals. The AUASB will have a significant role in considering how the sustainability assurance standard will interact with some of these other elements and may also be in the best position to indirectly contribute to other areas by positively influencing and contributing through thought leadership.

To further elaborate on our comments in the cover letter and our response to question 3 above, the proposed ISSA 5000 is a suitable starting point as a global baseline. Generally, we agree with the premise of the proposed ISSA 5000 and its direction, as an overarching sustainability assurance standard and the foundation for a potential future suite of ISSAs that may be developed over time to meet assurance practitioner and stakeholder needs.

However, some concerns have been raised around the very high-level approach taken in ISSA 5000 and how this may translate to specific reporting regimes and circumstances such as that being envisaged in Australia.

One of the key concerns that we have heard is the need to manage expectations around the reporting and assurance outputs arising from a nascent reporting environment. As outlined in Table 3 of the most recent Treasury Consultation Paper, Group 1 entities are expected to obtain limited assurance of Scope 1 and 2 emissions and reasonable assurance of governance disclosures from the financial year ended 30 June 2025. Feedback we have received indicates that the proposed assurance roadmap and timeline are likely to be challenging, particularly in ensuring high-quality climate reports that have been subject to assurance. Some of the specific implementation challenges include the following:

- Although the proposed ISSA 5000 is based on the extant ISAE 3000, ISAE 3410 and Extended External Reporting Guidance (EER Guidance), the proposed ISSA 5000 is perceived as a step-up from the extant standards and guidance as it includes more advanced considerations around matters such as risk assessments and internal controls. Therefore, there will be additional work effort involved in transitioning from the current framework to ISSA 5000.
- Assuming the AUASB will adopt the final ISSA 5000, which is expected to be finalised and issued in September 2024 and assuming early adoption is permitted, this still translates to a very tight timeframe for practitioners to adopt the final ISSA 5000 into their assurance methodologies, and to train engagement teams for first-year mandatory assurance for the financial year ending 30 June 2025.

Although many large, listed entities already undertake some level of sustainability reporting and assurance, such reporting and assurance is mostly voluntary, therefore, the entity's processes and controls in generating such information may not be at a sufficient stage of development to enable an assurance engagement to be undertaken. Some entities will require time for their systems and processes to mature and data quality and reporting to improve. Accordingly, on initial implementation of a mandatory climate-related disclosures regime, market expectations, including the expectations of regulators need to be managed.

The AUASB and other stakeholders, including CPA Australia and CA ANZ, have a role to play in managing such market expectations. For example, an expectation of overwhelmingly "clean" assurance opinions may need to be tempered against the fact that assurance practitioners will need to consider an immature climate reporting ecosystem in the initial years of reporting.

As outlined in the liability section in the most recent Treasury Consultation Paper, reporting entities will be afforded protection from false or misleading representation claims from private litigants in relation to forward-looking statements for the first three years (modified liability approach). However, the modified liability approach will only provide protection to the reporting entities and their directors. The same protection is not extended to the assurance practitioners. We believe similar protections should also be considered for assurance practitioners and we will be advocating for such protections with Treasury.

There is some concern that there is a potential for assurance practitioners to take on some of the responsibilities that should rest with management and those charged with governance. For example, particularly in the initial years of implementation, the extensive work expected to be undertaken by assurance practitioners may create an expectation that they will identify any concerns with the quality of sustainability information and the systems and processes that underpin it. Similarly, the identification of intended users is primarily the responsibility of management, but however, the extent of work expected by assurance practitioners in identifying intended users may be perceived as a shifting of some responsibility in this matter from management to the assurance practitioner. We

recommend consideration be given to guidance that clarifies the respective responsibilities of management/those charged with governance and assurance practitioners.

#### **Question 6**

**Have applicable laws and regulations been appropriately addressed in the proposed standard?**

As the proposed mandatory climate-related disclosures regime has not yet been finalised, we cannot comment on the appropriateness at this stage.

#### **Question 7**

**Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions (refer paragraphs 19-20 of this Consultation Paper).**

No comments.

#### **Question 8**

**Are there any principles and practices considered appropriate in maintaining or improving assurance quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions (refer paragraphs 19-20 of this Consultation Paper).**

One of the key challenges we have heard consistently that may impact assurance quality are the provisions for other ethical, independence and quality management requirements to be “at least as demanding” as those the accounting profession are subject to. It is not clear how the assessment of “at least as demanding” will be made, who will make this assessment and the ramifications for the monitoring of ongoing equivalence and associated compliance.

In order for high quality sustainability assurance to be achieved, it is important for there to be consistency in ethics, independence and quality management requirements for all practitioners. To avoid inconsistency, it may be necessary for regulators and/or standard setters to assess the various options for ethical, independence and quality management standards used by non-accountant practitioners and determine which frameworks are acceptable in Australia. We encourage the AUASB to engage with regulators and other stakeholders to consider how this could be achieved.

#### **Question 9**

**If you are an assurance provider, do you expect to have sufficient qualified and experienced staff and access to suitable experts to undertake assurance engagements under the Proposed ISSA 5000 under the proposals outlined in the June 2023 Treasury Consultation paper – Climate-related financial disclosure: Second consultation?**

No. Feedback we have received indicates there will be significant challenges in ensuring there are sufficient qualified and experienced staff and access to suitable experts to undertake assurance engagements, at least in the initial years. A concerted effort from all stakeholders involved in this important initiative, including the AUASB, CPA Australia and CA ANZ, will be required around capacity-building to ensure successful outcomes over time.

**We have not answered any questions particularly targeted at non-accountant practitioners.**