APPC
Australian Public Policy Committee

Promoting positive public policy outcomes in respect of audit, accounting, and related services in Australia

Climate Disclosure Unit
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Treasury consultation on Climate-related financial disclosures

Key points:

- Assurance over climate-related financial disclosures is essential to increase confidence in quality and reliability and build stakeholder trust.
- Assurance providers should be required to comply with comprehensive quality and independence frameworks to deliver this assurance to a high standard acceptable to investors and other intended users of these disclosures, akin to those that apply for financial information.
- Assurance over climate-related financial disclosures ensures Australia is aligned to the EU, NZ and other leading jurisdictions and upholds the integrity of Australia's reporting globally.
- We understand the challenges of mandating *limited* or *reasonable assurance* over all climate-related financial disclosures by the anticipated initial adoption date of financial year 2024/25. We look forward to working with the government, regulators and standard setters on developing a roadmap toward reasonable assurance.
- The assurance profession stands ready to continue to play a key role in supporting the capital markets through this important development in reporting and assurance.

The Australian Public Policy Committee (APPC) appreciates the opportunity to respond to the Treasury's consultation paper on Climate-related financial disclosure. The APPC comprises the six largest professional services firms in Australia being BDO, Deloitte, EY, Grant Thornton, KPMG and PwC as well as the professional accounting bodies being Chartered Accountants Australia and New Zealand and CPA Australia. Our objective is to promote positive public policy outcomes in respect of audit, accounting and related regulated services.

The APPC audit firm members (BDO, Deloitte, EY, Grant Thornton, KPMG and PwC) provide assurance services for 195 of Australia's 200 largest ASX listed companies and are the largest employers of external auditors in Australia. Each firm also already provides services that support their clients in the disclosure of non-financial information, including climate-related and sustainability (or ESG) information. This includes reporting matters that are mandatory for certain entities, for example National Greenhouse and Energy Reporting Act 2007 (NGER Act) reporting requirements as well as voluntary reporting, such as under the Task Force on Climate-related Financial Disclosures (TCFD).

We are passionate about the role of assurance in ensuring investment grade information, both for financial as well as non-financial disclosures. This is critical to support the integrity of capital markets and enable investors and stakeholders to rely on non-financial information for their decision making in the same way they do financial information.

With respect to the consultation paper, the APPC has considered questions 8 and 12:

> *Question 8: What level of assurance should be required for climate disclosures, who should provide assurance (for instance, auditor of the financial report or other expert), and should assurance providers be subject to independence and quality management standards?*

Question 12: Should particular disclosure requirements and/or assurance of those requirements commence in different phases, and why?

In doing so, we submit the following:

Ideally, all climate-related financial disclosures should be subject to reasonable assurance. However, the APPC acknowledges that reasonable assurance is unlikely to occur in line with the adoption of mandatory disclosures with a proposed start date of financial year 2024/25. We note:

- Paragraph 3 of 'Auditing Standard ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards'[1], defines that the purpose of audit is to enhance the degree of confidence of intended users in the financial report. We submit that the most credible way to enhance that confidence is through *reasonable assurance*.

- For many reporting entities, the climate-related information and related processes and controls that will underpin the disclosures envisaged by the International Sustainability Standards Board (ISSB) or Australian equivalents are unlikely to be mature enough for either limited or reasonable assurance in the proposed initial year of reporting (financial year 2024/25). For both limited and reasonable assurance, preparers of entity reporting need to be ready for that assurance; equally the assurance provider needs to be comfortable that that level of assurance can be provided. Given the proximity of the proposed initial year, we would recommend that the government clearly communicates the expectation on Australian businesses that they need to get disclosures to the point of being ready to be assured at, or soon after, the initial year. To ease implementation year 1 could require limited assurance and move to reasonable in subsequent periods.

- In determining the level of assurance required, the government will need to consider balancing the confidence that reasonable assurance will provide to intended users of these disclosures, versus the practical challenges impacting the preparers of these disclosures and the level of substantive testing that is required. In considering the type of assurance that is mandated, the standards must ensure the preparer considers the users' needs.

- Climate-related financial disclosures that are not subject to any assurance are unlikely to meet investor demands, nor the expectations of the Australian community. Further, we submit that by having no assurance, the risk of 'greenwashing' may increase with an increased likelihood of incomplete and inaccurate information being disclosed. Should the government take the view that mandatory assurance – limited or reasonable - is not required at the initial reporting date, then in our view it must clearly articulate the roadmap toward reasonable assurance, as many other comparable jurisdictions have done internationally. In the absence of mandatory assurance, voluntary assurance should still be encouraged.

- If limited assurance is mandated, at least in the initial rollout or soon after, we recommend that the government and the Australian Auditing and Assurance Standards Board (AUASB):
  - guide entities on the importance of preparing for, and their responsibilities for limited assurance. This might include guidance for Boards on best practices for their own internal processes, including internal audit and management approvals on what they can confidently provide investors and other intended users. Whilst limited assurance offers less reliance than reasonable assurance, certain requirements such as data and system readiness, must still be in place in accordance with assurance standards; and
  - undertake an extensive communications campaign to ensure investors and other intended users of the disclosures understand the level of confidence that can be obtained from limited

[1] https://www.auasb.gov.au/admin/file/content102/c3/ASA_200_Compiled_2019-FRL.pdf

assurance.

- The assurance industry's experience of implementing voluntary assurance over the other government climate-related schemes such as at the National Greenhouse and Energy Reporting Act 2007 (NGER Act) and the Safeguard Mechanism suggests that, with the right focus from both preparers and assurance providers, entities can quickly adapt to meeting the requirements to meet the prerequisites of an assurance of the proposed climate-related financial disclosures.

Assurance providers for climate-related financial disclosures should be regulated, with rigorous internationally aligned quality systems and independence frameworks. We note:

- To support the aim of providing investment grade information, it is critical that assurance providers are subject to a similar level of independence and quality management standards[2] as those who provide financial statement audits. Assurance providers of sustainability information should be expected to follow a professional framework including competence, independence, a system of quality management, and be subject to oversight and inspection as well as professional liability mechanisms to ensure that credible assurance is delivered to the market.

- Existing audit firms are currently required to comply with extensive independence requirements contained in the Code of Ethics for Professional Accountants (the Ethics Code) issued by the Accounting Professional and Ethical Standards Board (APESB), and the Corporations Act 2001. We see these requirements as being readily adapted to account for assurance over climate-related financial disclosures, and other sustainability reporting. To that end, in December 2022, the International Ethics Standards Board for Accountants, which issues the International Ethics Code that is adopted by the APESB, confirmed they are undertaking a project to develop independence standards for use by all sustainability assurance practitioners and specific ethics provisions relevant to sustainability reporting and assurance, with the intention for these to be adopted and applied by assurance providers from any profession.

- The standards for assurance over climate-related financial disclosures and broader sustainability information should be aligned with the globally recognised International Standards on Assurance Engagements (ISAE) issued by the International Auditing and Assurance Standards Board (IAASB). In Australia, these are issued domestically by the AUASB. Existing assurance standards and guidance already enable assurance engagements over TCFD disclosures and NGER reporting. The IAASB are developing a specific standard for assurance over sustainability reporting, which is due to be released as an exposure draft in September 2023. However, given this new standard will be aligned with existing standards[3], the timing of its release will not affect the capability of assurance providers to undertake assurance engagements over climate-related information.

- In order to enable reporting entities to identify assurance providers who meet these standards, as well as the necessary regulatory oversight, such providers will need to be licensed. As the government moves to its next round of consultation, we would welcome the opportunity to work with Treasury to ensure an appropriate licencing regime is introduced to reflect the depth and breadth of sustainability reporting. A licencing regime would likely need to account for areas beyond climate-related financial disclosures.

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[2] With reference to the quality systems in the context of audit firms, we include Auditing Standard ASQM 1: *Quality Management for Firms that Perform Audits or Reviews of Financial Reports and Other Financial Information, or Other Assurance or Related Services Engagements* and Auditing Standard ASQM 2: *Engagement Quality Reviews*

[3] https://www.ifac.org/knowledge-gateway/supporting-international-standards/publications/using-isae-3000-revised-sustainability-assurance-engagements

- We suggest that reporting entities should be able to appoint one firm to provide assurance over both their financial statements and other mandatory disclosures, such climate-related disclosures. The firms believe the appointment of one audit firm would simplify the implementation of mandatory assurance at, or soon after, the adoption of the climate-related financial disclosure standards. Further, according to a report from the International Federation of Accountants (IFAC) and the American Institute of CPAs (AICPA) & Chartered Institute of Management Accountants (CIMA), 'The State of Play in Reporting and Assurance of sustainable information"[4] there is already a great deal of assurance over sustainability disclosures, and the majority of that assurance is provided by existing audit firms. Their key findings, from their review of 1400 companies across 22 jurisdictions was that 92% reported some ESG information and 58% obtained some form of assurance of their ESG disclosures. In Australia 100% of companies in the sample had that assurance provided by audit firms.

Thank you again for the opportunity to provide our views. Should you have any further questions on our submission, please do not hesitate to contact either [redacted] on [redacted] or [redacted] on [redacted].

[redacted]

[redacted]
Chair APPC Working Group on ESG

[redacted]

[redacted]
Chair of the APPC

4 https://www.ifac.org/knowledge-gateway/contributing-global-economy/publications/state-play-reporting-and-assurance-sustainability-information-update-2019-2020-data-analysis