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Climate Disclosure Unit
Market Conduct Division
Treasury
Langton Crescent
Parkes ACT 2600

Email: climatereportingconsultation@treasury.gov.au

Re: Climate-related financial disclosure – Consultation paper

Thank you for the opportunity to provide our views on the above consultation.

I make this submission on behalf of my colleague, Professor Nigar Sultana and myself. Both of us are academics at Curtin University in Western Australia. Over the last 15 years, we have been teaching undergraduate, graduate and executive education courses on sustainability, environmental, social and governance (ESG) regulations & disclosures, reporting and assurance both nationally and internationally. Our key research areas are in ESG performance, measurement and reporting with a specific focus on natural capital accounting, climate and carbon accounting and greenhouse gas emissions measurement, verification and reporting. Given our experience and work in this area, we believe that it is appropriate for us to provide our views on questions 8 and 19 on the climate-related financial disclosure consultation paper that Treasury is seeking responses to as follows:

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?

In order to improve consistency between auditing standards and future standards relating to climate-related financial disclosure (this is particularly important for users of financials statements as a whole who value consistency and therefore understandability), it would be useful to consider the three levels of assurance already used by the auditing standards. Of the three levels of assurance possible (i.e., compilation, review and audit), an audit would be the most appropriate as it provides the highest level of assurance in the form on a positively worded opinion (as opposed to a negatively worded opinion). As such, we believe that the level of assurance suitable for climate-related financial disclosures should require an audit so that the opinion provided can be positively worded; the latter indicating greater audit effort by the assurance provider.

Given that auditors are already familiar and experts in the auditing of financial information in financial statements, it seems logical that auditors also audit climate-related financial disclosures (which would go hand-in-hand with the more conventional financial statements already being audited by auditors). In terms of auditors being subject to independence and quality management standards, we absolutely believe this should be the case so that auditors, like members of other professions, are able to stand up to external scrutiny and demonstrate the transparency and accountability of their actions.

However, given the likelihood that the originating values in climate-related financial disclosures may be in non-monetary values, e.g., scientific data, there will likely be a need for professional training for auditors which can be provided by a number of assurance-providing organisations. In this latter case, although there is training involved for auditors, the benefits from using such auditors will still far outweigh the costs of using other professionals, such as engineers, who are not experts in the final financial numbers that would be disclosed in climate-related financial disclosures.

Question 19: Which of the potential structures presented (or any other) would best improve the effectiveness and efficiency of the financial reporting system, including to support introduction of climate related risk reporting? Why?

We believe that a structure which reforms existing financial reporting bodies into a single, flexible entity is most suitable. Such a structure has multiple benefits including (1) greater effectiveness in outcomes in terms of a better coordinated workplan across the entire Australian financial reporting framework; (2) greater efficiencies from operations resulting from the fact that a single entity oversees the reporting framework. This would result in clear, transparent and timely communication resulting in well-informed decisions made in a timelier manner; (3) eliminates disagreements that often occur between separate entities relating to scope of operations and 'blurred' responsibilities; and (4) flexibility and therefore resilience to the needs of financial reporting users. Such a structure also avoids the significant issues of fragmentation in the financial reporting framework if a separate sustainability standards board was established; the latter driving up costs and potentially, overall effectiveness.

Thank you and please let us know if you would like a more detailed submission or have any queries.

Kind regards.

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