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15 November 2024

Dear Chair,

**EXPOSURE DRAFT – AUSTRALIAN STANDARD ON SUSTAINABILITY ASSURANCE ASSA 5010
TIMELINE FOR AUDITS AND REVIEWS OF INFORMATION IN SUSTAINABILITY REPORTS UNDER THE
CORPORATIONS ACT 2001**

We appreciate the opportunity to provide comment to the Australian Auditing and Assurance Standards Board on the Exposure Draft – Australian Standard on Sustainability Assurance ASSA 5010 *Timeline for audits and reviews of information in sustainability reports under the Corporations Act 2001*.

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We acknowledge the Australian Auditing and Assurance Standards Boards' efforts to facilitate greater consultation in the standard setting process. We are supportive of the efforts to provide guidance as part of the transition to reasonable assurance for sustainability information, however, believe that the proposed guidance has some areas where it could be enhanced, which we have outlined in our comments attached.

Our detailed responses to the questions contained in the Exposure Draft are attached to this letter, and we would welcome the opportunity to engage in any further discussion of this topic with other interested parties.

Please contact either myself or Tim Nesbitt, Director – Audit & Accounting Technical (03 8612 9596 or tim.nesbitt@pitcher.com.au) or Ronnie Vogt Director – Audit & Accounting Technical (03 8610 5118 or ronnie.vogt@pitcher.com.au), in relation to any of the matters outlined in this submission.

Yours sincerely,



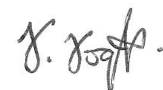
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Overall Questions from International the Consultation Paper – Assurance over Climate and Other Sustainability Information

- 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**

No, we do not agree. Firstly, there is a disconnect between identification of risks and opportunities and risk management procedures. Refer 3 below, if anything risk management should be in year 1 and the risks and opportunities should be in year 2.

Secondly, the mixed assurance obligations in years 2 and 3, do not facilitate an easy transition or rollout, refer 10.

Thirdly, the cost of providing the assurance is likely to be substantial given the range of requirements, the cost and availability of resource with expertise or experience in these areas, and the additional work which is inherent in any change.

Fourth, from our perspective while Group 1 firms may be well advanced in their preparation, larger private businesses in Groups 2 and 3, in some cases perceive little benefit from the additional assurance and would not elect to provide this information unless obligated commercially, consequentially, systems and processes may be perfunctory at present, hence the suggestion that we limit assurance on any part of the sustainability reporting limited assurance from a mandatory perspective. Those entities who are prepared and or perceive commercial advantage from doing so will not be prevented from obtaining higher levels of assurance or reporting more fulsomely, but to impose additional costs on businesses which do not perceive these benefits is illogical, particular for those which may conclude that there are no material climate-related financial risks and opportunities.

Lastly, the ongoing lack of clarity about the breadth of Scope 3 emissions, continues to concern some clients as to whether even a limited assurance response will be possible in the proposed timeframes.

In short we would recommend that limited assurance only be applied until year 4, and that careful consideration be given to the competing timelines between the groups for mandatory reporting and how this may impact later groups from a commercial perspective.

- 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?**

All our engagements undergo an acceptance and continuance process to ensure that sufficient adequate resources are available to perform the engagement consistent with ASA 220 *Quality Management for an audit of a financial report and other historical financial information*, para 25. We do not anticipate any change to the auditing standards or our compliance with the requirements of the auditing standard in this regard. However, we will continue to review our portfolio and resources available, as we have yet to perform this work we do not have hard evidence as to the resources required.

We do, however, anticipate that the market for certain expertise to complete the audits and reviews of climate and other sustainability information is likely to be challenging, which may result in our capacity to meet the requirements being limited, and hence our capacity to meet all requests for assurance. Limiting the year 2 and 3 implementations to limited assurance would reduce the resource requirements as per our comments in 1 and 10. We acknowledge that the move to reasonable assurance will irrespective of approach be a significant step change in the work effort whether it is deferred or not, but deferral will at least allow entities and auditors become more familiar with the topics.

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

No. The review of strategy risks and opportunities without performing work on the entity's risk management processes would seem to ignore that to identify the strategy risks and opportunities the risk management

<p>processes need to be in place, if anything the first year should focus on the risk management and the second year should focus on the actual risks and opportunities.</p>
<p>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 should be subject to the same level of assurance as identified risks and opportunities for any given financial year?</p>
<p>No, we do not agree that the statement should be subject to the same level of assurance as a positive statement. Proving a negative can in many cases be more challenging than obtaining evidence for a positive statement, and at the same time provide little or no benefit to the users of the financial statements.</p>
<p>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?</p>
<p>Whatever phasing requirements are determined, refer comments in 1 and 10 for our views on the phasing of assurance, they should be at a same or slower pace of introduction for Group 2 and 3 as these entities will be less prepared than the Group 1 entities.</p>
<p>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)?</p>
<p>We would like greater clarity on this proposal. Would this mean an entity could transition into a group and out of a group after a year and not report? There are certain entities which could be adversely impacted by the reporting as they have business models which scope in and out of having obligations based on the criteria, and greater clarity would allow a more considered response to this question.</p>
<p>7. Do you agree with the approach to assurance over comparative information?</p>
<p>Yes, the proposal to leave comparative information unimpacted by future assurance requirements is a positive and practical outcome. It is, however, unclear whether the comparative information must be presented for a prior period even if it is unaudited / reviewed. Presenting unaudited / unreviewed information where the systems may not have been in place to generate such information would potentially be misleading, this is different to financial information which for most entities must be maintained irrespective of whether it is reported externally, whereas sustainability information in many cases has never had to be generated or reported and hence could be lacking any substance for disclosure, which would drive costs up for information which is not going to be audited or reviewed.</p> <p>We would recommend that only information which has been subject to assurance be used for comparative purposes, but otherwise agree with the approach proposed.</p>
<p>8. Have applicable laws and regulations been appropriately addressed in the proposed standard?</p>
<p>Yes.</p>
<p>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.</p>

<p>We have yet to determine the full costs of performing the necessary work for our clients, however we do anticipate that the cost will be significant, driven by sustainability being a new area, increased costs of resources, availability of external resources and the level of client preparedness. Whether these significant costs will provide direct benefits to privately held businesses in Group 2 or 3 is unclear at this point, although some may require assurance on certain information for commercial reasons to continue to do business with those required to report sooner i.e. Group 1 or 2.</p>
<p>10. Are there any other significant public interest matters that you wish to raise on the proposals in this exposure draft?</p>
<p>The timeline prescribed by the legislation is the latest date of adoption, commercial pressures may mean that entities not in Group 1 may be called to report to Group 1 entities before they have statutory obligations. Alternatively, the request may be at a level of assurance which they have not yet had to report to for statutory purposes. Therefore, any timeline should consider not only the progression for each group but how the progression to reasonable assurance will interact with later Groups so that they do not face requests for assurance which are inconsistent with their statutory obligations in so far as is possible. Deferring any transition to reasonable assurance to the 4th year will help limit the impact of resource constraints and also defer some of the cost burden on companies.</p>
<p>Reporting on S1 and S2 in years 2 and 3 of initial reporting where all other reporting is to a limited level means that significant additional effort is required for planning to meet the reasonable assurance requirements and many of the systems addressing S1 and S2 will be interconnected to other parts of the reporting. It would be more logical and coherent to have the same level of assurance rather than some limited and some reasonable. We acknowledge that in year 1 there are some limited and some no assurance areas, however, the effort to perform a review is substantially less than the effort to perform a reasonable assurance engagement, and in a resource constrained environment where all parties are learning using the limited assurance approach would seem more logical.</p>
<p>Also split reporting to different levels, particularly in a new area, will not enhance the user experience. We would strongly recommend that all transition to reasonable assurance is deferred to year 4. This would ensure the smoothest roll out and also provide some “breathing” space for clients and auditors to prepare for any enhancements required to systems and processes to report on a reasonable basis, as well as potentially reducing the implementation costs. Providing the timeline is clear any concerns that clients may install systems and processes only suitable for limited assurance reporting is mitigated by the knowledge that the ultimate requirement is reasonable assurance.</p>
<p>Has any further thought been given by the AUASB to the interaction between other information in the financial report and any qualification in respect of sustainability information, does a qualified sustainability report automatically mean the financial report needs to be qualified? Given the anticipated challenges with scope 3 emissions in particular and the likelihood of qualifications or disclaimers over this in initial years for some entities, a resolution to the interaction between these matters would be both practical and beneficial.</p>
<p>We note that other jurisdictions have limited the mandatory requirements of their sustainability reporting to limited assurance. We recommend the AUASB discuss with Treasury whether the expectation of mandatory reasonable assurance is practical, commercial, and or consistent with other major territories globally or is it placing Australian companies in particular private companies at a competitive disadvantage.</p> <p>For example - Europe, New Zealand, Singapore</p>