Friday, 15 November 2024

Mr. Doug Niven
Chair, Australian Auditing and Assurance Standards Board
Level 20
500 Collins Street
Melbourne 3000

Via website: www.auasb.gov.au/projects/open-for-comment/

Dear Doug

ED 02/24 Proposed Australian Standard on Sustainability Assurance ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001

As the representatives of over 300,000 professional accountants globally, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide a submission on the AUASB's Exposure Draft ED 02/24 *Proposed Australian Standard on Sustainability Assurance ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* (the ED). We make this submission on behalf of our members and in the public interest.

In order to maintain the quality of the assurance of the mandatory reporting required for *Corporations Act 2001* (the Act) entities, it is important that the phasing of the introduction of mandatory assurance is practical and well understood by assurance practitioners, preparers, those charged with governance, users of the financial report and other key stakeholders. In forming our responses, we have attended roundtables and performed other outreach with members.

Overall comments:

- There are concerns from both audit firms and preparers/those charged with governance (TCWG) that the timeframe established by Treasury to achieve reasonable assurance over all mandatory climate disclosure is ambitious and will make fulfilling the resourcing and capability needs of audit firms, preparers and sustainability experts to meet the requirements difficult. There are still auditor shortages in financial reporting and the need for more staff and expertise to meet the demand for sustainability assurance will only exacerbate this. Overseas recruitment will not be able to meet all of the demand due to both the limitations in the migration processes and visa allocations and other jurisdictions competing for talent. In the absence of being able to increase the talent pool by utilising additional resources from outside Australia, time will be needed for capability building locally.

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- While there is general support for the phasing in of assurance, there are differing views on the proposals set out in the ED. There is a general preference for delaying the introduction of reasonable assurance on Scope 1 and 2 emissions to year 3 to allow audit firms and preparers sufficient time to address any year 1 issues appropriately before moving to a higher level of assurance. In addition, there is a view that limited assurance over risks and opportunities should be delayed until year 2, unless the year 1 requirements are limited to the disclosures required in AASB S2 Climate Related Disclosures (AASB S2) paragraph 9(a).
- Because of the nature of the disclosures, it will be necessary for preparers and those charged with governance (TCWG) to also upskill. They will require guidance and training on both the reporting and assurance requirements, and the nature of limited versus reasonable assurance. In addition, communication and outreach will be required to ensure that they understand the phasing approach so that they can plan their implementation of reporting appropriately. We encourage the AUASB to work with other stakeholders such as the AASB and ASIC to ensure these needs are met.
- As raised in our response to the AUASB's earlier Consultation Paper on implementing climate and sustainability assurance, we believe that revising the requirement for Group 3 entities to obtain assurance when they have no material risks or opportunities to report would alleviate many of the capacity concerns.
- Because of the above issues, it will be necessary to monitor the implementation of the phasing and assess the progress and results and determine what issues may arise to inform any necessary changes to the requirements of the Act and the timetable. In the Policy Position Statement: *Mandatory climate-related disclosures* (the Policy Statement) Treasury states its intention to undertake a review of the requirements and progress in the requirements in 2028-2029. This does not allow for much time to amend requirements, and it will be important that the AUASB and other stakeholders can provide quality feedback to the review. But it will also be vital to identify issues as they arise so that the AUASB and other stakeholders can advocate for earlier intervention and change if it is required. We note that New Zealand has delayed some climate-related disclosures to year 3 of reporting, so the challenges of implementing both the reporting and assurance should not be underestimated.

Our responses to the specific questions raised in the CP are included in the **Appendix** 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 or Amir Ghandar (CA ANZ) at amir.ghandar@charteredaccountantsanz.com.

Sincerely

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Appendix 1

Responses to specific questions

Question 1

Do you agree that the audit and review requirements for disclosure topics in the proposed AASB S2 are appropriate, taking into account:

a. Their relative importance of assurance to users of the information;

b. Their interconnectivity;

c. The likely cost of assurance; and

d. The readiness of Group 1, 2 and 3 entities' systems and processes.

Given the timeframe established by Treasury, overall, members were supportive of the proposed phasing and the order in which certain disclosures are added to the subject matter for the assurance engagement over time. However, we have heard a number of concerns about the introduction of reasonable assurance too early in the phasing process. In addition, as discussed in our overall comments, we, and our members continue to have concerns that Treasury's timeframe to reach reasonable assurance over all disclosures in a relatively short time is too ambitious.

The concerns arise from likely resourcing and capacity issues for audit firms, concerns over the readiness and preparedness of entities to obtain the data they will require to report, the relative immaturity of sustainability reporting which will affect how the consistency of implementation, and the need for education and guidance for preparers and TCWG. All these factors make the current proposed timeframe for achieving full reasonable assurance by 2030 challenging, especially for Group 3 entities.

We note that New Zealand has delayed some climate-related disclosures to year 3 of reporting, so the challenges of implementing both the reporting and assurance should not be underestimated.

While we appreciate the timeframe to achieve reasonable assurance over all the mandatory climate disclosures, is not within the AUASB's mandate to control, we encourage the AUASB to monitor the feedback from firms and the experience in other jurisdictions, once the phasing is commenced and continue to engage with Treasury and other key stakeholders so that any necessary amendments to the timetable can be made if issues are identified. See also our response to Question 10.

Specific comments in relation to the phasing proposals

Timeline for phasing in of reasonable assurance

Due to the timeframe pressure and its impact on resourcing and capacity as discussed above, there are concerns that moving to reasonable assurance over Scope 1 and 2 emissions in year 2 will not give entities time to address issues identified in year 1.

Preparers, especially in the Group 2 and 3 cohorts, will be dealing with new systems and processes that may need more time to establish to provide sufficient appropriate audit evidence for reasonable assurance. Moving to reasonable assurance too quickly will only result in large numbers of qualifications if the entities cannot implement the necessary systems and processes. Our recommendation is that the introduction of reasonable assurance for Scope 1 and Scope 2 be delayed until year 3. This will give the entities time to address any issues identified with their systems, processes and data in year 2 before there is an uplift in the assurance requirements in year 3. Group 1 entities who have the required systems and processes in place earlier, can voluntarily request reasonable assurance ahead of schedule if desired their systems and processes are adequately established.

There was general agreement that phasing in reasonable assurance in stages from year 3 rather than moving from full limited assurance to full reasonable is a suitable approach. The gradual introduction of reasonable assurance will allow preparers to understand and prepare for the differing levels of documented evidence required between limited and reasonable assurance engagements. This phased approach will also support further refinement of systems and processes to enable reasonable assurance for all disclosure elements to be obtained over time.

Risks and opportunities disclosures

As discussed in our response to Question 3, below, there is support for limited assurance of the risk and opportunity disclosures (those beyond the requirements of AASB S2 paragraph 9(a)) being delayed until year 2.

Preparers and those charged with governance

There will also need to be time for the AUASB, AASB and ASIC to develop and provide guidance and education for preparers, TCWG and other stakeholders to assist them in preparing for both reporting and assurance of the disclosures.

Question 2

If you are an auditor, do you consider that your firm could adequately resource the audit and review requirements over sustainability information for entities whose financial reports are audited by your firm?

The timeframe established by Treasury for achieving reasonable assurance over all of the mandatory is ambitious and we have concerns that it will present significant challenges to audit firms, particularly those who mainly service Group 2 and 3 entities, in building the required capacity to perform the sustainability assurance engagements. In our response to the Board's initial consultation paper earlier this year we noted that while substantial capacity building being undertaken by the audit profession, there was likely to be a large skills and capacity gap, particularly for the preparers of the Group 3 entities and audit capacity to service this cohort.

While audit firms who serve Group 1 and 2 entities will likely make more progress in expanding their staff and capabilities within the current timeframes, we have also heard concerns from these firms about the challenges of developing sufficient resources and capacity, both in timelines for upskilling and training existing partners and staff but also in recruiting additional staff. The availability of experts to act as auditor's experts is also an issue as there is currently not a large population of these professionals in Australia.

Australia has historically been able to recruit talent from overseas to meet needs for audit capacity needs. However, challenges persist in obtaining sufficient visa allocations to facilitate international professionals working in Australia. As other jurisdictions are also introducing mandatory reporting and assurance, this will further limit the ability of Australian firms to access overseas talent.

These issues need to be considered in finalising the phasing of assurance. See also our response to Question 10.

Question 3

Do you consider that governance disclosures and disclosures of risks and opportunities should be subject to review in year 1?

Views were mixed on whether to include limited assurance on 'Governance' disclosures and disclosures of 'Strategy - Risks and Opportunities' from year 1. Some members expressed the view that **only** 'Scope 1 and 2 Emissions' should be subject to limited assurance in year 1. This would be consistent with the approach taken in New Zealand under its climate-related disclosure regime. Others felt that if the limited assurance was focused only on the 'Strategy - Risks and Opportunities' disclosures under AASB S2 paragraph 9(a) then this would be consistent with what the auditor would need to do for their risk assessment process and

would not be a large uplift in effort. If limited assurance were also required over 'Governance' disclosures which often include disclosing the other risks and opportunities, then this would require a larger uplift in the assurance work.

Therefore, we recommend that the AUASB narrow the assurance scope of disclosures of 'Strategy - Risks and Opportunities' in year 1 to focus only on the disclosures under AASB S2 paragraph 9(a).

Question 4

Do you agree that any statements that there are no material risks or opportunities should be subject to the same level of assurance as identified risks and opportunities for any given financial year?

Subject to our concerns over the assurance requirements for Group 3 overall, as discussed in our overall comments and in our response to Question 10 below, we are supportive of the need for assurance statements that there are no material risks or opportunities, and this statement should be subjected to the same level of assurance. However, members expressed concerns that preparers and TCWG may not understand the scope of work the assurance practitioner will need to perform to provide the assurance and will object to the cost. This will be one area where education and guidance for auditors, preparers and TCWG will be required.

Question 5

Do you agree that assurance phasing requirements for Group 1, 2 and 3 entities should commence with the same settings and progress at the same pace?

Yes, we agree that this is appropriate.

Question 6

Do you agree that entities that enter a Group after the first reporting year for that Group (e.g. due to an increase in their size) should be subject to the same assurance requirements as other entities in the Group for the relevant reporting year (i.e. they would not be subject to the assurance levels for the first reporting year for the group)?

Yes, this is consistent with the requirements for financial reporting.

Question 7

Do you agree with the approach to assurance over comparative information?

Yes, our members were supportive of there being no requirements to provide assurance over the comparatives in the first year of assurance and that there is no requirement to do further

work over comparatives in the first year of reasonable assurance for any given disclosure as set out in paragraphs 11(a) & (b) of the ED.

Question 8

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

We have not heard any issues raised regarding concerns with laws and regulations.

Question 9

What are the costs and benefits of the proposals, whether quantitative or qualitative and whether financial or non-financial? The AUASB is particularly seeking information on the nature and, where possible, estimated amount of any expected incremental costs of the proposals.

Our understanding from members is that the sustainability assurance engagements will be a substantial additional cost to their clients. We encourage the AUASB to seek further feedback from firms on this matter. The cost of assurance will also be an important metric to consider when Treasury reviews the requirements, especially for the Group 3 entities.

Question 10

Are there any other significant public interest matters that you wish to raise on the proposals in this exposure draft?

Appropriateness of the timetable, phasing and Group 3 entities

Due to the resourcing and capability constraints and the ambitious nature of the Act's requirements for assurance, it will be vital for the AUASB to gather feedback from firms and preparers as well as monitoring the experience of other jurisdictions over the first few years of the process.

We reinforce that the cost of assurance will also be an important metric to consider when Treasury reviews the requirements, especially for the Group 3 entities and that our view is that the assurance requirements for Group 3 entities need to be modified.

In the Policy Position Statement: *Mandatory climate-related disclosures*, Treasury states its intention to undertake a review of the requirements and progress in the requirements in 2028-2029. This does not allow for much time to amend requirements, and it will be important that the Board and other stakeholders can provide quality feedback to the review, but also advocate for earlier intervention and change if it is required. New Zealand has already made early changes to its regime in response to the challenges being experienced and Australia must also be responsive and open to change if required by the market.

Need for guidance and education

In order for the public interest aims of sustainability reporting and assurance to be achieved it is important that all participants in the financial reporting stakeholders have sufficient guidance and education to fulfil their respective roles. Our members have identified the need for guidance in several key areas in relation to the assurance engagement:

- Guidance to differentiate the work effort required between limited and reasonable assurance as well as guidance on reporting on multiple levels of assurance to enable practitioners to achieve consistency.
- Guidance on the auditor's report on the sustainability report and its interaction with the auditor's report on the financial report. This includes modifications to the auditor's report on the sustainability report and mixed level of assurance for the different elements in the sustainability report.
- Guidance and education for preparers, TCWG and other stakeholders to understand sustainability reporting and assurance. In addition, guidance will be needed for users to understand what parts of the sustainability reporting have been subject to assurance and what limited and reasonable assurance mean.

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