



13 November 2024

Mr Doug Niven
The Chair
Auditing and Assurance Standards Board
PO Box 204
Collins Street West Victoria 8007

Lodged online via: <https://auasb.gov.au/projects/open-for-comment>

Dear Doug

AUASB 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 Institute of Public Accountants (IPA) welcomes the opportunity to provide comments on the above Exposure Draft (ED).

General comment

IPA is of the view that for information to be useful to users for assessing an entity's climate-related risks and opportunities for making decisions about the entity, the disclosed information must be relevant, reliable, timely, comparable and verifiable. The proposed assurance framework in the ED facilitates the independent assurance of the reported information in a pragmatic and workable manner.

In particular, IPA is supportive of the proposed phased-in model of limited assurance for certain disclosure areas and progressing to reasonable assurance, commencing in year one for Group 1 entities and extending to Groups 2 and 3 entities over time. This model:

- better assists the readiness of the entities' systems and processes
- provides time for the Groups 2 and 3 entities to learn from the implementation experiences of Group 1, and thereby assist in the readiness of Groups 2 and 3 entities' systems and processes
- smooths the demand for assurance over climate disclosures and
- provides time to develop the capacity and capabilities of auditors and their experts.

With respect to firms having adequate resources to audit and review requirements over sustainability information for entities whose financial reports are audited by the firm, IPA thinks this is more achievable for the larger audit firms. In contrast, this may be challenging for the smaller firms, such as those of IPA members, who operate in the small-to-medium enterprise (SME) sectors. However, the phase-in approach provides time for the profession and the standard-setters (the

AASB and AUASB) to monitor the implementation of the requirements and make modifications so they are proportionate to the complexities of the Group 3 entities. For example, the AASB may simplify the reporting requirements for Group 3 and the AUASB may consider a less onerous review and audit framework.

Specific comment

Our responses to the specific questions in the ED are in Attachment 1.

For any questions relating to this submission, please contact Vicki Stylianou, Group Executive Advocacy and Professional Standards, Institute of Public Accountants at vicki.stylianou@publicaccountants.org.au.

Yours sincerely

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Attachment 1 – IPA’s responses to ED 02/24 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.**

IPA is of the view that for information to be useful to users for assessing an entity’s climate-related risks and opportunities for making decisions about the entity, the disclosed information must be relevant, reliable, timely, comparable and verifiable. To achieve this, the information must be capable of being independently assured. IPA supports the requirements outlined in ED 02/24, as they provide a pragmatic approach and workable framework to assist this. Additionally, IPA agrees that the audit and review requirements for disclosure topics in the proposed AASB S2 are appropriate and takes into account the factors outlined in ED 02/24.

We also support the phase-in model in the Appendix to the ED of limited assurance for certain disclosure areas and progressing to reasonable assurance, commencing in year one for Group 1 entities and extending to Groups 2 and 3 entities over time. We think this model better assists the readiness of the entities’ systems and processes. The phase-in model also provides time for the Groups 2 and 3 entities to learn from the implementation experiences of Group 1, and thereby assist in the readiness of Groups 2 and 3 entities’ systems and processes, smooth the demand for assurance over climate disclosures, and developing the capacity and capabilities of auditors and their experts.

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?

Generally, IPA is of the view that many Group 1 entities would currently be disclosing some form of climate reporting that is assured in some form. While the impending audit and review requirements for sustainability information are more prescriptive and rigorous, we think the phase-in approach of limited assurance for certain disclosure topics and progressing to reasonable assurance in the second and subsequent years would enable the capacity and capabilities of auditors and their experts, whose financial reports are audited by the same firm. However, we think this is more achievable for the larger audit firms.

The above contrasts with IPA members who operate in the small-to-medium enterprise (SME) sectors and are unlikely to be involved in the preparation of climate reports and their assurance. The proposals may therefore be challenging for the smaller firms. However, the phase-in approach provides time for the profession and the standard-setters (the AASB and AUASB) to monitor the implementation of the requirements and modify the requirements so they are proportionate to the complexities of the Group 3 entities. For example, the AASB may simplify the reporting requirements for Group 3 and the AUASB may consider a less onerous review and audit framework.

Question 3. Do you consider that governance disclosures and disclosures of risks and opportunities should be subject to review in year 1?

IPA considers that governance disclosures and strategy disclosures of risks and opportunities should be subject to limited assurance review for the first three reporting years, progressing to reasonable assurance in the fourth year of reporting.

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?

The ability for an entity to make a statement that there are no material climate report risks and opportunities that could reasonably be expected to affect the entity's prospects is particularly relevant for IPA members. The implication of this statement is that if the entity makes this statement, it would only need to disclose that fact and explain how it came to that conclusion, and therefore need not prepare a climate report. For the climate reporting framework to be credible, there must be confidence that that this statement is accurate. Accordingly, IPA agrees that the same level of assurance should be provided to any statements that "there are no material risks or opportunities" and statements about the identified risks and opportunities for any given financial year.

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?

IPA is supportive of the proposed uniform phasing approach for the reasons stated in the above questions.

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)?

IPA appreciates the challenge for entities that enter a Group after the first reporting year for that Group. However, on balance, the same requirements should apply to all entities of a Group to facilitate comparability and transparency.

Question 7. Do you agree with the approach to assurance over comparative information?

IPA agrees with the proposed approach in paragraph 11 of ED02/24.

Question 8. Have applicable laws and regulations been appropriately addressed in the proposed Standard?

IPA believes applicable laws and regulations have been appropriately addressed in the proposed Standard.

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.

IPA recognises that audit firms will incur numerous costs, including initial audit methodology development, training and developing audit staff, and ongoing refinement of policies and procedures throughout the assurance phases of limited and reasonable assurance. IPA anticipates the initial skill shortage will be assisted with the phased implementation of the new reporting and auditing requirements.

Question 10. Are there any other significant public interest matters that you wish to raise on the proposals in this exposure draft?

IPA are not aware of any other significant public interest matters related to the proposals in ED 02/24.