Australian Government
Auditing and Assurance Standards Board

AUASB Agenda Paper

Title:	Deakin-AUASB Sustainability Assurance Research Workshop – Summary and Draft Research Report	**Date:**	6 December 2023
Office of the AUASB Staff:	Rebecca Mattocks	**Agenda Item:**	9.0

Objectives of Agenda Item

The objective of this Agenda Item is to:

1. Inform the AUASB of the research findings presented at the Deakin-AUASB Sustainability Assurance Research Workshop; and

2. Provide AUASB members the opportunity to provide feedback on the Draft AUASB Research Report.

Questions for the Board

Question No.	Question for the Board
Question 1	Do AUASB members have any feedback in relation to the draft AUASB Research Report at Agenda Item 9.1?

Background

1. The AUASB recognises the importance of relevant and reliable evidence and academic research to inform our standard-setting activities. The AUASB's Evidence Informed Standard Setting (EISS) strategy assists in ensuring that standard-setting deliberations and decisions are informed by relevant and reliable evidence and research.

2. On 25 October 2023, the Office of the AUASB Jointly held with Deakin University, a Sustainability Assurance Research Workshop, bringing together specialist audit and assurance academics from across Australia and other stakeholders to share and discuss research relevant to the development of sustainability assurance standards by the AUASB and the recently issued Exposure Draft on International Standard on Sustainability (ISSA) 5000 *General Requirements for Sustainability Assurance Engagements*.

    (a) The Workshop began with an introductory session outlining the objective of the Workshop and informing participants of the AUASB's agenda as it relates to sustainability assurance. This was followed by four academic sessions which explored issues pertaining to current sustainability reporting and assurance practices in Australia.

Matters Discussed

3. The Deakin-AUASB Sustainability Assurance Research Workshop included several academic presentations which explored matters such as the current state of play in Australia with respect to assurance over climate and sustainability related information, the use of accounting versus non-accounting assurance practitioners, voluntary versus mandatory assurance and alternative credibility enhancing techniques. For the AUASB's information, some of the key messages heard on the day have been summarised below:

   (a) There is an increasing trend over time of ASX listed entities disclosing climate-related information in their Annual Report, with most disclosures currently sitting outside of the Financial Report and Directors' Remuneration Report.

   (b) Assurance over climate related information is mainly provided by Big 4 auditors, the majority of which are also the financial statement auditor. Limited assurance is the dominant assurance level being provided. Assurance is most commonly provided over quantitative data rather than qualitative data, and is mainly against a selected section of disclosures, rather than an entire report.

   (c) The provision of assurance impacts financial statement users' perceptions of credibility and reliability, with differences in perceptions dependant on the level of assurance being provided. Users were found to value assurance provided by all assurance providers including non-accounting assurance providers who are subject matter experts. If non-accounting assurance providers are being used it is important that they are required to comply with equivalent quality management and ethical standards as those in the accounting profession.

   (d) There are a number of studies which examine the advantages and disadvantages of using accounting and non-accounting assurance practitioners. Findings suggest that accounting practitioners have an advantage in detecting and preventing sustainability errors while synergistically improving financial reporting quality. However, financial statement users have confidence in the competencies of subject matter experts providing assurance over sustainability information.

   (e) Evidence from Europe shows that the quality of reporting increases when it is subject to mandatory assurance.

   (f) Listed Australian companies are unique in that they have available to them multiple credibility-enhancing techniques to safeguard the integrity of unaudited information, including internal control processes and board reviews. For example, Recommendation 4.3 within the Corporative Governance Principles and Recommendation 4th edition and requirements under Auditing Standard ASA 720, *The Auditor's Responsibilities Relating to Other Information.*

   (g) Audit Committee Chairs are confident in the management and systems providing the financial reports, but less confident in the systems and processes in house, and skills available for reporting entities in providing the content of sustainability information.

   (h) Combining assurance experts and subject matter experts into multidisciplinary teams can bring benefits as a result of greater elaboration on diverse perspectives, which eventually enhances assurance teams' performance. However, there can also be biased evidence processing within teams, as accounting experts overweigh the evidence suggested by experts. It is therefore important for guidance to be developed on how the work of assurance experts and subject matter experts can best be integrated.

Next steps/Way Forward

4. To recognise the efforts of all participants involved in the Deakin-AUASB Sustainability Assurance Research Workshop, an AUASB Research Report summarising the academic presentations and related implications for the AUASB will be published on the AUASB Website shortly. A draft version of the Report is provided at Agenda Item 9.1.

5. The AUASB will continue to collaborate with the academic community to inform and support decision making that contributes to the development, issuing and maintenance in the public interest, of high-quality Australian auditing and assurance standards and guidance.

Materials Presented

Agenda Item	Description
9.1	Draft AUASB Research Report – Deakin-AUASB Sustainability Assurance Research Workshop

Australian Government

Auditing and Assurance Standards Board

AUASB RESEARCH REPORT XX

DEAKIN-AUASB SUSTAINABILITY ASSURANCE RESEARCH WORKSHOP

Research informing the AUASB's Sustainability Assurance Agenda

December 2023

Editors of this research report

Dr Rebecca Mattocks, Assistant Manager, AUASB
Professor Roger Simnett, Deakin University

Disclaimer

The views expressed in this research report do not represent formal views of the Board, which are established only through appropriate due process. The Board respects the independence of the researchers and has not attempted to influence the research or findings in any way.

Acknowledgements

This workshop is supported by the Australian Research Council (ARC) Discovery Grant DP230102083 and Deakin University. The provision of the facilities by CPA Australia is greatly appreciated.

AUASB Research Report Series, availability of this publication and suggested citation

The AUASB publishes the AUASB Research Report Series, which promotes thought leadership in auditing and assurance standard-setting and policy making through in-depth analysis of audit and assurance issues and related empirical research. This AUASB Research Report is available on the AUASB website. The suggested citation for the complete report is:

Mattocks R., and R. Simnett (eds), (2023), Deakin-AUASB Sustainability Assurance Research Workshop: Research informing the AUASB's Sustainability Assurance Agenda. AUASB Research Report No. XX.

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Foreword

The AUASB recognises the importance of relevant and reliable evidence and academic research to inform our standard-setting activities. The AUASB's Evidence Informed Standard Setting (EISS) strategy directs our activities to ensure that standard-setting deliberations and decisions are informed by relevant and reliable evidence and research. The AUASB encourages and supports research that provides evidence on the current audit and assurance environment that informs our current and future agenda.

In October 2023 we engaged with the academic community through the Deakin-AUASB Sustainability Assurance Research Workshop. As we prepare for the introduction of mandatory climate reporting and assurance, this Workshop served as a pivotal element in our collaborative efforts, fostering discussion on research that can shape and inform our standard-setting activities. The Workshop contributed to this objective through a presentation of the AUASB's agenda and priorities as they relate to sustainability assurance, presentations from academics on existing research and its implications to the AUASB, and the identification of any gaps that present opportunities for future research.

The AUASB extends its sincere appreciation to all workshop attendees for their active participation, with special acknowledgment given to those who presented their research findings. The AUASB welcomes and values input from academics regarding potential opportunities for research in the future.

Mr Doug Niven
Chair
Auditing and Assurance Standards Board

Deakin University's Faculty of Business and Law has a proud tradition of engaging with the community, undertaking research and supporting events that are a catalyst for positive societal change. We believe that all public policy and legislative initiatives should be informed by high quality research, ensuring an evidence based approach in order to achieve optimal benefit for our nation.

With the objective of ensuring that the Australian government's Auditing and Assurance Standards Board (AUASB) is fully informed of current research findings as it pursues its agenda of developing standards and legislating in the important area of sustainability assurance, Deakin University hosted a roundtable in October 2023. At this roundtable leading researchers in auditing and assurance presented their research findings to the AUASB. Those findings clearly identify the implications of their research for the proposed AUASB initiatives in the area of sustainability assurance. The efforts of the Department of Accounting and the faculty research centre, the Deakin Integrated Reporting Centre, in co-ordinating and facilitating this roundtable, are a living demonstration of the vital role that universities can play in shaping and developing public policy.

This roundtable was a demonstration of the benefits of collaboration across academia and government and I commend the organisers and the AUASB for this program. Deakin University's Faculty of Business and Law stands ready to support such important initiatives.

Professor Jenni Lightowlers
Executive Dean
Faculty of Business & Law
Deakin University

Preface

This Research Report provides a summary of academic presentations at the Deakin University (Deakin) – Australian Auditing and Assurance Standards Board (AUASB) Sustainability Assurance Research Workshop held on 25 October 2023, at CPA Australia.

Facilitated by the organising committee consisting of Anne Waters (AUASB), Rebecca Mattocks (AUASB) and Roger Simnett (Deakin University), the Workshop aimed to foster dialogue on research related to the recently issued Exposure Draft on International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*. It also deliberately aligned with the AUASB's broader Sustainability Assurance agenda including assurance on climate reporting, intending to pinpoint areas warranting future research.

The Workshop featured presentations by researchers and culminated with insights from the AUASB Chair, Doug Niven, and AUASB Staff, providing a comprehensive overview of international and domestic developments in Sustainability Assurance, along with highlighting the relevance of existing research and outstanding research opportunities that could inform the AUASB's framework for assurance.

Executive Summary

This Workshop was undertaken with the objective of informing the AUASB in developing the framework for assurance over sustainability related information. This involved gaining a thorough understanding of existing research on current sustainability assurance practices in Australia to assess the preparedness of the assurance market in transitioning from a voluntary to mandatory environment.

The Workshop commenced with an introductory session outlining the objective of the Workshop and informing participants of the AUASB's agenda as it relates to sustainability assurance including climate. This was followed by four academic sessions which explored issues pertaining to current sustainability reporting and assurance practices in Australia, the use of accounting versus non accounting assurance practitioners, materiality considerations, alternative credibility enhancing mechanisms, voluntary versus mandatory assurance, greenwashing considerations and the effects of greenhouse gas multidisciplinary teams on performance.

Some of the key considerations identified for the AUASB were:

Implications for Consideration by the AUASB	Reference
The AUASB's Sustainability Assurance Agenda	
There is a need to consider the readiness of the Australian assurance market for the proposed sustainability and climate-related standards, including a consideration of processes, controls, disclosures required and data availability. This involves gaining a thorough understanding of the current reporting and assurance environment in Australia, including who the assurance practitioners are, what assurance is being given and over what information, and any capacity and capability concerns.	1.2, 1.3
Current Sustainability Reporting and Assurance Practices in Australia	
An increasing number of Australian listed entities are reporting climate-related information in in their Annual Reports with the rate of such disclosures increasing from 36.1 % in 2021 to 42.8% in 2022. A significant jump in disclosures in the Financial Reports (and the Notes) by 75.3% in 2022 compared with 2021, and by 59.5% in disclosures in the Directors' Remuneration Report compared with 2021. The large jump in the disclosures in the Notes to the Financial Report is especially reflected in a large increase in the specific notes related to accounting policies and judgement, or basis of preparation, with an increase from 19 instances in 2021 to 64 in 2022. However, most disclosures still occur in the other information sections in the annual report, emphasising the importance of ensuring that Auditing Standard ASA 720 *The Auditor's Responsibilities Relating to Other Information* is fit for purpose.	2.1
The number of entities mentioning the provision of external assurance of climate-related information in the Annual Reports increased from 18 in 2018 to 40 in 2022. Among them, there are 22 assurance reports attached to (included in) the Annual Reports in 2022. Limited assurance is the dominant assurance level being provided over climate related information, that is predominantly quantitative in nature. As we prepare for mandatory reporting, there will need to be a large uplift in the level of assurance provided. The Big 4 auditors are the most common assurance providers, the majority of which are also the financial statement auditor. Three situations where reasonable assurance is provided specifically on scope 1 and 2 greenhouse gas emissions are identified, resulting in hybrid (both limited and reasonable) assurance reports. There is currently little guidance provided by the AUASB for such hybrid levels of assurance engagements or the format of the assurance report that should result.	2.1, 2.2

When looking at sustainability and climate-related information outside the annual reports for ASX 300 companies, 30% have some form of sustainability assurance in place. Of these, a substantial majority, 89% obtained assurance from accounting firms, while the remaining 11% were assured by non-accounting firms. The main assured reporting framework is GRI, and the assurance of selected information, mainly quantitative information is predominant. Australia will be introducing mandatory assurance in line with the ISSB's standard, with differing requirements to frameworks most commonly used.	2.3
Accounting versus Non-Accounting Assurance Practitioners	
Accounting practitioners are the dominant assurance providers over non-financial information in Australia. Accounting assurance practitioners have been found to have an advantage over non-accounting assurance practitioner in detecting and preventing sustainability errors while synergistically improving financial reporting quality, and transferring their skills to enhance the value relevance of sustainability reporting in the capital market, thus enhancing the quality of sustainability reporting and fostering trust among stakeholders.	3.1, 3.2
The provision of assurance impacts financial statement users' perceptions of credibility and reliability, with differences in perceptions dependant on the level of assurance being provided. Users were found to value assurance provided by all assurance providers, including non-accounting assurance providers. If non-accounting assurance providers are being used it is important that they are required to comply with equivalent quality management and ethical standards as those in the accounting profession.	3.1
Non-accounting practitioners are not subject to the same professional requirements as professional accountants, despite being able to use the same assurance standards. Advantages were found to non-accounting assurance practitioners using ISAEs, there continue to be a number of instances where the required underlying ethics and quality management frameworks are not included in the assurance report.	3.2
Materiality, Other Credibility Enhancing Mechanisms and Voluntary versus Mandatory Assurance	
There is no evidence to suggest that users, preparers or assurers are different in their perceptions of materiality, or of the factors that determine materiality. It is important however, to explore and compare the information needs across different user types for misstatements in qualitative disclosures. Proposed ISSA 5000 proposes that judgments about impact materiality and double materiality matters are based on the assuror's consideration of the common information needs of intended users as a group. Given the acknowledged diversity of user types, how is this practicable?	4.1
Listed Australian companies are unique in that have available to them multiple credibility-enhancing techniques to safeguard the integrity of unaudited information, including internal control processes and board reviews. For example, recommendation 4.3 (Rec 4.3) within the ASX Corporate Governance Principles and Recommendation 4th Edition encourages companies to disclose the processes they used to ensure the integrity of "periodic corporate reports". Considering recent initiatives such as the three lines of defence and the IAASB's trust model that include both internal and external mechanisms in ensuring the credibility and trust, the AUASB may consider its mandate over this broadening view of credibility enhancing mechanisms.	4.2
With regards to Auditing Standard ASA 720, *The Auditor's Responsibilities Relating to Other Information,* a standard issued by the Auditing and Assurance Standards Board	4.2

that mandates auditors to consider the unaudited information contained within the annual report, there is an increasing trend over time in the proportion of auditor observations that received all of the other information prior to the date of the auditor's report. This suggests that the requirement for the auditor to disclose whether they have been provided with the other information has potentially facilitated their access to such information.	
There are a few countries where assurance of sustainability information has been mandated. Assurance versus non-assurance over non-financial information has been found to result in higher sustainability reporting scores, greater integration of non-financial information into companies' decision-making processes, increased analyst following and reduced cost of debt. Mandatory versus voluntary assurance is significantly associated with expanded assurance scope and a shorter assurance report lag.	4.3
Perceptions of Audit Committee Chairs, Group Decision Making and Greenwashing	
AC Chairs see it as very important to have consistent worldwide sustainability reporting and assurance requirements.	5.1
While Audit Committee Chairs consider the accounting profession as having the skill set, global scale and experience needed to conduct financial statement audits, they are less confident as to whether there are currently sufficient skills in the market to carry out some aspects of sustainability assurance.	5.1
Audit Committee Chairs are confident in the management and systems providing the financial reports, but less confident in the systems and processes in house, and skills available for reporting entities in providing the content of the sustainability information provided.	5.1
Audit Committee Chairs have a strong preference for the assurance provider to come from the same firm as their financial statement auditor, due to perceived synergies.	5.1
Combining assurance experts and subject matter experts into multidisciplinary teams can bring benefits as a result of greater elaboration on diverse perspectives, which eventually enhances assurance teams' performance. However, there can also be biased evidence processing within teams, as accounting experts overweigh the evidence suggested by experts. It is therefore important for guidance to be developed on how the work of assurance experts and subject matter experts can best be integrated.	5.2
Greenwashing poses a risk of material misrepresentation on claims made in annual and sustainability reports. Stakeholders believe sustainability assurance can help reduce greenwashing, but there's a need for caution concerning greenwashing issues.	5.3

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1. The AUASB's Sustainability Assurance Agenda

1.1. Sustainability Assurance Developments

In December 2022 the Treasury issued a Consultation Paper seeking initial views on the key considerations for the design and implementation of standardised, internationally-aligned requirements for disclosure of climate-related financial risks and opportunities in Australia.

Following feedback received, a second Consultation Paper was issued in June 2023, seeking views on proposed positions for the detailed implementation and sequencing of reporting and assurance requirements. The policy parameters for climate disclosure assurance include:

- A requirement for limited assurance, moving to reasonable assurance over time.
- Reasonable assurance of Scope 3 emissions as a final step in scaling requirements.
- Assurance to be provided against the Australian equivalent standards to the ISSB and Corporations Act/Corporations Regulations, in line with AUASB standards.
- Assurance to be carried out by a qualified and experienced independent provider (conducted or led by the financial auditor).

With the aim of fostering trust in reported sustainability information from investors, regulators and other stakeholders, the IAASB developed a global sustainability assurance standard, International Standard on Auditing (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*. The proposed standard, applicable to any sustainability topic and various frameworks, addresses both limited and reasonable assurance and is designed to be profession-agnostic, accommodating both professional accountants and non-accountant assurance practitioners.

In August 2023, the AUASB issued a Consultation Paper on the IAASB's Exposure Draft on ISSA 5000, for a 85-day comment period which closed on 10 November 2023.

Aligned with its Evidence Informed Standard Setting strategy, the AUASB has been conducting information gathering and research activities to support decision making on climate-related reporting assurance in Australia. The focus of the activities to date has been to understand:

- Stakeholder feedback on Treasury's second Consultation Paper seeking views on proposed positions for reporting and assurance requirements.
- Relevant research that exists including on the current level of reporting and assurance on climate related information in Australia.
- Developments and plans in other jurisdictions in relation to climate reporting and assurance.

External assurance has a key role in contributing to sustainability reporting reliability by enhancing the trust and confidence decision makers have in sustainability disclosures, as highlighted in Treasury's second Consultation Paper.

1.2. Key Assurance Considerations

A review of the submissions to Treasury's Consultation indicates that those who commented on assurance matters were broadly supportive of mandatory assurance on climate-related information. Specifically:

- Many respondents were supportive of phasing and scaling of assurance requirements to allow for skills, capacity and processes to be developed over time, however some commented that assurance roadmap included in the Consultation Paper was too ambitious. Particularly the timing of the transition from limited to reasonable assurance.
- Majority support assurance by the financial statement auditor, supported by third-party or internal subject matter experts.

The AUASB's objectives are to influence the ISSA 5000 Exposure Draft, determine the need for local standards and guidance on assurance over governance, strategy, metrics including Scope 1, 2 and 3 emissions, quantitative scenario analysis and transition plans, and to determine the appropriate transition period from limited to reasonable assurance. The AUASB intends to achieve these objectives by gaining an understanding of the current state of play in Australia and the status of international developments in sustainability reporting and assurance.

1.3. Research Opportunities

This Workshop brought together specialist audit and assurance academics from across Australia and other stakeholders to share and discuss research relevant to climate and broader sustainability assurance in Australia, while simultaneously highlighting areas for future research. In particular:

- Readiness of reporters
    - What is currently being reported and under what frameworks?
    - Magnitude of increased disclosures from current requirements/practice to ASRS1 and ASRS2?
    - Voluntary sustainability reporting?
    - Readiness for assurance i.e., processes, controls, governance, identifying disclosures required, data availability?
    - Current capacity and capability?
- Assurance providers
    - Do financial auditors provide assurance over climate disclosures (supported by experts)?
    - To what extent are non-accountants providing assurance?
    - What are the required competencies/accreditation vehicles?
    - What assurance is being given over what information?
    - What assurance, quality management and ethical standards are used?
    - Demand for voluntary assurance?
    - Current capacity and capability?
    - Issues affecting capacity and/or capability building?

2. Current Sustainability Reporting and Assurance Practices in Australia

The first academic session covered the current sustainability reporting and assurance practices in Australia. As we move towards a mandatory climate assurance setting, it is important that we have a thorough understanding of the current sustainability assurance environment, including the type of information that is currently being assured, the rate at which it is being assured, and by whom.

- What is the current capacity and capability of the assurance market?
- Do financial statement auditors currently provide assurance over climate disclosures? What is the current proportion of accounting versus non-accounting practitioners?
- What reporting frameworks are being followed?

Structure of the Session	
Professor Elizabeth Carson (RMIT University)	Session Chair
Academic Presentations:	Research Topic:
Ms Jean You (UNSW Sydney)	Assurance of Climate-Related Information in Australia
Associate Professor Mukesh Garg (Monash University)	Impact of Climate-Change Financial Disclosures on Accounting Numbers and Assurance Practices
Dr Farah Zamir (Deakin University)	Review of Sustainability Assurance Practices by ASX 300 Firms
Ms Anne Waters (AUASB)	AUASB Wrap-Up

2.1 Assurance of Climate-Related Information in Australia

Ms Jean You, UNSW Sydney

Introduction

This research aims to provide an update to the AASB-AUASB research report (You and Simnett 2022), which examines the trend of climate-related disclosures and assurance in the Annual Reports of ASX listed entities from 2018 to 2021, by extending this analysis to consider 2022 Annual Reports. With the emphasis of IFRS S2 on informing users of General Purpose Financial Reports (GPFR), this report does not explicitly cover climate-related disclosures and assurance practices outside the Annual Report, except to the extent that those disclosures are replicated or summarised in the Annual Report. As such the findings of this report have implications for considerations of climate-related disclosures under AASB standards for the AASB, and auditing (ASA) and assurance (ASAE, ASSA) standards for the AUASB.

Research method

We examined the Annual Reports of ASX listed entities excluding trusts and funds.[1] We define the Annual Report as the reporting package that entities are required to deliver under the corporate, compliance or securities laws of the country in which they operate. As such, we focus on the climate-related disclosures in the Annual Reports, which contain the audited financial reports and the associated Appendix 4G Corporate Governance Statement (CGS) as it is required under the reporting framework of the ASX Listing Rules. Our data are sourced from the Connect4 database for Annual Reports (including Corporate Governance Statements) of ASX-listed companies. We identified climate-related disclosures with a list of key terms,[2] which is extended from ASIC (2018) and consistent with You and Simnett (2022).

Results

An increasing trend of ASX listed entities disclosing climate-related information in their Annual Reports continues, with the rate of such disclosures increasing from 36.1% in 2021 to 42.8% in 2022. This increasing trend is observed in all industry groups, and on average, climate-sensitive industries continue to be more likely to disclose climate-related information with extant reporting standards and/or guidelines. In relation to ASX entity size, while there has been a plateauing in 2022 of the disclosure rates for ASX 300 entities, there has been a marked increase in other listed entities incorporating climate-related information into their Annual Report. As the largest 300 ASX entities appear to be reaching close to a saturation point in voluntarily disclosing climate-related information in the Annual Report, given that the AASB will mandate disclosures for all listed entities, it may be informative to understand why the small number of the largest ASX companies that are currently not disclosing, or disclosing outside the annual but not referencing such disclosures in the annual report, have decided to-date not to do so.

Concerning locations of the climate-related information in the Annual Report, most of the disclosures are still in the other information section of the Annual Report (outside the Financial Report and the Directors' Remuneration Report). From an assurance perspective, these disclosures are outside the Financial Reports and thus not subject to audit. The credibility-enhancing techniques for such disclosures are currently covered by ASA 720, *The Auditor's Responsibilities Relating to Other Information*. We also observed a significant jump in 2022 in disclosures in the Financial Reports (and the Notes) by 75.3% compared with 2021, and by 59.5% in disclosures in the Directors' Remuneration Report compared with 2021. This provides support for the view that Australian entities are increasingly recognising the significance of climate-related impacts on their financial position and performance.

The increase in the disclosures in the Notes to Financial Reports for 2022 are particularly pronounced for the largest ASX 500 entities. For example, more than 50% of the largest ASX 100 entities that disclose climate-related information are now disclosing such information in these statements, compared with 36.3% of such entities in 2021. This increase is also seen to be spread across all industry groups. 85% of entities disclosing climate-related information in their notes to financial reports were audited by one of the Big 4 firms (EY, Deloitte, PWC and KMPG) in 2022, and 90% of them were audited by one of large audit firms (Big 4, BDO and Grant Thornton).

The large jump in the disclosures in the Notes to the Financial Report is especially reflected in a large increase in the specific notes related to accounting policies and judgement, or basis of preparation, with an increase from 19 instances in 2021 to 64 in 2022. Other notes in which climate-related

1 This is consistent with the emphasis on climate-related information being disclosed in general purpose financial reports from the perspective of IFRS S2 (IFRS 2023a).

2 "climate change", "global warming", "carbon emission", "greenhouse gas", "climate risk", "carbon risk", "CO2", "climate related", "climate-related", "climate strategy", "TCFD", "Climate Resilience", "climate active", "climate action" and "GRI".

disclosures were most frequently observed were the carrying value and impairment of non-financial or intangible assets (26 in 2021 to 34 in 2022), followed by risk management (17 in 2021 to 23 in 2022), property, plant and equipment (11 in 2021 to 21 in 2022) and subsequent events, including provisions and contingencies (14 in 2021 to 19 in 2022).

The largest entities are identified as those that are most likely to include climate-related content in their remuneration reports. There are significant increases for ASX 100 entities from 31.9% (29 of 91 disclosers) in 2021 to 41.8% (38 of 91 disclosers) in 2022, and for ASX 101-300 entities, increasing from 5.8% (6 of 103 disclosers) in 2021 to 16.8% (19 of 113 disclosers) in 2022. We continue to observe very limited climate-related disclosures in the remuneration reports outside ASX 300 entities in 2022.

We find a rising number of disclosers referencing the Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations in the Annual Reports, which continually increases from 61 of 1,914 (3.2%) in 2018 to 181 of 1,930 (9.4%) in 2021, and further to 211 of 2,004 (10.5%) in 2022. The number of entities reporting in accordance with the explicit four pillars of the TCFD (S2) reporting structure increases from 17 of 1,914 (0.9%) in 2018 to 62 of 1,930 (3.2%) in 2021, and further to 69 of 2,004 (3.4%) in 2022. Given IFRS S2 builds on the legacy of TCFD recommendations (2023b), the AASB may consider providing guidance for ASX listed entities moving forward to IFRS S2. Among those with TCFD (S2) reporting structure in 2022, around 90% were audited by Big 4 auditors.

The number of climate-related content in Key Audit Matters (KAMs) continues to increase, from 9 in 2021 to 14 in 2022. Climate-related KAMs are often sticky and commonly recur in the subsequent years. There is no guidance or examples in the current ASA 700 series for auditors as to how, what and why they should incorporate these types of KAMs in their auditor's report. In 2022, KAMs with climate-related information were primarily issued by Big 4 auditors, especially for entities resided in Australia.

In addition to audits, we also consider the situations where companies provide external assurance of their climate-related disclosures. Despite increasing, a limited number of entities mentioned their provision of external assurance of climate-related information in the Annual Reports, from 18 in 2018 to 40 in 2022. Among them, there are 22 assurance reports attached to the Annual Reports in 2022, increasing from 9 in 2018. Having examined these assurance reports, we find all of the assurance reports are issued by Big 4 auditors in 2022, and 76.2% of them are also the incumbent Financial Report auditors of the entity. Limited assurance is still the dominant assurance level while we identify three situations where reasonable assurance is provided specifically on scope 1 and 2 greenhouse gas emissions. The assurance providers for these three situations are EY, Deloitte and KPMG.

Implications for the AUASB

An increasing number of listed entities report climate-related information in other information sections in the Annual Reports. The final revised ASA 720 was one of the more contentious outcomes from the revision of the auditor reporting standards, with concerns about whether the level of involvement of the auditor is correctly understood. We continue to believe that this disclosure trend increases the importance of ensuring that ASA 720 is fit for purpose in the current environment. It is noted that ISSA/ASSA 5000, *General Requirements for Sustainability Assurance Engagements,* also includes other information requirements for assurance engagements of sustainability/climate-related information. It is important that the assurance requirements for other information is fit for purpose before we extend/replicate these requirements for a broader range of assurance engagements.

We also suggest that the AUASB consider application material on climate-related information in financial report audits. A continuing increase in climate-related information in the notes to several accounts can lead to direct impacts on Financial Report audits. Although this was anticipated by the AASB-AUASB (2019), there has not been a consequential change in underlying auditing standards or application material to support audit practice in these circumstances. Application material may be especially beneficial with the proposed IASB S2 disclosures requiring assurance in the near future.

The Australian Treasury (2023) provides an assurance roadmap, with, for example in 2026, reasonable assurance for scope 1 and 2 emissions and limited assurance of scope 3 emissions, scenario analysis and transition plans. Very few entities are currently being assured at this level. There is currently no clear guidance provided by the AUASB for such hybrid levels of assurance engagements or the format of the assurance report that should result.

Summary and further research opportunities

Focusing on Annual Reports of nearly all ASX listed entities (excluding trusts and funds), we provide the AASB and AUASB with a basis of the Australian market for the upcoming adoption of IFRS S2. In regard to reporting, we observe there has been an increasing trend of disclosing climate-related information since 2018, which continues in 2022. While climate-sensitive industries have more disclosers than other industries, the increasing trend is noticed across all industries. A majority of the largest ASX 300 entities have been disclosing climate-related information, and a growing number of smaller entities are joining the trend. Despite an increase, only around 10% of listed entities reference TCFD recommendations in 2022.

From an assurance practice, we find an increasing amount of climate-related information subject to audits, with disclosing in the notes to financial reports. However, most disclosures are still outside the financial reports, and thus not subject to audits while within auditors' responsibility to other information in the Annual Reports (ASA 720). The number of climate-related content in KAMs continues to increase. In addition to audits, only a limited number of entities disclose their provision of external assurance of climate-related information in their Annual Reports. Among those, the Big 4 are the dominant providers, and limited assurance is the most popular assurance level. We expect further research on suggestions for preparing the Australian market for the upcoming climate-related reporting and assurance standards.

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2.2 Impact of Climate-Change Financial Disclosures on Accounting Numbers and Assurance Practices

Associate Professor Mukesh Garg, Monash University

Introduction

This summary report is part of ongoing research examining the credibility and value relevance of climate-related financial disclosures authored by John Campbell (University of Georgia), Anita Foerster (Monash University), Mukesh Garg (Monash University), and Luisa Langer (University of Mannheim). Climate change refers to the long-term alteration of temperature and weather patterns on a global scale, primarily caused by human activities such as burning fossil fuels and deforestation. Studies examining the impact of climate change on financial and economic issues argue that corporations face adverse shocks in terms of productivity, profitability, financing, and valuation due to the physical, transitional, and regulatory risks associated with climate change (Chava, 2014; Bernstein et al., 2019; Huynh and Xia, 2021). Organisations should, therefore, provide accurate and reliable information regarding their efforts to address climate change. Climate change can impact an entity's business and elevate both inherent risk and audit risk. Consequently, the verifiability and assurance of climate change and sustainability disclosures are essential to ensure credibility. This is because stakeholders, including auditors, investors, customers, regulators, and the general public, rely on these disclosures to make informed decisions. To ensure high-quality audits, auditors should respond to increased climate, sustainability, and other related risks by increasing audit efforts (i.e., decreasing detection risk) and/or charging a fee premium (e.g., Niemi et al., 2018). It is important to note that investors and other stakeholders continue to raise concerns about the quality and usefulness of climate disclosures provided by Australian companies. Many companies now provide climate risk disclosures in the annual report or dedicated climate change reports, and there is ostensibly high uptake of TCFD standards. However, the majority of companies only partly implement the TCFD recommendations, and there is considerable variation in reporting.

In Australia, the Australian Accounting Standards Board (AASB) and the Australian Auditing and Assurance Standards Board (AUASB), in December 2018, issued Practice Statement 2 (APS/PS 2) on climate change and other types of risk disclosures in the financial statements. This statement advises that reporting entities can no longer treat climate-related risks as merely a matter of corporate social responsibility and may need to consider them in the context of their financial statements (AASB and AUASB, 2018). The AASB and the AUASB expect that directors, preparers, and auditors will be considering APS/PS 2 when preparing and auditing financial statements (Li, et al., 2019). In June 2023, the International Sustainability Standards Board (ISSB) issued IFRS *Sustainability Disclosure Standards, IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information,* and *IFRS S2 Climate-related Disclosures* (IFRS, 2023). Subsequently, the Department of Treasury in Australia issued a consultation paper on climate-related financial disclosure seeking feedback and comments (Australian Treasury, 2023). In August 2023, the International Auditing and Assurance Standards Board (IAASB) issued the *Proposed International Standard on Sustainability Assurance 5000 General Requirements for Sustainability Assurance Engagements* (IAASB, 2023), followed by the AASB Exposure Draft ED SR1 *Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information*, which was issued on 23 October 2023. These standards and guidelines aim to enhance financial reporting quality and assurance related to the impact of climate change and sustainability. In this report, we provide a summary of our research on the impact of climate-change financial disclosures on financial reporting with implications for assurance regulators, providers and users of assurance information.

Literature review

Climate change related natural disasters may have immediate consequences, such as the destruction of corporate assets, long-term consequences such as production stalling or supply chain disruptions, and lead to a decline in financial performance (Hallegatte, 2014). Due to the relatively lower risk of litigation in Australia (Khurana and Raman 2004, Garg et al., 2017) and in the absence of a mandatory external audit of climate change and sustainability related information, management may be forthcoming with disclosing low-quality information on climate-related risks. Therefore, companies may face severe reputational risks if the public perceives them as not contributing to climate goals and a sustainable future. Li et al. (2018) demonstrate that auditors charge a higher fee when their clients face more complex applicable environmental regulations. A climate change study by Truong, Garg, and Adrian (2020) find that clients located in the U.S. states with more severe drought conditions are considered riskier and are charged higher fees. Similarly, Hartlieb and Eierle (2022) find a positive relationship between audit fees and the level of climate change-related risks.

Climate change can impact a firm's business and elevate both inherent risk and audit risk. As the global climate continues to change, organisations may face increased costs and risks associated with extreme weather events, such as hurricanes, floods, and droughts. These events can damage infrastructure, disrupt supply chains, and lead to higher insurance premiums. Additionally, businesses that rely heavily on fossil fuels may face financial challenges as governments and consumers increasingly demand cleaner energy sources. Transitioning to more sustainable practices, such as investing in renewable energy, reducing greenhouse gas emissions, and implementing climate adaptation measures, can help mitigate these risks and even create new business opportunities. Companies are, therefore, expected to make adjustments and revalue their long-term assets considering the impact of climate change and other risks on their operations and future cashflows (Scholten et al., 2019). Since climate science predicts an increase in the frequency and severity of extreme weather events as a result of climate change caused by anthropogenic greenhouse gas (GHG) emissions, the loss and damage arising from natural disasters is likely to rise in the future (e.g., IPCC, 2012; Van Aalst, 2006). These events could impact an entity's future cash flows associated with their production assets, therefore impacting their reported assets and accumulated depreciation and amortization. Simnett and Nugent (2007) suggest that the credibility of disclosure of carbon emissions (a key indicator of transition risks) would be strengthened by the implementation and enhancement of assurance standards and services. Whether and how much climate change risk disclosures in the financial statements are considered by auditors is vastly unknown.

Description of research, method, and results

In this study, we examine voluntary climate change, sustainability, and other risk related disclosures in the financial statements of Australian Securities Exchange (ASX) listed companies to understand their impact on accounting numbers and assurance practices. Our study aims to answer two research questions: (i) whether climate change, sustainability, and other risk related disclosures have an impact on accounting numbers, and (ii) whether there are audit quality implications of such disclosures. We rely on information disclosed in the annual report as well as companies' financial statements and notes and construct an index score of company-level voluntary climate change, sustainability, and other risks. We conduct machine learning-based textual analysis for the period 2018 to 2022. We start with S&P/ASX300 companies with an initial sample of 1,287 annual reports that are readable using Python. After controlling for financial variables, the final sample comprises 796 firm-year observations for the accounting implications analysis and 663 observations for the audit fees models. Our analysis suggests that voluntary climate change, sustainability, and other risk related financial disclosures are heterogeneous, and are mostly of low quality and inadequate, with little clarity on their real impact on the disclosing companies' operations and long-term assets.

We then conduct empirical analysis using financial and disclosure scores. Our main variables of interest are *CLIMATE_CHANGE*, *SUSTAINABILITY,* and *RISK* which are proxy measures of climate change and sustainability, and other risk-related disclosures. Our approach is consistent with prior studies (see, for example, Phang et al, 2022; Hollindale et al., 2019), which also use a keyword search in the annual report to derive a firm-specific measurement of variables. For the regression models, our two dependent variables for the research questions related to accounting implications and assurance quality are *ACCU_DEP&AMOR* and *LOGAUDITFEE* respectively. First, we consider the disclosure determinants model and find that disclosures on climate change, sustainability, and other risks are mainly by larger companies. We find *CLIMATE_CHANGE* and *SUSTAINABILITY* variables are positively and significantly associated with *DEP_AMOR_ACCUM*, suggesting that companies disclosing climate change-related information make accounting and operational adjustments resulting in a higher amount of accumulated depreciation and amortization. Higher reported accumulated depreciation and amortization charges are likely due to the revision of long-term asset values considering the lowering of future cash flows. We then employ the audit fees model following Simunic (1980) to examine whether disclosing companies are charged higher audit fees by their auditors to answer the research question on the impact on assurance. We expect auditors to make more efforts to ensure their clients have adequately considered the impact of risks on the value of their long-term assets. We find that audit fees are positively associated with *CLIMATE_CHANGE*, *SUSTAINABILITY*, and *RISK*, suggesting additional audit efforts by audit firms to ensure voluntary disclosures contribute to higher-quality financial reports. We find that the disclosures on climate change, sustainability, and other risk-related disclosures have economic significance with a minimum mean increase in audit fees of approximately AUD$5,000 and an increase of over AUD$500,000 for very large listed companies.

Implications for the AUASB

Our study makes academic and practical contributions and has implications for the AUASB, Treasury, and the IAASB (i.e., ISSA 5000). Climate-related risks and other emerging risks are predominantly discussed outside the financial statements, if at all. However, as set out in the AASB/IASB Practice Statement 2 Making Materiality Judgements (APS/PS 2), qualitative external factors such as the industry in which the entity operates, and investor expectations may make such risks 'material' and warrant disclosures when preparing financial statements, regardless of their numerical impact (AASB and AUASB, 2018). Analyses of current disclosure practices suggest that specific reporting guidelines or standards could improve the quantity and quality of disclosures in the financial statements and notes. One potential financial implication arising from climate-related risks include asset impairment and changes in the assets' useful life. From a practical point of view, we provide evidence that companies making voluntary climate change, sustainability, and other risk related financial disclosures (in response to existing regulatory signals) revalue their long-term assets, considering the future cash flow implications. Auditors are expected to consider and understand the implications of climate-related risks (Li et al., 2019). This evaluation includes consideration of the qualitative aspects of an entity's accounting practices and financial disclosures. Therefore, auditors must make additional efforts to verify the value of reported long-term assets when providing financial reporting assurance. Higher fees charged by auditors from companies making climate change related disclosures signal a commitment towards thorough audit investigation and high-quality reporting. However, due to the heterogeneous nature of climate, sustainability, and risk related financial disclosures, it is imperative for the AASB to develop standards or guidelines to increase the uniformity of disclosures in the financial statements.

Such standards or guidelines would assist the AUASB in developing assurance guidelines which will benefit auditors in providing financial reporting assurance. Our study has practical and regulatory implications as it informs on the financial items that auditors must focus on in light of climate change and sustainability risks (ISSB, 2023), and contributes to the debate on whether there is a need for a mandatory audit of climate change, sustainability and other risk related disclosures.

We expect companies from certain industries such as mining, energy, and agriculture to disclose climate risk as they are likely to be exposed to climate risk (see Truong et al., 2020), but many companies from these industries still do not make any reference to climate risk in their financial statements and notes. While there is increasing demand for information on climate risk, assurance on the aspects of impact of climate risk on an entity's financial statements and asset values can be costly and requires specialist skills.[3] We recommend that audits of climate change and sustainability risks be restricted to large private and ASX-listed companies, at least initially. However, the AUASB could encourage auditors to report on concerns related to audit clients' valuation of reported long-term assets considering the impact of climate change on future cash flows as part of Key Audit Matters (KAMs). Proposed requirements from the Treasury for the phased introduction of independent assurance requirements are considered appropriate in light of the need to upskill and build capacity for an independent audit of climate disclosures. In light of the high cost of audit and shortage of appropriate skills, the findings of our study suggest that auditors may only be able to provide limited assurance considering increased qualifications if reporting entities are pushed too hard and too early. Climate-related litigation cases have more than doubled from 884 in 2017 to 2,180 in 2022 in the U.S. alone (UN Environment program, 2023). Limiting mandatory reporting and audits to very large entities that have the resources and processes in place would be a recommended approach, with gradually spreading the scope to medium-sized entities, as the process of reporting and audit builds on capabilities.

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3 In their audit report for BHP in 2023, Ernst & Young disclosed that "We involved our valuation and climate change specialists to assist in assessing the reasonableness of commodity and carbon prices …….. and we involved our mining reserve specialists to assist in the assessment of the reserve estimation methodology…...".

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2.3 Review of Sustainability Assurance Practices by ASX 300 Firms

Dr Farah Zamir, Deakin University

Introduction

This paper provides a review of the sustainability assurance practices within the Australian context, specifically focusing on non-financial reporting among firms listed on the ASX 300. This report extends the research of Zamir et al. (2023), which examined the sustainability reporting practices of the ASX 300 companies in 2022.

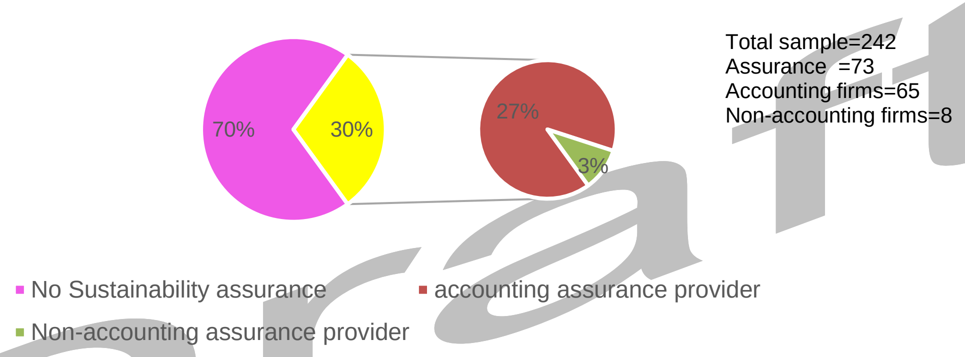
Results and Analysis

In this study, a detailed analysis of sustainability assurance practices was conducted for a subset of 242 firms[4] from the ASX 300 index.

Rate of sustainability assurance

The findings indicate that 30% of the sampled firms (73 out of 242) have some form of sustainability assurance in place. Of these, a substantial majority, 89% (65 out of 73 firms) obtained assurance from accounting firms, while the remaining 11% (8 out of 73 firms) were assured by non-accounting firms (See Figure 1). Within the accounting sector, EY is the most prevalent assurance provider, responsible for 33% of the reports. This is followed by PWC, KPMG, Deloitte, BDO, and GPP Audit Pty Ltd, assuring 22%, 19%, 12%, and 1% of the reports, respectively. In the non-accounting sector, Bureau Veritas stands out, having audited 5% (4 out of 73) of the reports.[5]

Figure 1 Sustainability Assurance



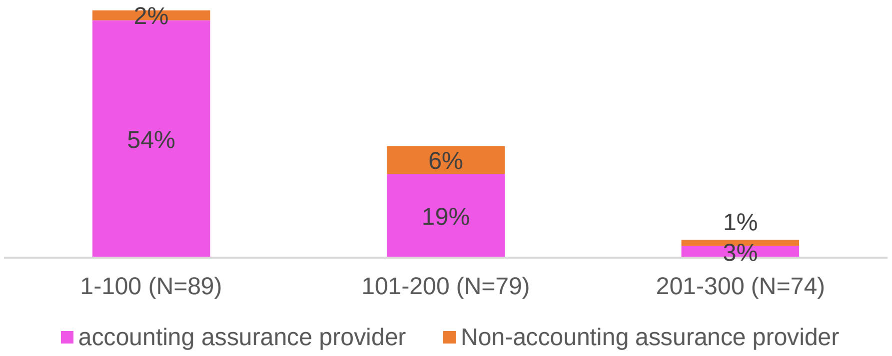
Type of Audit Firm Providing Assurance

The firms were further categorized by size for a more granular analysis of the assurance practices: 89 firms from the ASX 100, 79 from the ASX 101-200, and 74 from the ASX 201-300. This segmentation revealed that the largest firms (ASX 100) demonstrated the greatest engagement with sustainability assurance, with 56% (50 out of 89 firms) having such measures in place. In contrast, the smallest cohort (ASX 201-300) showed the lowest engagement, with only 4% (3 out of 74 firms) undertaking sustainability assurance. Accounting firms were the predominant assurance providers across all tiers, with their influence most pronounced within the ASX 100 group, where they provided assurance for 54% (48 out of 89 firms) of the firms. The least representation was in the ASX 201-300 group, where they assured just 3% (2 out of 74 firms). Interestingly, non-accounting assurance providers were more prominent within the mid-sized firms (ASX 101-200), accounting for 6% (5 out of 79 firms) of the assurance activities (See Figure 2).

4 The final sample comprised 242 firms, with the following breakdown by market capitalisation: 89 firms within the ASX100, 79 within the ASX 101-200, and 74 within the ASX 201-300. 58 firms were excluded because either they were foreign exempt or followed the AQUA rules.

5 Other Non-accounting assurance providers were Carbon Intel, Point Advisory, Social Responsibility Asia, and WSP, each auditing one report in the sample firms.

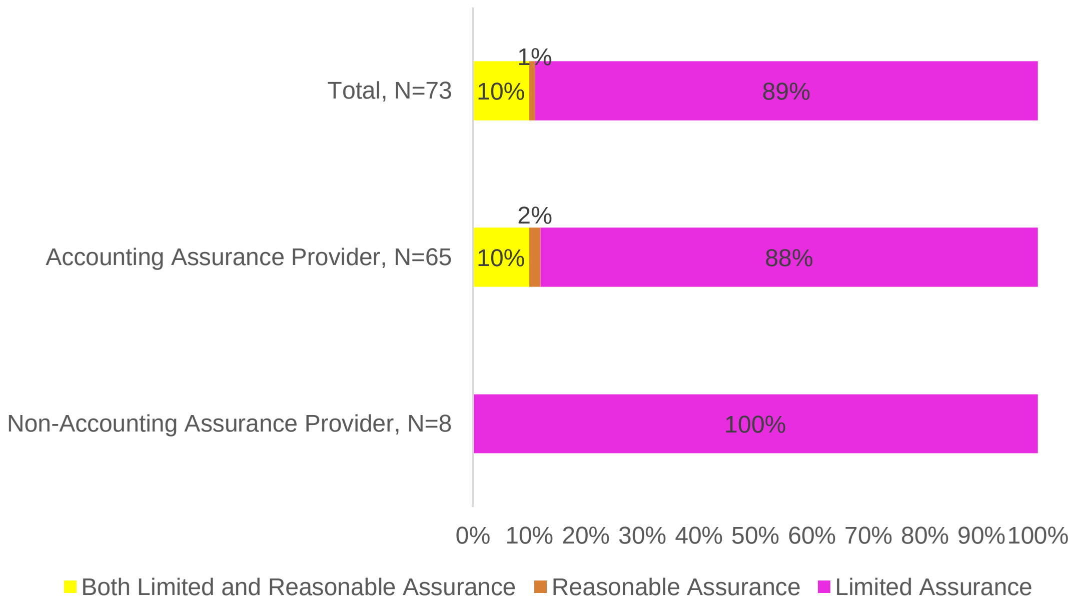
Figure 2 Sustainability assurance across sizes



Level of Assurance

Most sustainability assurances were limited in scope, with 89% (65 of 73 firms) receiving limited assurance. Specifically, accounting firms provided limited assurance for 88% (57 of 65 firms) and reasonable assurance for 2% (1 of 65 firms). Accounting firms offered both reasonable and limited assurance in 10% (7 of 65 firms) of cases, typically granting reasonable assurance for scope 1 & 2 emissions and limited for scope 3. Non-accounting firms exclusively provided limited assurance (See Figure 3).

Figure 3 Level of assurance



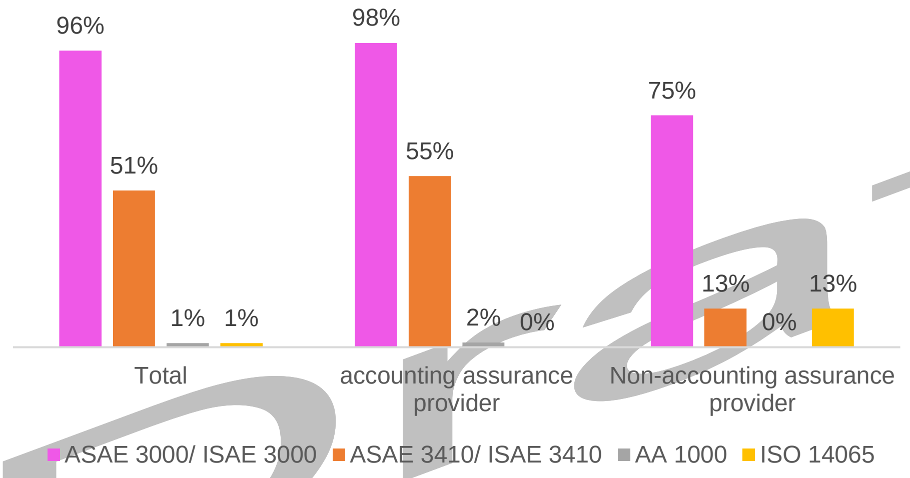
Nature and Proportion of Report Assured

In our sample, quantitative data assurance dominates, with 85% (62 of 73 firms) providing it. Qualitative data assurance is less common at 5% (4 of 73 firms), and 10% (7 of 73 firms) assure both data types. Regarding report coverage (selected vs whole report assured), 94% (61 of 65 firms) of accounting firms and all non-accounting firms (8 of 8 firms) assured selected report sections. Non-accounting providers did not assure any whole reports.

Assurance Standards

The IAASB's ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information,* and its Australian equivalent, ASAE 3000, were the primary standards for ESG assurance, applied by 96% (70 of 73 firms). ISAE 3410 and ASAE 3410 for GHG statements followed at 51% (37 of 73 firms). Both accounting and non-accounting firms utilized ASAE/ISAE 3000. Notably, one accounting firm (2%) and one non-accounting firm (13%) adopted AA1000 and ISO 14065 standards, respectively (See Figure 4).

Figure 4 Assurance standards

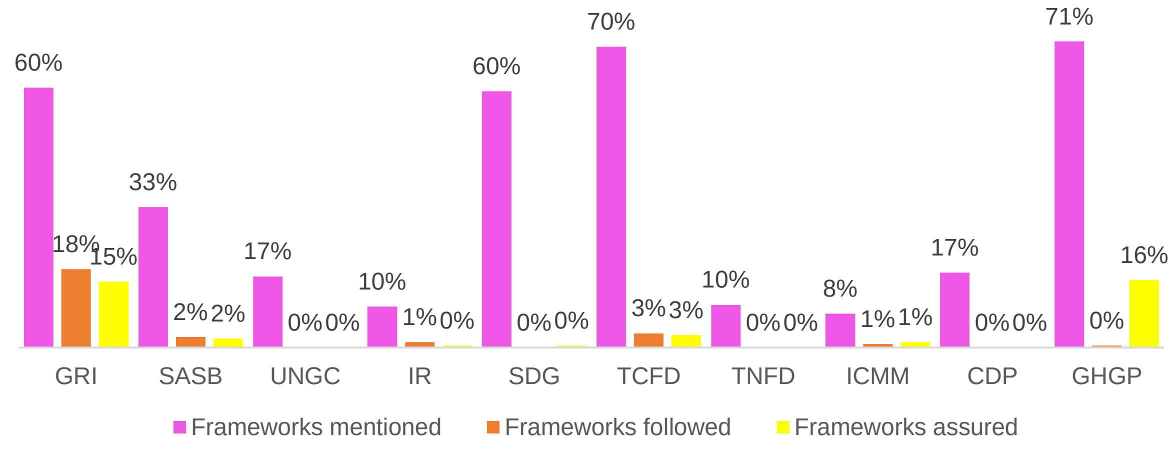


Assured Sustainability frameworks

Our complete sample analysis of 242 firms revealed significant differences in the mention, compliance, and assurance of sustainability frameworks, with figures for framework mentions and compliance sourced from Zamir et al. (2023). Many firms reference frameworks, but fewer verify compliance and even fewer secure assurance. GRI standards are assured for 15% (37 of 242 firms) against the 18% (44 of 242) that implement them. Although 70% (170 of 242 firms) mention TCFD, just 3% (7 of 242) have assured TCFD-aligned reports. Similarly, GHGP is mentioned by 71% (171 of 242 firms); however, despite none following it, 16% (38 of 242) have assured related disclosures (See Figure 5).

Further analysis indicates that assurance providers frequently cover multiple frameworks. Nearly half (47%) of firms receive assurance for a single framework, while 32% have assurances spanning multiple frameworks. Non-accounting providers predominantly (70%) assure a single framework. Where multiple frameworks are involved, a combined assurance on GRI and GHG protocols is most common.

Figure 5 Comparison of the overall sample



Compliance with the code of ethics

Within the ASX 201-300 firm bracket, 30% of non-accounting assurance providers failed to adhere to the code of ethics in their audit reports.

Conclusion and Recommendations

Based on the above findings, the following are the recommendations/implications proposed for the AUASB:

i. It is important for the AUASB to understand the current state of the assurance market. The Australian assurance market is dominated by accounting firms, an extreme as compared to other countries (IFAC, 2023). However, there are still some non-accounting entities providing assurance for ASX 300. They predominantly use ASAEs but don't necessarily outline Ethics frameworks.
ii. Assurance currently focuses mainly on quantitative data. The credibility of qualitative data is expected by users, and arguably even more beneficial than the credibility of quantitative data. The current ISSA 5000 provides over 140 examples, but almost all of them (except for two) are quantitative. There's a pressing need for more examples that centre on assuring qualitative data.
iii. At present, the assurance of selected information is more common than assuring an entire report. There's a lack of clarity regarding why this is the case (one might guess it's because selected information is easier to assure or because it's quantitative). Is it possible to provide more clarity about the assurance roadmap for entities?
iv. There's a growing trend of referencing assurance within annual reports, leading to the assurance of Integrated Reports. This is as opposed to conducting separate assurance on individual engagements. While this trend is acknowledged in ISSA 5000, there's minimal guidance available currently on the assurance of integrated reports.

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3. Accounting versus Non-Accounting Assurance Practitioners

The second academic session explored differences between accounting and non-accounting assurance practitioners. There are differing views as to who should provide assurance over sustainability reporting. There may be synergies in the auditor of the financial report providing assurance over sustainability information and using experts as appropriate. Auditors are familiar with assurance levels and are subject to quality management and independence standards.

- Are financial statement users familiar with the difference between limited and reasonable assurance levels?
- Does the value of assurance on non-financial information depend on who the provides the assurance?
- What are the benefits and costs associated with the different types of assurance providers?

Structure of the Session	
Professor of Practice Michael Bray (Deakin University)	Session Chair
Academic Presentations:	Research Topic:
Professor Paul Coram (Adelaide University)	Does the Type of Assurer and Level of Assurance of CSR Reports Matter to Users' Credibility and Reliability Perceptions?
Dr Irene Ge (UNSW Sydney)	Comparing Assurance Engagements by Accounting versus Non-Accounting Assurance Practitioners
Mr Matthew Zappulla (AUASB)	AUASB Wrap-Up

3.1 Does the Type of Assurer and Level of Assurance of CSR Reports Matter to Users' Credibility and Reliability Perceptions?

Professor Paul Coram, Adelaide University

Introduction

In recent years many companies have started to disclose corporate social responsibility (CSR) information and sometimes obtained independent assurance on this information. Surveys by KMPG and the International Federation of Accountants (IFAC) indicate that disclosure and assurance of CSR information is steadily growing (KPMG, 2020, 2022; IFAC, 2023). Unlike the financial audit market monopolised by accounting firms, there is a competitive market for assurance on CSR reporting with both accountants and non-accounting assurance providers. Those in the accounting profession have used and referred to International Standards on Assurance Engagements 3000 (ISAE 3000) (IAASB, 2013) in their work (accounting sustainability assurance providers (ASAPs)), whereas other assurance providers, such as non-accounting sustainability assurance providers (NASAPs) (sustainability experts) have historically referred to other standards or none. However, the International Auditing and Assurance Standards Board in 2013 decided to allow any assurance provider to use and refer to ISAE 3000, which will be consistent with the requirements in the proposed International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements*. Therefore, sustainability experts can be split into two groups, NASAPs who do not follow auditing standards and those who do. Another difference is that while most financial statements receive reasonable assurance in audit reports, in the assurance of CSR reports there is more variation with both reasonable and limited assurance being provided. The purpose of this study is to assess how stakeholders who evaluate CSR reports respond to: first, the provision of assurance; second, who provides the assurance; and third, the level of assurance provided.[6]

Prior literature

Research on how users perceive CSR assurance has generally found it improves the credibility and reliability for users of this information. Pflugrath, Roebuck and Simnett (2011) reported that the credibility of CSR reports is improved through assurance, but such impact is context specific. The level of perceived credibility varies by the types of industry, types of practitioners and the jurisdiction. Hodge, Subramaniam and Stewart (2009) found that assurance improves the perceived reliability of environmental and social information and find an interaction between levels of assurance and types of assurance providers. In addition, Cheng, Green and Ko (2015) illustrated that assurance of a CSR report beneficially signals the importance of this report to investors. There have been some studies that have not been so clear on the perceived benefits of this type of assurance. Green and Li (2012) found that preparers and shareholders perceived auditors had a higher level of responsibility and perceived a lower credibility for assurance on greenhouse gas emissions than perceived by the assurers producing these reports. In a recent experiment, Hoang and Trotman (2021) found that assurance positively affects non-professional investors' assessments. However, it is not under all conditions, when investors are prompted to make an implicit assessment the effect of assurance on fundamental value is not observed.

Research on the difference between levels of assurance started when an option to produce limited assurance was first allowed. This early research found that report users could not distinguish the difference between reasonable and limited levels of assurance provided (Pany and Smith, 1982; Pillsbury, 1985). As time progressed, some research showed a better understanding of these differences by users. Schelluch and Gay (2006) highlighted that financial reports users perceive higher reliability of these reports when having an assurance statement with a positive opinion than with a negative assurance opinion. In terms of non-financial information. Hasan, Roebuck and Simnett (2003) found that report users perceive moderate assurance report of sustainability report provides a lower level of assurance than high assurance report. Further, Hasan, Maijoor, Mock, Roebuck, Simnett and Vanstraelen (2005) illustrated that users perceive a reasonable level of assurance of CSR information provides a greater level of assurance than a limited assurance opinion and the level of assurance opinion positively influences the credibility and reliability of the CSR information. Experimental research conducted by Hodge et al. (2009) demonstrated that CSR information with a reasonable level of assurance is perceived to be more credible by report users than limited assurance, however this only relates to when accountancy firms provide the assurance. However, a couple of recent experimental studies do raise some questions about how users currently perceive the

6 This presentation is based on a working paper (Niu, J., P., Coram, and A. Haji. 2023. Does the type of assurer and level of assurance of CSR reports matter to users' credibility and reliability perceptions? *The University of Adelaide Working Paper Series).*

differences between these two levels of assurance. Sheldon and Jenkins (2020) find that a broad group of stakeholders do not find a difference in perceived believability with either limited or reasonable assurance on CSR information. Hoang and Trotman (2021) in an experiment with non-professional investors find that *both* reasonable and limited assurance increased reliability assessments.

In relation to the differences between assurance providers, Hasan et al. (2003) found that report users overwhelmingly support NASAPs to assure CSR information. However, O'Dwyer and Owen (2005) document that ASAPs place greater emphasis on data verification and demonstrating rigour in how an assurance opinion has been reached. Consistent with this, some capital markets research has found that there are benefits to using accounting professionals (Simnett, Vanstraelen and Chua, 2009; Casey and Grenier, 2015). More recently, Clarkson, Richardson and Tsang (2019) found that different users perceive differences in value from the assurance reports and providers. They found Dow Jones Sustainability Index analysts are more concerned with the scope of the assurance engagement and are not concerned about who is providing the assurance, however capital market participants place more concern on whether the report was done by a Big 4 accounting firm.

Research method

This study provides some contemporary evidence on the value of assurance and perceptions related to who provides the assurance. Further, it is possible that the recent change to allow wider use of ISAE 3000 might affect users' perceptions of the assurance of CSR disclosures from different providers and that is also explored in this study. Ge, Simnett and Zhou (2023) found that the use of ISAE 3000 by NASAPs significantly increased after they were allowed to use this standard.

There are a couple of reasons why this study has importance for auditing standard setters. Over recent years CSR disclosures have become much more widespread; therefore, it is reasonable to expect that users now have much more familiarity with these disclosures and associated assurance than when earlier research was conducted. This study also specifically addresses a couple of issues considered as part of the Exposure Draft International Standard on Sustainability Assurance (ISSA) 5000, *General Requirements for Sustainability Assurance Engagements* (IAASB, 2023). First, it shows how users perceive assurance reports provided by NASAPs who refer to ISAE 3000 in their report as the new standard is proposing to provide more requirements on how the assurance standards can be used. Second, the study explores how well users understand the different between limited and reasonable assurance as the standard is exploring greater clarity on how these different levels of assurance are described.

This study reports the results of a 3 × 2 + 1 between-subjects experiment. The manipulations are three types of assurance practitioners and two levels of assurance, with a control condition where no assurance is provided on the CSR information disclosures. There were 165 participants, who had professional work experience and at least a bachelor's degree. The results of this study show that as expected, assurance does make a difference on users' perceptions of credibility and reliability, when compared to the control condition.

However, of note in this study is that when comparing the assurance reports provided by the different assurers to the control group, the only conditions that were significantly different from the control group were the two NASAP conditions and not the ASAPs. This provides some evidence that users' perceptions have changed, and they no longer necessarily assume that assurance from an ASAP automatically adds value to this information. This has implications for the accounting profession in reflecting on how they are perceived in this emerging market.

We do not find any difference between the NASAPs who use ISAE 3000 and those who use AS1000. This provides some evidence that the IAASB in allowing more widespread use of ISAE 3000 did not provide NASAPs with reputational benefits from the assurance tradition of the accounting profession. The results also indicate that users perceive higher credibility and reliability of sustainability reports with a reasonable level of assurance than a limited level of assurance. This suggests that users of sustainability reports have become more informed about the value of assurance reports on this information as it has become more widespread. In terms of the changes proposed in ISSA 5000, these findings do not suggest that limitations on the use of assurance standards is needed, or that greater explanation is needed of reasonable and limited assurance.

Implications for the AUASB and future research opportunities

This study provides some useful insights for the AUASB in their standard setting deliberations. As noted in this study, there has been research in the past that has examined the value of assurance on non-financial and CSR disclosure as well as whether users care who provides the assurance and their understanding of different levels of assurance. This study provides a contemporary update on how users perceive this type of information. We find that users do find value in NASAPs providing assurance, which would suggest that it is important for the AUASB to require compliance with the accounting professions ethics and quality control standards for any group using assurance standards issued by the AUASB. Further, we find that assurance does have value on this information and users do seem to understand the difference between different levels of assurance that are provided. This would imply that it is not important for the AUASB to provide more clarification on the difference between levels of assurance. However, given most of the assurance provided on CSR is 'limited' it may be an issue for standard setters to consider how higher levels of assurance could be encouraged.

Several avenues for potential future research derive from the results and limitations in this study. First, participants could be drawn from a more diverse group of stakeholders to increase the generalisability of results. Second, research could also try to understand the factors that users consider in their evaluations of CSR reports and assurance reports, given there appears to have been a change in their level of knowledge, and their perceptions on assurance providers. This type of research could be best addressed by interviews or focus groups. Finally, this study did show that accountants are not as highly regarded in CSR as they once were. Given the emergence of standards from the International Sustainability Standards Board (that is part of IFRS that is the international accounting standard setting organisation) it will be interesting for research in the future to see how this affects perceptions of accountants on CSR reporting and assurance.

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3.2 Comparing Assurance Engagements by Accounting versus Non-Accounting Assurance Practitioners

Dr Irene Ge, UNSW Sydney

Introduction

With the steadily growing demand for sustainability assurance services, the sustainability assurance market is undergoing continuous expansion (IFAC, 2023). Accounting practitioners have successfully claimed approximately 60% of the assurance market, while non-accounting assurance practitioners remain significant players in the market. Accounting practitioners dominate the markets in Australia and the European Union countries, while other assurance providers play a pivotal role in South Korea, the United States, and the United Kingdom (IFAC, 2023). While ISO 14064-3 continues to enjoy broad acceptance as the preferred choice among non-accounting practitioners, closely followed by the AA1000 assurance standards (IFAC, 2021; Ge, Simnett and Zhou 2023), the use of ISAE 3000 has managed to establish a consistent adoption rate of approximately 40% (IFAC, 2023). The disparities in regulatory frameworks and the requirements set by governing professional bodies for accounting and non-accounting assurance practitioners pose challenges for global assurance standard-setting bodies (CARE, 2023).

Prior literature

Prior research on assurance practitioners has shed light on the professional identity of both accounting and non-accounting assurance practitioners, which is manifested in their knowledge of assurance procedures, reporting on businesses and operations, and sustainability (Boiral, Heras-Saizarbitoria, and Brotherton 2020). Accounting practitioners are typically known for their in-depth knowledge of assurance procedures, their clients' industries and operations, as well as the credibility and robustness of their assurance standards. Additionally, they often provide benefits to their clients through global networks, brand recognition, reduced search costs, and increased synergies (Channuntapipat, Samsonova-Taddei and Turley 2019; Ge et al. 2023; Lu, Simnett and Zhou 2023).

On the other hand, non-accounting practitioners are recognized for their expertise in the field of assurance, particularly in sustainability and broader scope assurance engagements, and in making commentary and recommendations (Hummel, Schlick and Fifka 2019; Channuntapipat et al. 2020). With these two distinct types of practitioners have been actively shaping the sustainability assurance practice, it is imperative to understand the choices and implications associated with selecting assurance providers.

Benefits of engaging accounting practitioners as assurance providers

Value relevance

Previous research on the capital market benefits of sustainability assurance discovered no association between sustainability assurance and market value (Cho, Michelon, Patten, and Roberts, 2014). In a later sample period, Peters and Romi (2015) found a positive association. Extant research has increasingly demonstrated the value relevance of sustainability assurance, particularly in reducing information asymmetry and the cost of equity capital (Dhaliwal, Li, Tsang, and Yang, 2011; Fuhrmann, Otto, Looks, and Guenther, 2017). Building upon Dhaliwal et al.'s (2011) work, Casey and Grenier (2015) present evidence that the negative association between sustainability assurance and the cost of equity capital becomes more prominent when accounting practitioners are engaged as the assurance providers. This evidence finds additional support in Clarkson, Li, Richardson and Tsang's (2019) paper, which find that capital market participants value a CSR report only when it is assured by an accounting practitioner.

Error restatements

Prior research suggests that sustainability assurance enhances the quality of sustainability reporting in terms of error restatement (Michelon, Patten, and Romi, 2019), with this effect (detection of inaccuracies in previous reporting and prevent future reporting inaccuracies) being more pronounced when sustainability reports are assured by accounting practitioners (Ballou, Chen, Grenier, and Heitger 2018). Bentley-Goode, Simnett, Thompson, and Trotman (2023) further confirm the evidence on the benefits of engaging accounting practitioners in improving sustainability reports. Specifically, the improvement includes improved methodology, increased scope of reporting, and updated definitions. Additionally, accounting practitioners are significantly associated with greater likelihood of restatement of prior period errors.

Financial reporting quality

Accounting practitioners apply their knowledge from financial statement audits when providing sustainability assurance. On one hand, their experience as financial statement auditors equip them with a deep understanding of their client companies' business operations, enhancing their background knowledge for providing assurance services. On the other hand, this expansion into sustainability assurance services can raise concerns about their independence. Based on an international sample, Lu et al. (2023) found that 33.9% of firms engage the same provider for both the financial statement audit and sustainability assurance. When narrowing the sample to Big 4 firms, this percentage increases to 64.5%. They present empirical evidence that companies with the same providers have lower levels of signed discretionary accruals and higher chances of receiving going concern modifications when in distress, indicating higher audit quality. This finding not only indirectly provides evidence to support the synergistic benefits of accounting practitioners but also offers insights into the upcoming implementation of IFRS S1 and S2 within the same reporting framework as financial reporting.

The role of non-accounting practitioners

While we acknowledge the benefits of accounting practitioners, it is important to recognize that non-accounting practitioners continue to play a significant role in the global sustainability assurance market. Existing research in accounting and assurance is limited in understanding the role of non-accounting practitioners in the sustainability assurance market.

Unlike financial audits, sustainability assurance encompasses a broad scope of subject matters. A diverse range of engagement types leads to a significant variance in the required subject matter expertise (Huggins, Green and Simnett 2011). Depending on the specific purpose of an assurance engagement, non-accounting practitioners can bring valuable subject matter expertise to meet the demands of various types of engagements.

Non-accounting practitioners fundamentally differ from accounting practitioners in their perception of sustainability, the terminology and methodology they adopt, as well as the ethical standards required by governing professional bodies. In contrast to accounting practitioners, non-accounting practitioners may operate under less rigorous quality controls, allowing them to offer assurance services at a more competitive cost (Huggins et al. 2011).

Non-accounting practitioners applying the ISAEs

In the pursuit of serving the public interest, international accounting and accountability standard-setting bodies are actively promoting the adoption of their standards by non-accounting practitioners. Nonetheless, it is crucial to ensure that these standards are diligently followed and that their intended purposes are effectively fulfilled. To address concerns about inconsistency in assurance quality, and to allow a full and transparent assessment of the integrity of the assurance engagement undertaken, all practitioners claiming to follow ISAE 3000 were required to disclose the ethics and quality control frameworks that underpin their engagement. To ensure "public interest" is served, the IAASB proposed that ISAE 3000 (revised) required the following conditions of use: (1) practitioners comply with Parts A and B of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA), or requirements at least as demanding; (2) the engagement partner is a member of a firm applying ISQC 1, or other requirements at least as demanding as ISQC 1; and (3) compliance with these requirements is documented in the assurance report. No definition or specific requirement has been provided in revised ISAE 3000 regarding the term "at least as demanding as ", for code of ethics and quality control standards (Ge et al. 2023). This requirement introduced in the revised ISAE 3000 is further discussed in the proposed ISSA 5000, *General Requirements for Sustainability Assurance Engagements*. Specifically, the explanatory memorandum para. 25 requires "regulators and national standard setter share the responsibility for determining what may be considered "at least as demanding" in their respective jurisdictions". Recognizing the complexities involved in determining "as demanding as", national standard setters and regulators could offer additional support and guidance to standard users in their respective jurisdictions. This guidance would assist these users in assessing whether their existing practices align with the specific requirements.

In the post-revision period of ISAE 3000, as demonstrated by Ge et al. (2023), the revised standard did not deter non-accounting practitioners from adopting it. Additionally, they are more likely to adhere to the disclosure of stringent ethical and quality control standards, which are "at least as demanding" as those prescribed for professional accountants. However, there is a risk that remaining levels of non-compliance with the requirements of the revised ISAE 3000 requiring disclosure of the underpinning ethics and quality control frameworks may lead to a loss of confidence in the assurance profession.

An assessment of the consequences of adopting the revised standard revealed that switches to ISAEs by non-accounting practitioners have led to enhanced transparency in assurance procedures and independence of the assurance provider within the assurance report. There is a benefit for those non-accounting practitioners switching to the use of ISAEs in the form of an increase in their assurance market share, indicating that the market perceives that assurance quality is being enhanced. Ge et al. (2023) suggests that post-implementation reviews by standard-setting bodies are essential. It also serves as evidence supporting the promotion of assurance standards prescribed by accounting standard-setting bodies to be adopted by non-accounting practitioners.

Implications for the AUASB

- Australia is fairly unique in that we currently have one of the lowest rates in the world of non-accounting practitioners as assurance providers. This is despite the AUASB acknowledging that their remit on assurance providers extended outside the accounting profession.
- Accounting practitioners have been found to have an advantage in detecting and preventing sustainability errors while synergistically improving financial reporting quality, and transferring their skills to enhance the value relevance of sustainability reporting in the capital market, thus enhancing the quality of sustainability reporting and fostering trust among stakeholders.
- Significant challenges persist for accounting standard-setting bodies, particularly in the context of acknowledging that non-accounting practitioners are not subject to the same professional requirements as professional accountants.
- Recognising the complexity of following the international standards in jurisdictions with divergent legal system, corporate governance models and presence of non-accounting practitioners' share of their national sustainability assurance market, national regulators and standard setters should focus on delivering more detailed guidance to assist assurance practitioners in following the applicable standards.

- In the promotion of the use of assurance standards by non-accounting practitioners, a post-implementation review of assurance standards is essential.
- Enhanced transparency and independence disclosure in the assurance report by non-accounting practitioners contribute to improved consistency and comparability of assurance reports issued by different types of assurance providers. Consequently, this builds trust in stakeholders' perception of the quality of the assurance report.

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4. Materiality, Other Credibility Enhancing Mechanisms and Voluntary versus Mandatory Assurance

The third academic session covered specific assurance and other credibility enhancing mechanisms. It is important to consider, in the absence of assurance over non-financial information, how the integrity of unaudited information is maintained.

- How are listed entities complying with ASX Corporate Governance Principles recommendation 4.3?
- What credibility enhancing techniques beyond external assurance are being used?
- What do we know from other jurisdictions about the transition from voluntary to mandatory assurance over climate related information?
- Do preparers and auditors have different materiality perceptions? What are some of the challenges in identifying materiality?

Structure of the Session	
Associate Professor Noel Harding (UNSW Sydney)	Session Chair
Academic Presentations:	Research Topic:
Professor Greg Shailer (ANU)	Some Challenges in Identifying Materiality in Sustainability Reporting
Dr Dale Fu (Deakin University) Dr Pei-Jia Lum (Deakin University)	Alternative Credibility-Enhancing Approaches: ASX Corporate Governance Recommendation 4.3 and ASA 720

Dr Jenny Yang (UNSW Sydney)	Mandatory versus Voluntary Assurance on Sustainability Information
Dr Rebecca Mattocks (AUASB)	AUASB Wrap-Up

4.1 Some Challenges in Identifying Materiality in Sustainability Reporting

Professor Greg Shailer, The Australian National University

Introduction

The proposed ISSA 5000, *General Requirements for Sustainability Assurance Engagements* is intended to be a comprehensive, stand-alone standard suitable for any sustainability assurance engagements, for any sustainability topic under multiple frameworks. It is also intended to be agnostic in relation to assurance engagements performed by professional accountant and non-accountant assurance practitioners. However, the standard adopts or adapts many concepts and application principles from audit standards, some of which appear problematic in assuring sustainability disclosures. Our focus here is on some particular issues relating to how the standard seeks to apply materiality considerations.

The Exposure Draft makes numerous references to materiality and material misstatement, consistent with materiality (which entails relevance) being fundamental to the credibility of information. It is also a consequence of the requirement that the assurance practitioner determine (consider) materiality in planning and performing the assurance engagement and in evaluating whether the assured quantitative (qualitative) disclosures are free from material misstatement (para 91). For quantitative disclosures, the assurer must also determine applicable performance materiality (para 92). The requirement that assurors document factors relevant to their determination (consideration) of materiality means that concerns with identifying and assessing materiality has considerable practical importance.
The complexity of identifying materiality factors and assessing the materiality of identified misstatements across the diverse disclosure elements in, and diverse users of, sustainability reports give rise to many challenges in guiding the application of ISSA 500 requirements. This commentary addresses four selected (and partly interconnected) concerns regarding high level concepts.

Issues of materiality considered and implications for AUASB/IAASB:

1. How might any guidance obviate the risk that "*financial materiality*" will be subject to the perception / practice issues with materiality in financial statement audits?

In identifying the information needs of the **intended users,** proposed ISSA 5000 para A180 describes materiality of the: (i) impacts of sustainability matters on the entity as **financial materiality;** (ii) impacts of the entity on sustainability matters as **impact materiality**; and (iii) both impacts together as **double materiality**.

After 130-plus years, the dominant approach to assessing materiality in financial reports to shareholders is focussed on a simple "uniform" numerical benchmark measure. The proposed ISSA 5000 approach appears to be trying to avoid this for impact materiality but identifying "impact of sustainability matters on the entity" as financial materiality raises concerns that the "accidental" heuristic approach to financial statement materiality approach will be repeated.

A field study reported in Edgeley, Jones & Atkins (2015) looked at what they describe as the interplay between old and new logics shaping materiality in 'social and environmental reporting'. They found that:

- among non-accounting assurors, a business case for materiality melds with a stakeholder logic, focussing on corporate performance.
- amongst accounting assurors, a stakeholder logic has been absorbed into a professional logic, driven by a liability constrained market logic.

Moreover, this concern may extend beyond financial materiality. This concern is enforced by evidence that synergistic interactions between accountants and non-accountants in multidisciplinary assurance teams facilitate the transfer of financial audit-styled concepts (such as materiality) to non-financial audit arenas (e.g., Canning, O'Dwyer & Georgakopoulos 2019).

The tendency to seek legally defensible materiality judgments has encouraged reliance financial statement auditors to rely on simplistic heuristics. Eilifsen and Messier (2015) report that the policy manuals of six of the eight largest audit firms "expect, suggest, or require the use of 5 percent of income before taxes" to set overall materiality (p.12). However, disclosure requirements may obviate this practice. In a study of UK firms reporting their materiality thresholds under ISA 700, Go, Lee, Li, Li & Wang (2023) identified some variation from the most common "5% of pre-tax profits" styled of criteria, as summarised below:

Materiality Base	Obs.	Mean	Std. Dev.	p5	Median	p95
Pre-Tax Income Related	1,160	0.052	0.010	0.040	0.050	0.075
Revenue	152	0.010	0.009	0.004	0.009	0.020
Assets	33	0.008	0.003	0.004	0.008	0.010
Gross Profit	26	0.017	0.018	0.002	0.020	0.030
Equity	26	0.018	0.008	0.005	0.020	0.030
EBITDA	25	0.035	0.011	0.020	0.035	0.050

Source: extracted from Table 2, Goh et al. (2023)

It is plausible that this level of variation exited prior to the implementation of ISA 700 (UK), but it may also be a consequence of the disclosure requirement. While proposed ISSA 5000 does not require assurers to disclose their materiality criteria or thresholds, the documentation requirements might encourage the development of engagement-specific materiality factors and levels. However, objective evidence is needed in this regard.

2. *Should* an assurer's conceptual view of materiality be different from or narrower than that of management of the reporting entity?

Proposed ISSA 5000 para A157 posits that assurers should have a narrower conceptualisation of materiality, compared to management. It states that "The entity's process to identify and select topics and aspects of topics to be reported may be established by management or applied pursuant to the requirements of a sustainability reporting framework. Such a process may often be referred to as the "process to identify reporting topics," "materiality assessment," or "materiality process", among other terms. However, <u>the concept of materiality in this regard is not the same as the practitioner's materiality</u>. For the purposes of this ISSA, materiality refers only to a threshold of significance to user decision-making considered by the practitioner in relation to potential and identified misstatements, in the circumstances of the engagement".

It is not obvious what necessitates the proposition in A157 that management and assurors will have different materiality concepts, and it is even less obvious as to how this could be true, when both management and assurors are expected to determine materiality by reference to the information needs of intended users. Throughout, proposed ISSA 5000 refers to materiality in relation to the information needs of **intended users**. In the absence of government regulatory requirements specifying intended users for particular forms of sustainability reporting, management is responsible for determining the content of the sustainability report, which is expected to be based on their assessment of their intended users' needs. This is reflected in the example in proposed ISSA 5000 at A274:

From A274: Example: The entity operates globally in various industries, including health care and consumer goods. The entity engaged an external consulting firm to gather data on stakeholders' perspectives regarding the entity's sustainability strategy. The entity took an approach to first identify the most relevant stakeholder groups, which included "customers, suppliers, non-profit organizations, corporate/private sector, academics, consultants, government, media, finance, trade associations, and think tanks." The entity then obtained direct feedback on how its sustainability strategy affected people, wider communities and the environment. After gathering this data, the entity analyzed it to determine what issues were material to those surveyed and reported on those areas.

While the Australian survey reported in Xiao and Shailer (2022) suggest there may be some differences between assurers and users of sustainability reports as to their perceptions of the relative importance of materiality as a credibility factor, we do not currently have any evidence that users, preparers or assurers are different in their perceptions of materiality per se, or of factors that determine materiality.[7]

3. Proposed ISSA 5000 proposes (e.g., A271) that judgments about impact materiality and double materiality matters are based on the assuror's consideration of the **common information needs of intended users as a group**. Given the acknowledged diversity of user types, how is this practicable?

In A274, "double materiality" applies when the applicable criteria refer to both financial impacts on the entity and the entity's impacts on the environment, society, economy or culture. The "common information needs" of diverse users concerned with such potentially diverse areas of impact mean the assuror must identify the intersection of the information needs of the various users intended by management. This identifying the common information needs of different types of users might be practicable where a small number of narrowly defined intended users groups are involved, but for the more typical diverse range of an entity's stakeholder types, it is not obvious that the intersection of their different sets of information needs will produce a non-trivial information set.

Any ambiguity about the irrelevance of different types of users' needs is removed when, at A272, it is specifically stated that "unless the engagement has been designed to meet the particular information needs of specific users, the possible effect of misstatements on specific users, whose information needs may vary widely, is not ordinarily considered".

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7 Subsequent to the Workshop, the IAASB issued set of Frequently Asked Questions regarding the proposed ISSA 5000, The Application of Materiality by the Entity and the Assurance Practitioner, which provides the following advice: "The entity's "materiality process" is focused identifying the sustainability matters to be disclosed. The practitioner considers or determines materiality in developing the approach for obtaining evidence and when evaluating identified misstatements of the sustainability information. As a result, qualitative factors considered by the entity and the practitioner may overlap but need not be identical. For quantitative disclosures, the practitioner and entity will not necessarily arrive at the same materiality threshold (i.e., the entity uses a threshold to determine, for example, whether certain metrics or targets should be reported and whether they are properly disclosed in accordance with the reporting framework, while the practitioner uses a threshold when obtaining evidence about the metrics and targets that are reported by the entity and evaluating identified misstatements in that information)." (p.3).

At one level, the notion that there can be a singular conceptualisation of double materiality across different user groups appears inconsistent with the philosophy underlying double materiality. For example, double materiality of environmental impacts applies where some investors' decisions and a regulator's decisions are each (differently) influenced by both the socially-relevant and financial impacts of an entity's environmental impact, such that each type of user would have different combinations of financial materiality and impact materiality of environmental impact misstatements. A literal reading of A274 means the assuror would have to determine what information needs do these two types of users have in common, as a group, and then determine a materiality threshold for misstatements. Presumably, the materiality threshold for each type of materiality will be the lowest threshold applicable across the different types of users.

On a different note, but related to the concerns with the diversity decision relevance of misstatements across different types of intended users, it proposed in A272 that it **is reasonable for an assuror to assume that intended users** "**Understand that the sustainability information is prepared and assured to appropriate levels of materiality and have an understanding of any materiality concepts included in the applicable criteria"** (ISSA 5000 A274 (b)). At a broad level, this might mean that it is reasonable merely for assurors to assume that users have read and understood ISSA 5000. At a more challenging level, it implies that it is reasonable for the assuror to assume that each type of intended user is aware of what they do and do not have in common with other types of users (in terms of information needs and their decision sensitives to misstatements), and understands the appropriateness of how the assuror has considered materiality only for the common information needs and determined the appropriate threshold. A separate discussion is needed to explore concerns attaching to the differential materiality issues, including comparing information needs and determining the sensitivity of their decisions, across user types for misstatements in qualitative disclosures.

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4.2 Alternative Credibility-Enhancing Approaches: ASX Corporate Governance Recommendation 4.3 and ASA 720

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Introduction

This summary is structured around two independent research papers to provide insights on the current practices of alternative credibility-enhancing approaches used to enhance the reliability of information other than audited information within the annual reports of Australia's largest listed companies: (a) Lum et al. (2023) examined the Recommendation 4.3 (Rec 4.3) within the ASX Corporate Governance Principles and Recommendation 4th Edition, which encourages companies to disclose the processes they used to ensure the integrity of unaudited information (referred to as "periodic corporate reports"); and (b) Fu and Simnett (2023) examined the Auditing Standard 720 (ASA 720), a standard issued by the Auditing and Assurance Standards Board that mandates auditors to consider the unaudited information contained within the annual report (referred to as "other information") without forming an audit opinion. Background information of these two practices is summarised in Table 1 below:

Table 1 Background information

Alternative credibility-enhancing approaches?	Mechanisms other than independent external assurance used to enhance the credibility of corporate reporting Examples: corporate governance practices, internal audit, internal control, board management processes, other risk identification processes, non-traditional tasks performed by external auditors.	
Information other than audited information within the financial report?	**Within the annual report** Directors' Report, Chairman's Report, CEO Review, Shareholder Information , sustainability information.	**Outside the annual report** Quarterly activity reports, quarterly cash flow reports, integrated reports, sustainability reports, or similar periodic report prepared for the benefits of investors.
Current practice of alternative credibility-enhancing approaches in Australia?	**Recommendation 4.3 in ASX Corporate Governance Principles and Recommendation 4th Edition** Companies are encouraged to **disclose the processes** they use to ensure the integrity of unaudited information ("periodic corporate reports")	
	Auditing Standards (ISA/ASA) 720 • Auditors are required to **read** and **consider** unaudited information within the annual report • Auditor **does not express an audit opinion** or any form of assurance conclusion	

The findings around these two credibility-enhancing approaches hold significant importance for the AUASB, especially in light of the recently released International Standard on Sustainability 5000, *General Requirements for Sustainability Assurance Engagements* (ISSA 5000). Where sustainability information is not externally assured, whether it is integrated within the annual report or disclosed in a standalone report, it is recommended that any processes employed to enhance the credibility of this information be disclosed in accordance with Rec 4.3. The term "processes" in this context encompasses a broad range of mechanisms, such as internal control processes and board management practices. Additionally, it might extend to encompass external assurance if companies decide to pursue it. These disclosures not only provide insights into the management's proactive efforts in safeguarding the integrity of periodic reports, but also help distribute the risk of sustainability assurance more equitably between auditors and management.

On another hand, if sustainability information is presented within the annual report, auditors are required to follow the ASA 720 to assess whether there exists a material inconsistency between the sustainability information and the financial statement, or the auditor's knowledge obtained in the audit. ASA 720 is considered as an alternative credibility-enhancing approach because it mandates external auditors to read and consider unaudited information within the annual reports without forming an audit opinion. Considering the ASA 720 was used as the basis in drafting the requirements for ISSA 5000, auditors will likely be confronted with unaudited information within the document containing the sustainability information subject to assurance. Understanding the current practices of auditors in considering such information is vital for the AUASB to effectively standardize sustainability assurance.

Research methods and findings

ASX Corporate Governance Recommendation 4.3

Lum et al. (2023) examined the disclosure of credibility-enhancing mechanisms used by ASX300 companies in 2011 and 2022 using a "Three Lines of Defence Model" – the first line of defence represents internal control, the second line involved reviews completed by the Board of directors, and the third level is external assurance. The study revealed that the use of credibility-enhancing mechanisms is not mutually exclusive, but rather cumulative in nature. The most common mechanism implemented by ASX300 companies is the combination of internal control and board review at 48%, followed by the disclosure internal control only (25%). There are only 2% of companies that disclosed both internal control and external assurance, and 3% of companies disclosed all three mechanisms. A point to highlight is that the identification of external assurance is contained within the context of Rec 4.3 disclosures, for which 91% of disclosures were contained in corporate governance statements. Companies might disclose assurance within their sustainability reports while omitting it in corporate governance statements. This discrepancy may be due to communication gaps within the company or between parties responsible for preparing corporate reports. Another potential reason is the lack of a clear definition "periodic corporate reports" in Rec 4.3, particularly on whether it encompasses reports that have undergone voluntary external assurance.

Lum et al. (2023) delved deeper into the various types of internal control measures to gain a better understanding of the proactive steps taken by management to ensure the credibility of unaudited information. Results revealed that among the ASX300 companies, the top three most frequently employed internal control measures are reviews conducted by: direct line managers at 38%, senior executives and/or C-suite at 36%, and internal subject matter experts at 34%. The least common type identified was reviews by internal auditors at 12%. The results also showed variations in the types of internal control measures used by companies with different market capitalisations. Subject matter expert reviews are the most prevalent among ASX100 companies (47%), while ASX101-200 companies often involve direct line managers (37%), and ASX201-300 companies frequently rely on senior management or C-suite (39%). In addition, while only 22% of ASX100 companies adopted externally hired advisors or consultants to review periodic reports, this proportion is notably higher compared to smaller companies within the ASX101-200 (8%) and ASX201-300 (10%).

ASA 720 The Auditor's Responsibilities Relating to Other Information

Fu and Simnett (2023) systematically reviewed all available annual reports and auditor reports issued by Australian listed companies over the period from 2017 to 2022, for an understanding of the reporting practices under ASA 720. Specifically, they explored disclosures relating to: (1) timing of the receipt - whether the auditor has obtained all, part, or no other information prior to the date of the auditor's report; (2) identification- what specific information is included in the other information; and (3) conclusion - whether auditor has nothing to report or there are material misstatements in other information section.

Some key descriptive findings in Fu and Simnett (2023) include: (1) 85.0% of auditor's reports indicated that they have obtained all the other information prior to the date of the auditor's report, while 14.3% indicated that they received part of the other information and the remaining 0.7% received no other information prior to the date of the auditor's report. (2) There is an increasing trend over the years (from 79.0% in 2017 to 88.4% in 2022) in the proportion of auditor observations that received all other information prior to the date of the auditor's report. This is a positive trend, indicating that the requirement of the auditor to disclose whether they had been provided with this information has potentially facilitated their access to such other information. (3) Large audit clients (i.e., those with higher market capitalization) are less likely to have provided their auditors with all of the other information that is to be disclosed in the annual report prior to the date of the auditor's report. (4) On average, 21.7% of auditors' reports disclosed the details of the specific reports which constituted other information, with auditor's reports being more likely to disclose the specific identification of other information when clients have high market capitalisation (5) The Directors' Report is the most commonly specific type of other information referenced in the auditor's report, followed by the Chairman's Report and the Corporate Governance Statement. (6) A modified audit opinion on the basis of, or related to, other information, is extremely rare (i.e., 3 of 8,940, 0.03%). (7) A small number of auditor's reports failed to follow all the requirements of ASA 720, in that they failed to issue a statement that they have nothing to report (i.e., found no misstatements).

Implications for the AUASB

The key findings in Lum et al. (2023) and Fu and Simnett (2023) collectively provide an understanding of the roles played by both management and auditors in enhancing the credibility of unaudited information.

Findings From Lum et al. (2023) highlight that Australian large listed companies are proactively adopting multiple credibility-enhancing approaches to safeguard the integrity of unaudited information. It is crucial for the AUASB to acknowledge this diversity in practices, as it emphasizes the importance of auditors understanding that specific disclosures might be highly context-specific and rely on qualitative judgements. For example, the company might describe its sustainability commitment to reduce carbon emissions and outline specific targets, but the measurement of the social and environmental impact may not be as straightforward as financial data. In such cases, internal controls and board reviews serve as credible alternatives, offering a cost-effective and affordable approach that not only provides flexibility but also aligns with the practical constraints of the assurance process.

Findings from Fu and Simnett (2023) offer several insightful recommendations: (1) AUASB should consider encouraging a positive statement as to what constitutes other information. In the illustrations to ASA 720, there is an option that the description of the other information can be made in a specific and positive form. For example, "the management report and chair's statement," may be used to identify the other information. However, many auditors chose not to disclose the details of the specific reports which constituted other information. The authors consider that there is greater clarity with the alternative positive form and note the trend to this form of identification. (2) AUASB should consider the communication effectiveness (clarity of, and how financial report users are likely to interpret and respond to the message) of the wording of the example reports contained in ASA 720 about the reliance that the user is expected to place on other information which is reported but was not available to the auditor at the time of the signing of the auditor's report. (3) AUASB should encourage further research into ASA 720, in particular whether certain information contained in the other information section should be subject to assurance, and how terms and statements currently included, such as other information not being available to the auditor at the time of signing the auditor' report, are impacting on the report user's assessments and decision-making. (4) In the realm of sustainability assurance, it is advisable for reporting entities to provide clear disclosures regarding the definition of "other information" (i.e., information other than sustainability or climate-related information). Furthermore, reporting entities should make every effort to ensure that all other information is provided to the auditor before the date of the auditor's report. Otherwise, they are recommended to disclose what specific information not being available to the auditor at the time of signing the auditor' report. Finally, reporting entities should ensure that the credibility of other information contained in the annual report is clearly communicated to the report user.

In conclusion, this summary offers valuable insights into the dynamics of current practices concerning alternative credibility-enhancing approaches on unaudited information. Such insights are crucial for conducting a thorough cost-benefit analysis to assess the potential impact of the proposed mandate for sustainability assurance within ISSA 5000.

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4.3 Mandatory versus Voluntary Assurance on Sustainability Information

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Introduction

Extended external reporting on non-financial and sustainability information, as well as the assurance of that information, has witnessed increased demand over the past two decades (KPMG, 2022). Consequently, this surge in demand has led to the development of various sustainability reporting and assurance requirements on an international scale (IAASB, 2023; IFAC, 2023; ISSB, 2023).

Importantly, assurance bestows credibility upon non-financial information, making it an essential tool for enhancing the value of reporting. As a result, there has been a growing discussion about whether assurance for sustainability information should be mandated (Hartman, 2023). While mandatory sustainability reporting and assurance have the appeal of enhancing consistency, comparability and accountability (IAASB, 2023), they also come with additional implementation costs and the risk of suppressing the signal conveyed when companies exercise their discretion in choosing whether to be assured (Lennox & Pittman, 2011; The Treasury, 2023).

This research project is set in the European Union (EU),[8] where the Non-Financial Reporting Directive (NFRD) mandated sustainability reporting for large public interest entities in 2017 under Directive 2014/95/EU. Under the NFRD, EU countries were allowed to mandate various assurance arrangements,[9] where either the sustainability information was assured (assurance), or the assurer signed off that the NFRD directive was followed (sign-off). This then provided an experimental field for studying the effects of mandatory assurance compared to voluntary assurance in jurisdictions where non-financial reporting is mandatory. This can help to disentangle whether assurance itself has economic consequences, or whether there is information in the voluntary choice of assurance (Lennox & Pittman, 2011).

Prior literature

The ability to mandate assurance is an important policy mechanism available to governments for regulating the supply of reliable information to report users in a consistent and comparable manner (Deloitte, 2022; IAASB, 2023). However, there are associated drawbacks with mandatory assurance, including increased implementation expenses and the potential to encourage a mere checklist approach to compliance (The Treasury, 2023). Prior literature has also shown that mandatory assurance may dampen the signal conveyed when companies exercise their discretion in deciding whether to undergo audits (Chow, 1982; Lennox & Pittman, 2011).

Compared to the reporting of financial information, non-financial information is more diverse, more qualitative, and can be more forward-looking in nature. Research on extended external reporting has highlighted the importance of assurance in alleviating concerns about the usefulness of sustainability reporting which are often criticised for being used as a management tool rather than a true mechanism for the discharge of accountability (Cohen & Simnett, 2015). Literature on voluntary sustainability assurance finds that non-financial assurance may increase reporting quality and enhance decision usefulness (Simnett et al., 2009; Ballou et al., 2018; Dal Maso et al., 2020), help to drive positive internal changes, such as accelerating the strategic integration of sustainability initiatives (Ballou et al., 2012), and increase the scrutiny of performance data, such as reducing CSR-related misconduct events (Du & Wu, 2019). Nonetheless, studies examining the economic consequences of assurance on non-financial information produce mixed evidence (Casey & Grenier, 2015; Weber; 2018).

In terms of research on mandatory non-financial assurance, empirical evidence is currently limited. Using a setting where the assurance of public resource disclosures made under the JORC Code by Australian Mining Development Stage Entities are mandatory, Ferguson and Pundrich (2015) show very weak evidence of greater abnormal returns when reserve disclosures are provided by specialist mining consultants, suggesting that mandatory assurance has little impact in cases where litigation risk is low. Another study by Kuo et al. (2021), examine listed firms in the food industry in Taiwan that are subject to mandatory assurance and find a reduction in the cost of debt capital associated with such assurance. However, it is important to note that these studies are industry- and country-specific, which limits their generalizability.

8 The coauthors of this research are Prof. Roger Simnett from Deakin University, Dr. Ulrike Thuerheimer from University of Amsterdam, and Dr. Shan Zhou from University of Sydney.

9 The Non-Financial Reporting Directive (NFRD) is the predecessor to the European Corporate Sustainability Reporting Directive (CSRD). The CSRD mandates assurance over sustainability reporting within the EU and becomes effective for the largest companies starting in 2024.

More importantly, given that most assurance on sustainability information is currently voluntary, it is empirically challenging to (i) overcome the self-selection bias (ii) disentangle the signalling effect from the actual impact of assurance, and (iii) examine the potential benefits of mandatory assurance versus voluntary assurance (DeFond & Zhang, 2014).

Methodology and data

In this research, we employ a difference-in-differences design, capitalizing on the EU setting. Specifically, in 2014, the EU enacted a non-financial information directive that mandates large public interest entities to prepare annual non-financial reports, beginning from fiscal year 2017 onward. Large public interest entities are defined as those with more than 500 employees and either more than EUR 20 million in total assets or more than EUR 40 million in sales. Regarding the requirements for independent assurance, all member states have transposed the minimum requirement for the statutory auditor to check whether non-financial information has been provided. In addition to the minimum requirement, eleven countries have an additional requirement for the auditor to check the consistency of non-financial information with the financial statements. Lastly, three member states, namely, France, Italy and Spain, require mandatory independent assurance for non-financial information.

We obtained the original sample from Compustat Global. Our treatment group consists of all large listed firms in Spain and Italy, two of the countries where assurance for EER is mandatory.[10] The control group comprises listed firms in EU countries where assurance for EER is voluntary. The matching procedure is based on a propensity score matching (PSM) approach. Specifically, we apply one-to-one matching without replacement with caliper being 0.1. We match on variables including total assets, total revenue, the number of employees, return on assets, leverage, and industry sectors, for the year 2016, which is one year prior to the effective year of the EU Directive.

Next, we extracted data from Compustat Global for the years between 2014 and 2019, and manually identified as many reports as possible that were prepared by the firm using a general searching engine, where non-financial information could potentially be disclosed. We hand-collected data related to non-financial assurance, including whether or not there is an assurance report, where the assurance report is disclosed, who the assurance provider is, the level of assurance, the assurance standards applied, and other relevant details. Financial and sustainability-related data were obtained from Compustat Global and Thomson Reuters ASSET4.

Preliminary results and implications for the AUASB

We use this research setting to provide empirical evidence on the impact of mandatory sustainability assurance on sustainability reporting outcomes (e.g., standalone vs integrated sustainability reporting), sustainability assurance outcomes (e.g., assurance scope, assurance level, assurance reporting lag), sustainability practice outcomes (e.g., the incorporation of sustainability indicators in executive compensation plans) and capital market outcomes (e.g., cost of debt and capital, analyst following). We compare these outcomes for corporations subject to mandatory sustainability assurance requirements with those in other EU countries that have voluntary assurance.

Our preliminary findings show that non-financial assurance, overall, leads to higher sustainability reporting scores, greater integration of non-financial information into companies' decision-making processes, increased analyst following, and reduced cost of debt. Furthermore, mandatory assurance is significantly associated with expanded assurance scope, and a shorter assurance report lag. On the

10 France is excluded from our sample because France made sustainability assurance mandatory with implementation of the Grenelle II law (n° 2010-788) in 2010, which was prior to the EU Directive. Therefore, there is a potential for the impact of the EU Directive and mandatory assurance to be confounded.

other hand, mixed results are found when examining the differences between mandatory assurance and voluntary assurance in terms of sustainability practices and capital market outcomes.

By demonstrating the impact of transitioning from voluntary to mandatory assurance on sustainability reporting quality, assurance practices, the integration of non-financial data into decision-making, and capital market outcomes, we provide timely insights for key stakeholders, including standard setters, regulators, practitioners, and academics, who are involved in the ongoing debate surrounding the implementation of assurance requirements for sustainability information. Particularly noteworthy is the relevance of our findings to the IAASB (2023), which is currently seeking feedback on their proposed ISSA 5000, *General Requirements for Sustainability Assurance Engagements,* and Treasury (2023), which is considering extent, nature and timing of sustainability report assurance in Australia. Our research underscores the importance of informed, evidence-based decision-making in shaping sustainability assurance standards.

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5. Perceptions of Audit Committee Chairs, Group Decision Making and Greenwashing

The final academic session explored matters relating to differences in perceptions of the preparedness of the assurance market to carry out financial statement audits compared to sustainability assurance, the costs and benefits of multidisciplinary teams and the susceptibility of climate-related disclosures to greenwashing. These issues are important to consider ahead of implementing a framework for assurance over climate-related information.

Structure of the Session	
Professor Roger Simnett (Deakin University)	Session Chair
Academic Presentations:	Research Topic:
Professor Ken Trotman (UNSW Sydney)	Perceptions of Audit Committee Chairs
Dr Hien Hoang (UNSW Sydney)	Multidisciplinary Assurance Teams
Ms Camille Peng (The University of Sydney)	Greenwashing and the Risk of Material Misstatement
Ms Marina Michaelides (AUASB)	AUASB Wrap-Up

5.1 Perceptions of Audit Committee Chairs

Professor Ken Trotman, UNSW Sydney

Introduction

The AUASB has adopted an evidence-based approach to audit standard setting (Garg, Peach, and Simnett 2020). The Deakin–AUASB Sustainability Assurance Academic Research Workshop is a major advance in this program. In this overview, my aim is to provide the AUASB with evidence on the views of Audit Committee Chairs (AC Chairs) of large Australian companies. These Chairs play a particularly important role both because of their interactions with both management and auditors prior to the formal audit committee meetings as well as their role in chairing the formal audit committee. As a sub-committee of the Board of Directors, they both review and approve and thus take responsibility for any information released to the public. As such they are a very important group in the reporting eco-system, but a group that the AUASB only hears from infrequently.

The views that I outline in this summary are based on research I have conducted with my colleagues using interview data from a range of current research papers including Free, Trotman and Trotman (2021), Simnett and Trotman (2022), Simnett, Trotman and Trotman (2023), Trotman, Phua, Trotman and Wright (2023). In addition, Bradbury and Simnett (2023) undertook an interview study of AC Chairs very similar to Simnett and Trotman (2022), and thus I have reviewed this study for parallels or divergences to Simnett and Trotman (2022), with respect to implications for the AUASB. Although some of these papers are still being refined, I draw on some of the key findings with the aim of providing information to the AUASB in their deliberations on the proposed new assurance standard, ISSA 5000, *General Requirements for Sustainability Assurance Standards*.

What we know about AC Chair perceptions from research

Interviews with 24 AC Chairs of large Australian listed companies in Free, Trotman and Trotman (2021) focussed on the interactions between the audit committee and the financial statement auditor. These interviews described the importance of the interactions between the auditor, management and the audit committee (consistent with IAASB 2014), the importance of the wide range of expertise on the audit committee, the importance of pre-meetings between the AC Chair and the lead audit partner, and the AC Chair involvement in the resolution of contentious issues between the auditor and management.

Recent interviews by Simnett and Trotman (2022) involved interviews in 2022 with 21 AC Chairs of ASX 300 companies focusing on what AC Chairs saw as to be good audit quality and the present audit quality in the Australian market. At the end of each of these interviews we switched focus to sustainability assurance. The sustainability assurance issues are explored in more depth in Simnett et al. (2023).

Implications for the AUASB

There were some clear differences between how the AC Chairs perceived financial statement audit and sustainability assurance which has implications for the challenges for standard setters related to sustainability assurance. While it was unanimous among the AC Chairs that there was a high level of satisfaction with the quality of financial audits in Australia, a number of the reasons given for this conclusion are unlikely to apply to sustainability assurance. This raises issues for the AUASB to consider. First, for financial statement audits, for the issues facing the organisations of which they were the AC Chairs which were generally large organisations with global operations, the accounting profession, and in particular the Big 4, were seen as having the skill set, global scale and needed experience to deal with these issues. However, when discussing sustainability assurance, there was more variation in the responses as to whether there were sufficient skills in the market to carry out some aspects of sustainability assurance. Second, while AC Chairs had great confidence in the management and systems providing the financial reports, there was less confidence in the systems and skills providing the content of the sustainability information reported. Third, in discussing financial statement audits, AC Chairs noted that in addition to the present auditor, they were commonly using two or more other Big 4 firms to provide these other services. As a result, given that only the Big 4 firms were seen as capable of providing audit services given the organisation's size and global reach, often they only had the choice between the incumbent auditor and one other firm if they put the audit out to tender. This does mean that in addressing the question of whether the financial statement auditor is also the sustainability assurer there often will not be another alternative.

AC Chairs were found to be overwhelmingly in favour of any sustainability information being externally reported being assured. This information was seen as being demanded by stakeholders including shareholders and the accuracy of disclosures was considered to be important. Interviewees also referred to the benefits of receiving feedback on their control systems and reducing the risk of misleading long-term targets. However, there were some major qualifications to the above conclusion. There were concerns about distinguishing between what could be assured and what must be assured. Related, there was reference to the clear guidance on relevant materiality thresholds. A number proposed a gap of a couple of years, between compulsory sustainability reporting and compulsory sustainability assurance (not discounting voluntary sustainability assurance for this interim period). This was to allow the bedding down of reporting systems, although recognising that reporting needed to be down on a best effort basis for this period. Othe mechanisms other than compulsory assurance, including voluntary assurance, could be considered. Reasonable assurance was also seen is investment grade, although limited assurance on some aspects, such as scope 3, and some forward-looking statements was seen as appropriate. Cost considerations of compulsory assurance were also raised and again related to a materiality threshold. Also, questions were asked by AC Chairs about what a reasonable timetable for the introduction of compulsory assurance is. Their concern was that if compulsory assurance was required too early there will be too many qualified assurance reports given the present lack of development of the appropriate systems. The issue was also raised that early adoption of compulsory assurance may stifle innovation in reporting. That is, company sustainability disclosures are still evolving, and given the desire for relevant company specific information, such innovations should be given some time to develop.

The introduction of greater sustainability assurance was also seen as creating new challenges for governance structures in organisations, and the role of audit committees. Of particular note for the AUASB, it was found that, at least currently, not all decisions of sustainability reporting assurance are residing with the audit committee. Quite commonly it was found that any discussions on sustainability reporting and assurance are currently involving the full Board for the preliminary or current discussions. Where sub-committees are involved, a much wider group of sub-committees are potentially involved in any discussion on assurance of sustainability information. Our recent interviews suggest that these discussions may be at the audit committee, but may also be at a risk committee or sustainability committee, if such exist. Many Boards are currently considering their structure of sub-committees as a result of the significant additional attention that Boards are placing on sustainability information. This means that assurance providers will potentially be faced with various corporate governance structures. In virtually all instances where other sub-committees are involved, the AC Chair is also a member of the other sub-committees so can provide an audit committee view to these decisions. Even in the isolated instances where the AC Chair was not a member of a relevant sub-committee the expectation is that they would attend any meeting related to reporting, assurance and assurance provider of sustainability information. It also suggests the need for new skills on the audit committee with suggestions that audit committee members are undertaking training in sustainability issues.

AC Chairs further outlined their desire to have consistent worldwide sustainability reporting and assurance requirements. They discussed the frustration for those tasked with the production of sustainability information related to the different reporting requirements within different jurisdictions. AC Chairs referred to the differences between jurisdictions (with some in particular emphasising the differences between the USA and the rest of the world) as well as the frequent changes in sustainability requirements. Concerns related particularly to the difficulties associated with having to regularly update systems to provide additional sustainability information and deciding on which measures it is necessary to report on and how to measure these items. Also, while there was support for sustainability assurance, there were concerns about the cost of assurance and the suggestions on what were the appropriate levels of materiality and whether systems were strong enough to provide the necessary data.

On the issue of who should provide sustainability assurance, there was a strong preference for the assurance provider to come from the same firm as their financial statement auditor. Reasons given included the overlap of assurance tasks between sustainability assurance and financial statement audit, with much of the same information coming from the same systems or systems overseen by the same manager. With both audit and assurance providers needing to have a good understanding of the business strategies and underlying business models and related corporate structures of the organisation, there was seen to be synergistic benefits in having the same assurance provider. Further a better knowledge of sustainability issues was seen as aiding the financial statement audit, with a much greater emphasis on how sustainability issues were impacting on financial statement considerations, such as those outlined in the publication of the AASB-AUASB (2018). Adding to this, the increasing prominence of integrated reporting concepts in reporting by major Australian organisations, and the expectation that at least some sustainability information will be reported in the general purpose financial report (irrespective of whether the sustainability information is contained in the financial statements, in which case it is covered be the financial statement audit, or in other information to the annual report, in which case it is covered by ASA 720) provides an environment where it was commonly seen as making sense that the same firm as the financial statement auditor provide sustainability assurance.

Only one AC Chair raised concerns about using the same firm as their financial statement auditor as their sustainability assurance provider, and this was because the level of non-audit services provided by the financial statement auditor had been considered high in the past. They however agreed that a better delineation between non-audit fees and assurance fees would help to address these concerns, perhaps through clearer delineation of such fees in the note on fees paid to the financial statement auditor. AC Chairs generally agreed that any independence concerns could be dealt with through various safeguards such as use of different teams for such engagements. A couple of AC Chairs emphasised the fact that in any presentations or presentations of audit/assurance partners to the audit committee, they expected to see a clear understanding by both partners of issues which were relevant to both engagements, and both partners contributing positively to any discussion.

The issue of limited choice and capability of suppliers of this assurance was raised. Our interviewees generally had a preference to stay with the Big 4, which had been seen to be ramping up their capability in the areas of sustainability assurance. However, if compulsory assurance was introduced too quickly and across may reporting organisations this was seen as stretching the current capacity of assurance providers.

In an equivalent study, Bradbury and Simnett (2023) undertook interviews of 20 AC Chairs of large New Zealand companies. Similar findings to those reported in Australia were found, although in some cases the thinking was more progressed as far as likely assurance providers, and therefore in the main the implications for the AUASB were similar. A couple of differences were observed. While most of the AC-Chairs did have a preference for using the same firm for providing both sustainability assurance and financial statement audit, a role was commonly seen for consultants and potential sustainability assurance providers from outside the accounting profession. This appeared to be related to the good experiences associated with using these non-accounting firms in developing in-house systems and processes. In addition, a number of New Zealand AC-Chairs emphasised not only the alignment of sustainability reporting and assurance requirements with the rest of the world, but particularly highlighted the importance of alignment with Australian sustainability reporting and assurance requirements, given the current agreements between the two countries and the large number of New Zealand companies dual listed in Australia.

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5.2 Multidisciplinary Assurance Teams

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Introduction

Auditors have worked in teams to make judgments and decisions together in financial audit engagements, and prior literature has examined the effect of different team formats on the audit teams' performance. However, the differences in the sustainability assurance context, such as the diversity in education background and expertise between assurance team members, give rise to new challenges in enhancing the performance of multidisciplinary assurance teams. This summary will cover the literature on multidisciplinary GHG assurance teams and implications for AUASB. Studies in the fraud brainstorming literature have examined the effect of different team formats, such as nominal vs. interacting teams, face-to-face vs. electronic teams, and unguided vs. guided teams, on the team performance in fraud risk identification, hypothesis development and assessment. Altogether findings from prior brainstorming studies in financial auditing context suggest that when audit team members work together, there can be process gains (for example, cognitive stimulation and group synergy) and process losses (for example, production blocking and social loafing) affecting the teams' overall performance.

In the sustainability assurance context, the assurance of GHG or other sustainability-related subject matters requires both accounting and non-accounting knowledge, resulting in multidisciplinary assurance teams with diversity in education backgrounds and expertise (accounting vs. science/engineering). Such a significant variation in the types of expertise and knowledge between assurance team members will alter the extent and nature of process gains and losses in GHG brainstorming sessions. Due to the unique differences in the GHG assurance setting, findings in financial fraud brainstorming setting may not completely replicate. The next section will discuss studies examining the performance of multidisciplinary GHG assurance teams.

Prior literature

Guidance from the IAASB recognises the benefit for a multidisciplinary team to be involved, and the necessity to integrate the work of assurance experts (with financial audit background) and subject matter experts (with scientific background) to ensure they are working effectively as a multidisciplinary team (IAASB 2021). There is, however, limited empirical evidence on how these multidisciplinary assurance teams work and how to improve the performance of such teams.
In a simulated multidisciplinary team setting, Kim, Green, and Johnstone (2016)' experiment finds that accounting assurers inappropriately over-rely on an explanation provided by a science-expert assurer, even though this explanation is inconsistent with other audit evidence and covers an issue that does not require specialised science knowledge. This inappropriate reliance is reduced by having a reviewer with accounting expertise. This suggests there can be source credibility biases in processing evidence within the multidisciplinary assurance team.
Ekasingh, Simnett, and Green (2019) ask GHG assurers to recall their experience on one GHG assurance engagement where there is effective teamwork and one GHG assurance engagement where there is less effective teamwork. They find that teams with more educationally diverse members are more likely to perceive that they have sufficiency of elaboration (that is, the exchange, discussion, and integration of relevant information) on diverse perspectives and perceived the team members worked more effectively together. This suggests having accounting and non-accounting assurers work together in a multidisciplinary assurance team can induce elaboration of diverse ideas which eventually benefits the team performance.

Current study: Ekasingh, Hoang, and Trotman 2023

Our study examines the effect of different team formats on the performance of multidisciplinary teams in a GHG assurance task, using a controlled experiment. Three different team formats (nominal, interacting, and review teams) suggested by the previous literature to affect the performance of audit teams are compared. The process gains from cognitive stimulation in interacting GHG assurance teams may be amplified by the complexity of GHG risk identification task which requires two different types of expertise and knowledge from accounting and non-accounting assurers to be shared, exchanged and integrated. In contrast, the process losses from production blocking and social loafing in interacting groups may also alter as team members are aware of each other's important, unique expertise but have another barrier in technical language and communication to overcome to achieve effective teamwork.

In the nominal team, an assurance expert (with financial accounting background) and a subject matter expert (with science/engineering background) work individually in identifying risk factors for a GHG assurance engagement, and their unique risks are later combined to make the team' final list. In the interacting team, an assurance expert and a subject matter expert work together to come up with the risk factors. Finally, the review team was operationalised by having an assurance expert review the work of a subject matter expert. GHG assurers from the Big Four firms in Australia participated in this study, randomly assigned to multidisciplinary GHG assurance teams comprising an assurance expert and a subject matter expert.

We have the following main findings. First, interacting teams underperform both nominal teams and review teams in quantity and quality of risks generated. This suggests that process losses outweigh process gains in interacting multidisciplinary assurance teams. While interacting teams may benefit from exchanging and integrating their diverse knowledge and perspectives, they also suffer from the lack of overlap in their frames of reference and technical language. Second, we find that assurance experts and subject matter experts focus on different types of risks, with assurance experts generating more risks associated with comparing the subject matter with suitable criteria and subject matter experts generating more risks associated with scientific measurement of the subject matter. These findings provide evidence of cognitive diversity and potential benefits from the complementary knowledge and perspectives generated by assurers with different backgrounds, and that future research should explore ways to minimise process losses in order to realise these potential benefits of multidisciplinary assurance teams.

Implications for the AUASB

Studies in this area provide supporting evidence that combining assurance experts and subject matter experts into multidisciplinary teams brings benefits. For example, Ekasingh et al. (2019) provide evidence more diverse teams are more likely to have greater elaboration on diverse perspectives, which eventually enhances assurance teams' performance. In addition, Ekasingh et al. (2023) show that assurance experts and subject matter experts focus on identifying different types of risks, which is another evidence of cognitive diversity and unique contributions from each type of expert, supporting the need for sustainability engagements to be performed by multidisciplinary teams.

In contrast, studies in this area also highlight potential pitfalls in integrating the work of assurance experts and subject matter experts. First, Kim et al. (2106) demonstrates that there can be biased evidence processing within the teams, as accounting experts overweigh the evidence suggested by science experts. As a result, a potential implication for AUASB and other standard setters is to consider providing guidance on how to overcome this source credibility heuristic, and a potential mechanism put forward by Kim et al. (2016) is having a review process conducted by an accounting expert. Second, Ekasingh et al. (2023) demonstrate that simply letting assurance experts and subject matter experts interact and integrate their ideas in an unguided brainstorming session can cause more process losses than process gains as team members lack the common frames of reference and technical language to communicate and build on each other' ideas, affecting the team performance in identifying fraud risk factors. As a result, a potential implication for the AUASB and other standard setters is to consider providing more guidance on how the work of assurance experts and subject matter experts can best be integrated. A suggestion from Ekasingh et al. (2023) is that interaction should not be the first stage of the group process and that all team members should generate ideas individually at some point in the process. Another implication is to encourage firms to conduct more cross training sessions to improve the cross understanding between assurance experts and subject matter experts, which can eventually benefit their teamwork.

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5.3 Greenwashing and the Risk of Material Misstatement

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Introduction

Greenwashing has been a long-standing criticism associated with sustainability disclosures. Recent years have witnessed clustered legal and regulatory actions worldwide addressing greenwashing. In November 2022, the International Organization of Securities Commissions (IOSCO) issued a call for actions that would curb greenwashing among asset managers and data providers in the financial sectors. In response, the Australian Securities and Investments Commission (ASIC) in Australia published an informational document (Info Sheet 271), providing strategies to prevent greenwashing claims. From 1 July 2022 to 31 March 2023, ASIC also executed 35 actions to address greenwashing issues with various organizations. Concurrently, the Australian Competition and Consumer Commission (ACCC) launched an online sweep to understand greenwashing claims on consumer products.

Moreover, on March 29, 2023, a Senate inquiry into greenwashing began, with a report expected in December 2023. This inquiry drew significant attention from the public, receiving 126 submissions from legal entities, academic institutions, NGOs, and individuals etc. Notably, 'assurance' was a prevalent topic discussed in 28 of these submissions.

Taking advantage of the recent clustered legal and regulatory actions, this project aims to provide insights into the concept of greenwashing from a regulatory perspective by (i) examining the documentary evidence of cases studies and recently released regulatory guidance on greenwashing and (ii) interviewing staff from organizations engaged in taking actions against greenwashing. In addition, this study would seek to develop a computerized tool to aid the current manual greenwashing detection process, and to explore the role of third-party sustainability assurance in reducing greenwashing claims.

Prior Research

What is greenwashing?

Prior literature generally describes greenwashing as a selective disclosure of positive environmental or social performance and/or symbolic representation without substantive actions (e.g., Lyon and Maxwell, 2011).

The definition of greenwashing from regulatory bodies however emphasizes the misleading impact on information users including investors and retail customers. For example, ACCC define greenwashing as: ‘A term used to describe false or misleading environmental claims. (ACCC, 2023a)’, and ASIC defines it as ‘The practice of misrepresenting the extent to which a financial product or investment strategy is environmentally friendly, sustainable or ethical (ASIC, 2022).’

With the recent clustered regulatory and legal actions against greenwashing, the definition of greenwashing is being shaped by individual cases. We learn from these cases that greenwashing can be associated with a variety of subject matters ranging across metrics, claims, labels, to image.

Further, the definition of greenwashing can be very industry specific. For example, most cases against greenwashing in Australia relate to the asset management and energy sectors (ASIC, 2023). In the Asset Management Industry, greenwashing is defined as: 'Overstating the adherence to ESG screening criteria, leading to discrepancies between advertised commitments and actual practices.' In the energy sector, companies often make bold climate claims without scientific evidence or groundwork (e.g., substantive modelling, investigation). Thus, the definition of greenwashing is 'Promising future climate-related achievements, such as net zero emissions, without providing a credible foundation or thorough evidence for such claims.'

How do regulators identify greenwashing?

ASIC and ACCC are two primary Australian regulators stepping up efforts against greenwashing. They adopt both proactive and reactive approaches in combating greenwashing. For ASIC, the proactive monitoring includes 1) Managed Funds: Review of 122 Product Disclosure Statements (PDSs) and in-depth analysis of the investment processes of 17 funds 2) ESG Disclosures on ASX: Supervision of ESG-related disclosures by companies targeting retail investors (ASIC, 2023). The reactive Approach includes addressing complaints related to potential greenwashing. These complaints are mainly made by Non-government organizations (NGOs).[11]

In contrast, ACCC is in the nascent stages of comprehending greenwashing and it has not taken major legal action against greenwashing. In October 2022, ACCC conducted an online sweep against greenwashing, assessing 247 businesses across various sectors (ACCC, 2023b). The results have helped ACCC to identify 1) Cosmetics and personal care 2) Textiles, garments, and footwear 3) Food and beverage products as the three key sectors with the highest greenwashing risk that requires further proactive investigation. Similar to ASIC, ACCC also addresses complaints concerning ESG issues received through its information centre.

Legal/regulatory actions on greenwashing

The regulatory actions taken on greenwashing could take a variety of forms. For example, ASIC issued 1) 23 corrective disclosures, 2) 11 infringement notices, and 3) one civil penalty proceeding between July 2022 and March 2023 (ASIC, 2023). With an additional $4.3 million funding to ASIC from the government in April 2023 to combat greenwashing (Australian Government, 2023), there is likely to be an increase in ASIC's greenwashing oversight efforts.

While ACCC has not yet initiated a legal action, it is equipped with a toolkit of potential enforcement actions which includes 1) administrative resolutions, 2) issue infringement notices, 3) set Section 87B public enforceable agreements, and 4) pursue legal proceedings (ACCC, 2023c). The type of actions to be pursued are mainly determined by the severity of the misleading claim, the complexity of substantiating the greenwashing case, and the size of the greenwashing entity.

Implications for the AUASB

Greenwashing, particularly those targeted/enforced by regulatory actions has relevance to the auditing & assurance profession given (i) the risks of material misstatement and (ii) stakeholders' expectations.

Greenwashing as a risk of material misstatement

11 NGOs play an important role in the legal/regulatory actions against greenwashing. They scrutinize companies for greenwashing activities, undertake investigations, file complaints with ASIC and ACCC, and take companies to court over greenwashing claims. An example is the 2021 case where the Australasian Centre for Corporate Responsibility (ACCR) sued oil company Santos over its net zero emission plan, formulating the world first court case to challenge the truthfulness of a company's net zero emission plan. The case is still ongoing.

Greenwashing poses a risk of material misrepresentation on claims made in annual and sustainability reports. This is particularly the case when it comes to climate-related disclosures as evidenced in recent legal and regulatory actions. For example, Santos was taken to court for its "net-zero" claim made in the Message from the Chairman and Managing Director and Chief Executive Officer Section of the company's annual reports without a well-defined plan to achieve the target (ACCR, 2021). Similarly, Tlou Energy Limited and Black Mountain Energy Limited were issued infringement notices by ASIC with a fine of AUD $53,280 and AUD $39,960 respectively for claims of "carbon neutral", "low emissions', "clean energy" and "net-zero carbon emissions" made in their operational report and investor presentation (ASIC, 2023). While operational report and investor presentation may not subject themselves to audit, "Message from the Chairman and Managing Director and Chief Executive Officer Section" of Santo's annual report falls into auditors' responsibility for "other information" under ISA/ASA 720 *The Auditor's Responsibilities Relating to Other Information*, hence giving rise to the risks of material misstatement.

Another high-profile case on misleading sustainability claim is the Vale case in the U.S., where Vale has agreed to pay $55.9 million USD in fines for its materially false and misleading statements made in its 2016 and 2017 sustainability reports regarding the audited stability structure of the Brumadinho dam (SEC, 2022). Disclosures in stand-alone sustainability reports could fall under auditors' responsibility for other information as required in ISA/ASA 720. In addition, and interestingly, both sustainability reports are assured by third parties, demonstrating the gap/limitation of sustainability assurance in preventing greenwashing claims.

As mentioned earlier, the asset management industry is one of the most targeted industries for greenwashing claims. Several investment funds were found to fail to adhere to their negative investment screening commitments which typically excludes investments in sectors with significant ESG risks, such as fossil fuels, nuclear power, alcohol, tobacco, gambling, weapons or adult entertainment. Given that the super funds are now required to disclose current holdings (Parliament of Australia, 2021), and they often disclose investment strategy e.g., positive/negative screening, net zero commitment and overview of top shareholdings in their portfolio in their annual reports, these disclosures would give rise to risks of material misstatement under ISA/ASA 720.

These cases underscore how greenwashing can be seen as non-financial fraud, which is of high relevance to auditing and assurance profession. They also highlight the importance for assurance provider to be aware of all greenwashing actions of regulators, as they may be suggestive of risk of material misstatement in company disclosures, or certain management behaviours that warrant auditor/assuror attention. Although the word of "greenwashing" is not referred to in International Standard on Sustainability (ISSA) 5000 (IAASB, 2023), the International Auditing and Assurance Board (IAASB) is seeking public comments on if the exposure draft of ISSA 5000 appropriately addresses the topic of fraud (including "greenwashing") by focusing on the susceptibility of the sustainability information to material misstatement, whether due to fraud or error (IAASB, 2023).

On the other hand, greenwashing claims involves a wide range of subject matters disclosed in a variety of venues and some of them may not subject to any form of third-party assurance. For example, information disclosed on websites and social media. In addition, third-party assurance is typically engaged on a company level disclosure such as the sustainability report, while greenwashing claims can by commonly associated with product level disclosures such as a particular investment product and/or a consumer product.

Stakeholders' view of sustainability assurance in reducing greenwashing

Stakeholders believe sustainability assurance can help reduce greenwashing, but there's a need for caution concerning greenwashing issues. A Senate submission[12] indicated the difficulty in verifying sustainability data. The comment letter expressed concern over the ineffectiveness of existing financial audit independence arrangements. The expectation is that audits should offer credible validation for all mandatory metrics and partial validation for the rest of the details in the reports, including a thorough review of any potentially omitted information. It referenced a 2021 Carbon Tracker study which found that, of 107 companies analyzed, 80% of auditors seemingly overlooked climate risks, and 63% failed to spot inconsistencies in climate targets throughout business reports. The letter further emphasized:

> *"Audits should offer solid verification of all obligatory metrics, give limited assurance on the rest of the document, and specifically address any potential omissions in reports. Those providing assurance must adhere to stringent independence and quality control standards. The prevalent practice where a firm chooses and compensates its own auditor poses a challenge to true independence."*

Specifically, we learn from the regulatory actions that auditors/assurors should pay close attention to some high-risk sectors prone to greenwashing claims such as Asset Management and Energy sector. In Asset Management, the ESG investment screening process is often the target of greenwashing. Assurance procedures should provide verification of documentary evidence supporting the ESG screening, checking for inconsistencies between stated investment strategies and actual portfolios, and confirming robust internal controls. In the Energy sector, claims about net zero and carbon neutrality need to be validated due to their importance for maintaining a company's social license. Assurance tasks should include assessing the feasibility of climate commitments, confirming adequate documentation for funding net-zero initiatives, ensuring thorough scientific validation for projects, and consulting external experts on technical aspects like energy consumption.

Further Research Work

In the next phase, machine learning tools will be developed to assist in identifying organizations suspected of engaging in greenwashing behaviours. One example of the use of the tool is to identify inconsistencies in sustainability claims across different disclosure venues and to identify vague claims without substantiating evidence. Furthermore, the project will explore if there are gaps in current sustainability assurance and greenwashing claims by mapping the subject matters of sustainability assurance to those of greenwashing claims. The outcomes are expected to be informative to standard setters such as the AUASB in refining the assurance standard of sustainability information.

Summary

The global effort towards sustainability has led to an increased awareness and scrutiny of greenwashing. Regulatory bodies in Australia are actively stepping up their efforts to combat deceptive sustainability claims made by companies. Preliminary findings highlight the complexity in defining greenwashing, given the wide range of subject matters that greenwashing can be associated with and the variety of venues that greenwashing claims can be made. Climate-related disclosures made in companies' annual/sustainability reports are of particular relevance to AUASB for the risk of material misstatement.

12 The no.94 submission by Australia Centre for Corporate Responsibility to Senate Inquiry into Greenwashing.https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Environment_and_Communications/Greenwashing/Submissions

The recent clustered legal and regulatory actions demonstrate greenwashing isn't just an ethical concern but also poses substantial financial, reputational, and litigation risks for companies. Assurance providers should be aware of regulatory actions on greenwashing and keep close eyes to claims prone to greenwashing, particularly in high-risk industries like asset management and energy. Current stakeholder sentiment towards sustainability assurance is a mix of expectation and caution. While assurance is seen as a way to curb greenwashing, whether sustainability assurance could or should be expected to cover the wide range of potential claims prone to greenwashing is open to debate.

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Australian Government
Auditing and Assurance Standards Board

AUASB Agenda Paper

Title:	ISSA 5000 ED Sustainability Assurance – Feedback on Australian Specific Questions	**Date:**	6 December 2023
Office of the AUASB Staff:	Anne Waters / See Wen Ewe / Rebecca Mattocks	**Agenda Item:**	10.1

Objectives of Agenda Item

The objective of this Agenda Item is to:

1. Inform members of the feedback received on the Australian questions asked in the AUASB Consultation Paper on the IAASB's Proposed ISSA 5000, *General Requirements for Sustainability Assurance* Engagements.

Questions for the Board

Question No.	Question for the Board
Question 1	Do AUASB members have any comments / input / suggestions in relation to the feedback received on the Australian questions on exposure and the initial views of the Office of the AUASB?

Background and Previous Discussions on Topic

2. On 17 August 2023, the AUASB issued a Consultation Paper seeking public comment on the IAASB's Exposure Draft on Proposed ISSA 5000, *General Requirements for Sustainability Assurance Engagements*. The deadline for written comment letters was 10 November 2023.

3. The Office of the AUASB held three roundtables in October 2023 to gain feedback from stakeholders as to both the IAASB and Australian questions in the consultation paper.

4. The AUASB Consultation Paper sought input on several Australian specific questions, including questions specifically targeted to non-accountant practitioners. Refer to Appendix 1 for a list of the Australian specific questions asked.

5. The following respondents commented on Australian specific questions:

   (a) Pitcher Partners;
   (b) CPA and CA ANZ;
   (c) Deakin Integrated Reporting Centre;
   (d) Leon Olsen;
   (e) AICD;
   (f) PwC; and
   (g) Deloitte.

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Matters for Discussion

6. The Office of the AUASB has compiled the comments on Australian specific questions in submissions received (see Appendix 2 of this paper). The table below summarises the overarching themes and the Office of the AUASB's initial views on how they may be addressed:

Theme	Stakeholder Commentary	Office of the AUASB's initial view
Which assurance standards are currently being used	Four out of seven respondents (CPA & CAA NZ, Leon Olsen, PwC and Deloitte) provided the following feedback. For NGER reporting in accordance with the National Greenhouse and Energy Reporting (Audit) Determination 2009, climate active assurance (Government scheme), Emissions Reduction Fund and Safeguard audits, the following are used: • ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*; and • ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements*. ASAE 3000 is used when providing assurance on broader sustainability information and ASAE 3410 is used in conjunction with ASAE 3000 for assurance on greenhouse gas statements. Leon Olsen, PwC and Deloitte responded that both limited and reasonable assurance engagements are provided depending on client's needs and sustainability reporting maturity. Note CER requires reasonable assurance on scope 1 and 2 emissions for emitters above a certain level that meet the schemes criteria.	This feedback is consistent with the understanding of the Office of the AUASB.
Implementation Guidance and Education Materials	All respondents agree that the AUASB should develop guidance on applying the proposed assurance standard. Some of the suggested guidance materials include: • Applying ISSA 5000 in the context of the new reporting framework proposed in ED AASB ASRS 1 and ASRS 2; • The steps that need to be taken to satisfy the preconditions for assurance (AICD representing preparers); • Illustrative examples of Australian specific assurance reports, including modifications; • Specific elements of ISSA 5000 including:	The Office of the AUASB is developing a possible consultation paper that would propose an Australian assurance standard to address assurance under the Australian reporting framework and matters such as the use of experts and materiality. The possible consultation paper will be discussed at a Board meeting in early 2024 (see Agenda Paper 10.2).

Theme	Stakeholder Commentary	Office of the AUASB's initial view
	○ Materiality ○ Fraud (including non-fraud greenwashing); ○ Limited assurance versus reasonable assurance; ○ The use of experts; ○ Groups and consolidated information; and ○ Estimates and forward-looking information. • Communication requirements between the financial statement auditor and the sustainability/climate auditor.	
Capacity and Capability Uplift	Four out of seven respondents (Pitcher Partners, CPA & CA ANZ, Deakin and Deloitte) raised concerns that assurance providers will not have enough trained, qualified and experienced staff and access to expert resources to undertake ISSA 5000 engagements as currently proposed under the timelines suggested in the Treasury's second Consultation Paper.	The Office of the AUASB is undertaking work to better understand the demand for assurance and ability of assurance providers and experts to meet demand.

Next steps/Way Forward

7. The Office of the AUASB is developing a possible consultation paper that would propose an Australian assurance standard to address assurance under the Australian reporting framework and matters such as the use of experts and materiality. The possible consultation paper will be discussed at a Board meeting in early 2024. (see Agenda Item 10.2).

Appendix 1 – List of Australian Specific Questions contained in the AUASB Consultation Paper

For all Australian Stakeholders:	
Aus 1	When conducting GHG assurance engagements, are you currently using ASAE 3410 Assurance Engagements on Greenhouse Gas Statements along with ASAE 3000 Assurance Engagements Other than Audits or reviews of Historical Financial Information? If not, which assurance standards are you currently using? At a more granular level: a) Which assurance standards are you currently using for National Greenhouse Energy Reporting (NGER) and climate active assurance? Are you currently conducting a limited or reasonable level assurance engagement? b) Which assurance standards are you currently using for Emissions Reduction Fund and Safeguard audits?
Aus 2	When conducting wider sustainability engagements, are you currently using ASAE 3000 Assurance Engagements Other than Audits or reviews of Historical Financial Information? If not, which assurance standards are you currently using?
Aus 3	Proposed ISSA 5000 is neutral as to the disclosure framework. Should the AUASB develop guidance on applying the proposed assurance standard in the context of the upcoming Australian Accounting Standards Board climate disclosure framework? Are there any other topics, aspects of topics or elements of an assurance engagement that stakeholders would like the AUASB to issue guidance on? If yes, please provide specific details.
Aus 4	While Appendix 2 of Proposed ISSA 5000 provides illustrations of assurance reports on sustainability information, should an Australian specific assurance opinion be developed?
Aus 5	Do stakeholders foresee any implementation issues regarding Proposed ISSA 5000 in the context of the proposed assurance requirements as being discussed through the recent Treasury Consultation Paper?
Aus 6	Have applicable laws and regulations been appropriately addressed in the proposed standard?
Aus 7	Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions (refer paragraphs 19-20 of this Consultation Paper).
Aus 8	Are there any principles and practices considered appropriate in maintaining or improving assurance quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions (refer paragraphs 19-20 of this Consultation Paper).
Aus 9	If you are an assurance provider, do you expect to have sufficient qualified and experienced staff and access to suitable experts to undertake assurance engagements under the Proposed ISSA 5000 under the proposals outlined in the June 2023 Treasury Consultation paper – Climate-related financial disclosure: Second consultation?
Questions particularly targeted at non-accountant practitioners:	
Aus 10	Proposed ISSA 5000 requires the engagement leader to be a member of a firm that applies the ISQMs (in Australia the ASQMs) or other professional requirements that are at least as demanding as the ISQMs. Does your firm operate under the AUASB's Quality Management Standards? If your firm is not currently captured by the AUASB's Quality Management Standards:

	a) Which quality standards are you operating under and would the use of those standards instead of the AUASB's Quality Management Standards create any impediments to applying proposed ISSA 5000? b) Do you consider the quality management framework that you are using to be at least as demanding as that of the AUASB's Quality Management Standards? Please explain your response and how you have determined this. c) What practical issues would arise if your firm were required to apply the AUASB's Quality Management Standards in addition to another quality management framework that already applies to your firm? Are there any impediments to applying the AUASB's Quality Management Standards from 1 July 2024?
Aus 11	Proposed ISSA 5000 requires the practitioner to comply with relevant ethical requirements, including those relating to independence. Relevant Ethical Requirements are defined by Proposed ISSA 5000 for both accounting practitioners and non-accounting practitioners. Are you currently operating under the Accounting Professional and Ethics Standards Board (APESB) APES 110 Code of Ethics for Professional Accountants (including independent standards)* ? If you are not currently operating under the APES 110: a) Which ethical standards are you operating under and would the use of an alternative ethical framework create any impediments to applying proposed ISSA 5000? b) Do you consider Ethics Framework that you are using to be at least as demanding as that expected from APES 110? Please explain your response and how you have determined this. c) What practical issues would arise if your firm were required to apply APES 110 in addition to other ethical requirements that already apply to your firm?
Aus 12	Is the Proposed ISSA 5000 consistent with existing frameworks or standards used to assess the professional competency of sustainability assurance practitioners?

Appendix 2 - AUASB Comments Received and Proposed Disposition Paper

AGENDA ITEM NO.	**10.1**
Meeting Date:	6 December 2023
Subject:	Comments received on Exposure of the IAASB's Proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements; and Proposed Conforming and Consequential Amendments to Other IAASB Standards (Australian Specific Questions)
Date Prepared:	30 November 2023
Document Type:	Consultation Paper
Proposed Title:	Comments received on Exposure of the IAASB's Proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements; and Proposed Conforming and Consequential Amendments to Other IAASB Standards (Australian Specific Questions)

LISTING OF RESPONDENTS

Short Form Name	Name	Date Received
Pitcher Partners	Pitcher Partners	3 November 2023
CPA & CA ANZ	CPA Australia and Chartered Accountants Australia & New Zealand	10 November 2023
Deakin	Deakin University	10 November 2023
Leon Olsen	Mr Leon Olsen (personal submission)	10 November 2023
AICD	Australian Institute of Company Directors	10 November 2023
PwC	PricewaterhouseCoopers	10 November 2023
Deloitte	Deloitte Touche Tohmatsu	13 November 2023

EXHIBIT 1: Comments received on Exposure of the IAASB's Proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements; and Proposed Conforming and Consequential Amendments to Other IAASB Standards (Australian Specific Questions)

No.	Question	Respondent Comment	Office of the AUASB Commentary
	General Comments		
	Note: These comments were made in cover letters or embedded within themes, not related to specific question	AICD We recommend that the AUASB provide support and Australian-specific guidance to companies and directors outlining the steps they need to take to satisfy the preconditions for assurance.	Included under "Implementation Guidance and Education Materials" theme in this Paper.
		Deloitte Where Australian specific assurance standards are available (e.g. Australian Standard on Assurance Engagements (ASAE) 3100 and ASAE 3150) and the sustainability matter and sustainability information for an engagement are within the scope of these Australian standards (e.g. compliance engagements or engagements on controls), guidance will be required from the AUASB to determine whether the Australian standard or ISSA 5000 should be applied. Additionally, for assurance engagements conducted in Australia required under the NGER Act, the assurance standard(s) applicable for the engagement are typically specified by the CER or by the relevant legislation. Guidance from the AUASB, in conjunction with the CER, regarding the applicable standards for such assurance engagements will be required.	Included under "Implementation Guidance and Education Materials" theme in this Paper.

No.	Question	Respondent Comment	Office of the AUASB Commentary
		Whilst supportive of the adoption of ISSA 5000 in Australia, we encourage the AUASB to develop additional guidance and practical examples to support consistent application of the standard and the delivery of high-quality assurance engagements. Specific areas of additional implementation guidance we would consider to be valuable include: *Fraud and professional skepticism* Significant professional judgement will be required to identify and understand the difference between the risk of intentional fraud and misrepresentation and the risk of management bias, particularly for qualitative disclosures. Noting that the Australian Competition and Consumer Commission (ACCC) and ASIC have released guidance to businesses to improve the integrity of environmental and sustainability claims made by businesses and to protect consumers from greenwashing, the AUASB should consider issuing guidance on greenwashing directed at assurance practitioners, in the context of the Australian public interest and reporting environment, and specifically how this should be considered in the identification and assessment of risks of fraud. *Materiality* Practical guidance and examples on how to consider materiality for the purpose of determining risks of material misstatement, designing further procedures and evaluating disclosures both individually and in the context of the sustainability reporting as a whole will aid in supporting consistency in conducting assurance engagements. *Use of an assurance practitioner's expert or other practitioners* Circumstances when a practitioner's expert is needed will require judgement and may change over time as practitioners continue to develop their own knowledge of	

No.	Question	Respondent Comment	Office of the AUASB Commentary
		sustainability matters and experience. We welcome clarification from the AUASB addressing when a practitioner's expert would be expected to be engaged. There are also likely to be complexities involved when using the work of other practitioners, for example, where the sustainability information is part of the reporting entity's value chain but outside of the entity's organisational boundary, or where different providers assure different information in the same report. There will likely be practical challenges in obtaining access to information external to the group to test directly, or in determining whether the scope of the work of another practitioner is sufficient, particularly where the entity itself has no contractual right to access this information. *Estimates and forward-looking information* We support the IAASB's considerations of a topic-specific ISSA for estimates and forward-looking information in the future, particularly as sustainability frameworks continue to mature and common significant areas of estimation uncertainty can be addressed more specifically. In the interim, AUASB guidance on this topic is welcomed, particularly in understanding what would be considered sufficient and appropriate evidence to assure such information reported. *Groups and "consolidated" sustainability information* ISSA 5000 provides only high-level requirements for conducting assurance engagements over group and consolidated sustainability information. Significant judgement will be required by assurance practitioners when determining the most appropriate approach to obtaining evidence for group engagements. As such, we strongly support IAASB's consideration of a topic-specific ISSA that is aligned, where relevant, to the requirements of ISA 600 Revised and includes specific application to qualitative disclosures, which can be	

No.	Question	Respondent Comment	Office of the AUASB Commentary
		practically applied in conjunction with the requirements of ISSA 5000 for using the work of Other Practitioners. In the absence of a separate standard, additional guidance is needed to clarify the requirements for performing assurance over group sustainability information. **5. Skilled resources** Significant time and investment will be required to train and upskill practitioners in the requirements of ISSA 5000. Talent and skills shortage in the accounting and auditing profession combined with the increased demand for professional services to assure sustainability information across Corporate Australia has also created a challenge. This will be an ongoing challenge as sustainability reporting frameworks continue to evolve and mature, and investor and public interest expectations of assurance continue to increase with respect to both the range of sustainability topics assured and extent of assurance provided. In addition, as the timing of implementation of sustainability reporting regulations varies globally there will be increased competition for skilled sustainability assurance practitioners. There is also a risk where Australian firms bring expertise from overseas that skills will not be as easily transferable between countries as for financial statement audits as those jurisdictions which implement sustainability reporting requirements first may not be reporting using ED SR1 or providing assurance under ISSA 5000. *Embedded in Question 19 of the ED ISSA 5000:* Yes. Broadly, the topic of fraud is appropriately addressed in ISSA 5000. There are numerous references in the requirements and application material (including various examples), at different stages throughout the engagement lifecycle, that address the	Included under “Capacity and Capability Uplift” theme in this Paper. Included under “Implementation Guidance

No.	Question	Respondent Comment	Office of the AUASB Commentary
		practitioner's consideration of the risks of material misstatement due to fraud and appropriate response to actual or suspected fraud identified during the engagement. Regarding the topic of greenwashing, we note that the concept is not specifically defined in ISSA 5000, however, it is addressed indirectly through examples of fraud and the requirements and guidance for the practitioner to consider whether information may be misleading to the intended users. Noting that the ACCC and ASIC have released guidance to businesses to improve the integrity of environmental and sustainability claims made by businesses and to protect consumers from greenwashing, the AUASB should consider issuing guidance on greenwashing directed at assurance practitioners, in the context of the Australian public interest and reporting environment, and specifically how this should be considered in the identification and assessment of risks of fraud. In addition to greenwashing, there are other areas of potential fraud related to sustainability information that are not addressed in ISSA 5000 (e.g., social and other non-climate related sustainability matters). Additional guidance or examples of possible fraud schemes related to sustainability information to guide the practitioner's understanding of their role and responsibilities in this area would be helpful.	and Education Materials" theme in this Paper.
	Australian Specific Questions		
1	When conducting GHG assurance engagements, are you currently using	<u>Pitcher Partners</u> We are not currently performing engagements of this nature.	NA

No.	Question	Respondent Comment	Office of the AUASB Commentary
	ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements* along with ASAE 3000 *Assurance Engagements Other than Audits or reviews of Historical Financial Information*? If not, which assurance standards are you currently using? At a more granular level: (a) Which assurance standards are you currently using for National Greenhouse Energy Reporting (NGER) and climate active assurance? Are you currently conducting a limited or reasonable level assurance engagement? (b) Which assurance standards are you	<u>CPA & CA ANZ</u> Feedback we have received indicates that assurance practitioners are currently using ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements* (ASAE 3410) along with ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ASAE 3000) when conducting GHG assurance engagements.	Included under "Which assurance standards are currently being used" theme in this Paper.
		<u>Deakin</u> Not applicable.	NA
		<u>Leon Olsen</u> At GHD in Australia we perform more than 60 GHG related audits every year, with this number currently increasing significantly this financial year due to increase requirements under the Clean Energy Regulator (CER)'s frameworks – we will probably top more than 100 such audits / assurance engagements this year. We are one of Australia's leading auditors / assurance providers of climate-related aspects, with eight (8) Category 2 Registered Greenhouse and Energy Auditors (RGEA Cat 2s) practicing as lead auditors for National Greenhouse and Energy Reporting (NGER), Emissions Reduction Fund (ERF) projects and under the Safeguard Mechanism. We also conduct assurance of sustainability reporting, but this has hitherto been more incidental to our practice over the past few years, but also seen as a growing opportunity for us. We also perform a limited number of climate active verifications. We generally apply ASAE 3000 and ASAE 3410 for GHG assurance engagements. Noting:	Included under "Which assurance standards are currently being used" theme in this Paper.

No.	Question	Respondent Comment	Office of the AUASB Commentary
	currently using for Emissions Reduction Fund and Safeguard audits?	• Most of our GHG assurance engagements are related to the Australian greenhouse gas legislation / frameworks that the CER administers, whether it be the *National Greenhouse and Energy Reporting Act 2007* (NGER Act), the Emissions Safeguard Mechanism in Part 3H of the NGER Act, or *Carbon Credits (Carbon Farming Initiative) Act 2015* (CFI Act). Therefore, we follow the *NGER Audit Determination 2009* (NGER Audit Determination) – paragraph 2.5(c) of the NGER Audit Determination requires that these audits be carried out and reported on in compliance with: ○ The auditing and assurance standards (as in force on 1 July 2017) formulated by the Auditing and Assurance Standards Board under paragraph 227B(1)(b) of the *Australian Securities and Investment Commission Act 2001*, including the Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other than Audits or Review of Historical Financial Statements.* • Which ASAEs other than ASAE 3000 applies to the individual engagement is determined by the Audit Team Leader (Engagement Leader), subject to Peer Review (Engagement Quality Review) required per the NGER Audit Determination – noting paragraph 4(c) of ASAE 3410 specifically states that it does not deal with, or provide specific guidance for, assurance engagements relating to offsets projects, and therefore ASAE 3410 should not apply to ERF audits. • The CER's audit handbook provides further guidance on these matters, clarifying that AUASB's assurance standards apply, clarifying the assurance process, and provides guidance on assurance reporting – that said, it is at times not specific enough at clarifying which ASAEs applies in different circumstances. The CER also has annual auditor outreach programmes, including hosting annual auditor workshops to further guide the auditors operating under its framework. • Practicing as a RGEA Cat 2 is subject to:	

No.	Question	Respondent Comment	Office of the AUASB Commentary
		A. Application of the AUASB's quality management standards – noting section 2.5(c) currently time stamps it to what was in force on 1 July 2017, which notionally implies that ASQC1 still applies for these audits – however, the Regulator has clarified they expect ASQM1 and 2 to be applied – and obviously, both refers to the APESB Code, APES 110 Code of Ethics – we apply these requirements in accepting and performing assurance engagements. B. Proven assurance knowledge and experience to become registered, i.e., knowledge and experience in applying AUASB's assurance standards is required to become a RGEA Cat 2 (lead auditor). C. Regulatory inspections to confirm (among other) that AUASB's standards are appropriately applied with appropriate supporting documentation in the audit file – this includes inspection of how threats to independence and conflicts of interests are avoided, as well as how the audit is performed using an appropriate risk and materiality based approach based on AUASB's standards – and how assurance conclusions and judgements are appropriately documented, and subject to appropriate peer review (engagement quality review) – noting peer review (EQR) is required on all these engagements. *At a more granular level:* *(a) Which assurance standards are you currently using for National Greenhouse Energy Reporting (NGER) and climate active assurance? Are you currently conducting a limited or reasonable level assurance engagement?* · Per above, for NGER reporting, ASAE 3000 and ASAE 3410 applies – noting the scope 1 and 2 emissions reported is squarely in scope for ASAE 3410, whereas the energy reported is not, and requires ASAE 3000.	

No.	Question	Respondent Comment	Office of the AUASB Commentary
		o Noting again (as specified above) that section 2.5(c) of the NGER Audit Determination requires use of relevant AUASB standards, including ASAE 3000. · We perform both reasonable and limited assurance engagements on NGER reporting – noting: o We often perform audits on behalf of the CER under its compliance monitoring program (so-called NGER Act section 74 audits), and they tend to request reasonable assurance. o Section 74 audit reports with modified assurance conclusions become publicly available through Freedom of information requests – as section 74 audits are on NGER reporting post submission to the CER the audited body (responsible party) does not have an opportunity to correct any misstatements noted during the assurance engagement, and therefore modified assurance conclusions are not unusual o Probably reflecting how much the CER uses us for section 74 audits, including in particular for complex emissions reporting such as in oil & gas and coal mining, for FY22 GHD was responsible for 5 of 9 modified assurance conclusions in the CER's audit program. · For climate active – noting we do not do many of these – we note that the climate active framework has defined the review or assurance requirements poorly – but it is typically a 'verification' of specific facts – and therefore, we tend to apply Standard on Related Services ASRS 4400 *Agreed-Upon Procedures Engagement.* *(b) Which assurance standards are you currently using for Emissions Reduction Fund and Safeguard audits?*	

No.	Question	Respondent Comment	Office of the AUASB Commentary
		• GHD probably performs more ERF audits than any other company / firm in the Australian market – we are particularly strong in assurance of landfill gas projects, and various forestation projects – though, we provide assurance across many different project methods. • We also perform many ERF audits on behalf of the CER in its compliance monitoring program (so-called CFI Act section 215 audits), which tend to be reasonable assurance. • Per above, paragraph 4(c) of ASAE 3410 specifically states that it does not deal with, or provide specific guidance for, assurance engagements relating to offsets projects, and therefore ASAE 3410 should not apply to ERF audits. This implies that the offsets report assurance has to be to ASAE 3000 – the offsets report always has to be assured under the mandatory assurance that project proponents must procure from time to time as part of providing the CER with a project report. • Some ERF audits, in particular so-called 'Initial Audits' at the start of a project, also requires assurance matters relating to the project proponent's compliance with specific aspects of the CFI legislation, and we perform this part of an initial audit to ASAE 3100. • For one specific section 215 audit we were requested to assure the project controls in place, and applied ASAE 3150 – this engagement was led by myself, aligned with the fact I often lead new types of engagements – however, after agreement with the CER we had to abandon (withdraw) from the engagement because the project proponent did not have an appropriate internal control system to identify control objectives and documented procedures that met these control objectives – this is aligned with the fact that internal controls are not specifically required under the CFI legislation, rather meeting the compliance (or control) objectives is simply required, but how a project proponent does this in a way that	

No.	Question	Respondent Comment	Office of the AUASB Commentary
		ensures an appropriate audit trail is not determined / legislated. Accordingly, the pre-conditions for the assurance engagement were found to not exist when we performed our risk-procedures, and the engagement was agreed to be abandoned. • Safeguard Audits is harder to classify, as the matter to be audited varies significantly across the different type of Safeguard Audit – obviously, ASAE 3000 always applies. Whether ASAE 3100 or ASAE 3410 applies is ultimately up to the determination of the Audit Team Leader (Engagement Leader), subject to the required peer review (Engagement Quality Review). For some historic Safeguard Audits it has included limited assurance over projected production and emissions estimates – these have been informed by ASAE 3450 – but not performed in accordance with ASAE 3450 as it did not include assurance of prospective (forward looking) financial information, and therefore ASAE 3450 does not apply (again, for GHD's first such assurance, I led it working out how we could do this in a standards- and evidence-based manner). • GHD notes that all RGEA Cat 2s applies ASAEs for these engagements, but that there probably is not a consistent approach across audit team leaders (engagement leaders) and firms as to specifically which ASAEs applies in different circumstances – we also note that overall that may not matter too greatly, noting whether an appropriate process to determine independence, as well as to plan, execute and complete an assurance engagement appropriately based on a focus on the risk of material misstatements matter more – but there likely is room for improving consistency among RGEA Cat 2s in this respect. • Finally, we note that our North American colleagues also perform GHG verification under various mandated schemes in North America – and uses ISO14065 for this verification – noting ISO14065 is also used under	

No.	Question	Respondent Comment	Office of the AUASB Commentary
		emissions trading schemes in other jurisdictions, e.g., in the EU - it may be worthwhile for IAASB and AUASB to specifically consider how this may be useful to avoid costly redundancy in assurance or verification like engagements that audited bodies / responsible parties have to incur.	
		PwC (a) For NGER reporting and climate active assurance, we conduct our engagements in accordance with the National Greenhouse and Energy Reporting (Audit) Determination 2009 and the following standards on assurance engagements: • Standard on Assurance Engagements ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*; and • Standard on Assurance Engagements ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements*. Both limited and reasonable assurance engagements have been provided over these engagements depending on our client's needs and sustainability reporting maturity. (b) For Emissions Reduction Fund and Safeguard engagements, the following standards on assurance engagements are used: • Standard on Assurance Engagements ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*; and • Standard on Assurance Engagements ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements*.	Included under "Which assurance standards are currently being used" theme in this Paper.
		Deloitte The following standards are used when conducting the specified engagements: • For assurance engagements on GHG Statements, we apply ASAE 3410 (which also requires compliance with ASAE 3000).	Included under "Which assurance standards are currently being used" theme in this Paper.

No.	Question	Respondent Comment	Office of the AUASB Commentary

		• For assurance engagements on GHG information (not a separate GHG Statement) reported with other sustainability information or on other GHG-related information, ASAE 3000 is applied.
		• The assurance standard applied for assurance engagements under the National Greenhouse and Energy Reporting Act 2007 ("NGER Act") will depend on the subject matter, e.g.
		  ○ GHG Statements (Scope 1 and 2) – ASAE 3410
		  ○ Emissions Reduction Fund and Safeguard audits – ASAE 3000 and ASAE 3100
		  ○ Baseline Adjusted audits – ASAE 3000
		• When conducting assurance engagements required under the NGER Act, the NGER (Audit) Determination 2009 is also applied.
		Both limited and reasonable assurance engagements are conducted for the types of assurance engagements mentioned above, depending on the requirements of the applicable framework.	

2	When conducting wider sustainability engagements, are you currently using ASAE 3000 *Assurance Engagements Other than Audits or reviews of Historical Financial Information*?	Pitcher Partners Refer to answer 1a above.	NA
		CPA & CA ANZ Feedback we have received indicates that assurance practitioners are currently using ASAE 3000 when conducting wider sustainability engagements.	Included under "Which assurance standards are currently being used" theme in this Paper.
		Deakin	Noted

No.	Question	Respondent Comment	Office of the AUASB Commentary
	If not, which assurance standards are you currently using?	Yes, while a practitioner.	
		Leon Olsen As mentioned above, wider sustainability engagements have been mostly incidental in the past, though we are engaging and performing more in this respect –where we have performed them it has been to ASAE 3000 generally, and ASAE 3410 for greenhouse gas related statements within the assured matter. We see significant opportunity for us to get further involved in this, given our strong competence in climate-related assurance using AUASB's standards.	Included under "Which assurance standards are currently being used" theme in this Paper.
		PwC ASAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* is used to address sustainability subject matters. ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements* is also used in conjunction with ASAE 3000 for assurance engagements on greenhouse gas statements.	Included under "Which assurance standards are currently being used" theme in this Paper.
		Deloitte General sustainability assurance engagements are conducted under ASAE 3000, with the exception of compliance engagements relating to sustainability matters which are conducted under ASAE 3100.	Included under "Which assurance standards are currently being used" theme in this Paper.
3		Pitcher Partners	

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<tr><th>No.</th><th>Question</th><th>Respondent Comment</th><th>Office of the AUASB Commentary</th></tr>
<tr><td></td><td>Proposed ISSA 5000 is neutral as to the disclosure framework. Should the AUASB develop guidance on applying the proposed assurance standard in the context of the upcoming Australian Accounting Standards Board climate disclosure framework? Are there any other topics, aspects of topics or elements of an assurance engagement that stakeholders would like the AUASB to issue guidance on? If yes, please provide specific details.</td><td>We believe that any guidance developed by the AUASB will be welcomed by stakeholders and be helpful in interpreting and implementing the standard specifically within the Australian environment. Thus, we believe that the AUASB should develop guidance on applying the proposed assurance standard in the context of the upcoming AASB climate disclosure framework.

At this point in time, it is difficult to pinpoint all other specific topics/areas that may be a priority and most helpful to stakeholders, however some initial areas may include:

• Different ways of digesting and using information via the AUASB standards portal (for example, the ability to display all of the paragraphs relevant to only limited assurance engagements)

• Frequently Asked Questions that can provide clarification via short and simple responses relating to common areas (such as limited versus reasonable assurance, materiality, using the work of experts)

Guidance bulletins that can provide further information or considerations on the interpretation or implementation of particular topics that may include:

○ Pre-conditions evaluation - what questions should be asked, what considerations may be relevant, what circumstances are likely to constitute the inability to accept the engagement

○ Modified reports - the evaluation of quantitative and/or qualitative misstatements, how reports may be modified in different circumstances, how similar concepts to those within ISA/ASA 705 (e.g., when the effect of misstatements is "material but not pervasive" versus "material and pervasive")</td><td>Included under “Implementation Guidance and Education Materials” theme in this Paper.</td></tr>
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		may be applied in a sustainability assurance engagement and how this impacts the report.	
		<u>CPA & CA ANZ</u> Australian-specific guidance will be critical in providing additional clarity on how to operationalise the proposed ISSA 5000 for the forthcoming mandatory climate-related disclosures regime. Proposed ISSA 5000 has a broad scope to include all sustainability topics and reporting frameworks, and it is likely that some Australian entities will continue to, or begin to, report both the mandatory climate-related disclosures and other sustainability matters. Some entities that are not in scope of the mandatory climate-related disclosures regime may still do broader sustainability reporting and want to obtain external assurance on aspects of those reports. Therefore, we recommend that the AUASB develop guidance on applying the proposed assurance standard in the Australian context. Such guidance will need to address the proposed statutory reporting/assurance requirements and the upcoming Australian Accounting Standards Board (AASB) climate disclosure framework (Australian Sustainability Reporting Standards (ASRS Standards)). First-time implementation guidance that includes transitional considerations would also be very useful. Depending on the outcome of the Treasury consultation on statutory requirements for climate-related disclosures, if the current financial statement auditor is expected to perform the climate-related disclosures assurance engagement, guidance would be beneficial on: • The differences or similarities between the proposed ISSA 5000, and ASAE 3000 and ASAE 3410, and	Included under "Implementation Guidance and Education Materials" theme in this Paper.

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		• How they can make the transition from the 3000 series to the proposed ISSA 5000 if they: ○ have not used the 3000 series before, and ○ if they have previously used the 3000 series. Even if the lead climate/sustainability auditor is the current financial statement auditor, it is possible that the audit team will include members from non-accounting professions. Therefore, detailed guidance for audit team members from non-accounting backgrounds who may not be familiar with auditing terminologies and concepts such as the use of audit assertions, materiality, professional scepticism, quality management standards, and ethical requirements (including the independence standards) would be helpful to ensure that the assurance work is consistently high quality. If Treasury does not impose the requirement that the financial statement auditor should lead the engagement for the climate-related disclosures assurance, it would also be helpful to have guidance on the expected communications between the climate/sustainability auditor and the financial statement auditor as this is not currently addressed in proposed ISSA 5000. Based on our analysis to date of proposed ISSA 5000, we have identified the need for topic-specific guidance on matters including materiality, work effort required for pre-acceptance, the differences between limited and reasonable assurance, working with qualitative information, estimates, forward-looking information, using the work of practitioner's experts or other practitioners, and group/value chain information. Since such guidance is directly related to proposed ISSA 5000, to assist with a globally consistent approach, our preference is for the IAASB to develop this. However, dependent on the	

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		pace at which such guidance may be developed and made available by the IAASB, the AUASB may need to develop interim Australian-specific guidance to assist local assurance practitioners.	
		Deakin It may be appropriate for the AUASB to develop guidance on applying the proposed assurance standard in the context of the upcoming Australian Accounting Standards Board climate disclosure framework to the extent that this framework goes beyond the coverage of ISSA 5000, and the matters addressed in the attached Deakin Integrated Reporting Centre submission to the IAASB are not addressed.	Included under "Implementation Guidance and Education Materials" theme in this Paper.
		Leon Olsen As mentioned during the recent round-table, a key concern is the proposal by Treasury that the mandatory assurance should be led by a financial auditor – GHD believes this to be counter-productive to Treasury's stated objective of involving more professionals in this assurance – we believe it will be commercially unattractive for non-financial audit firms to invest in capability to support assurance processes that are subject to the discretion of financial auditors providing some scope to perform work. We also believe it is based on a misunderstanding that only financial auditors understand AUASB assurance process and the relevant ethical requirements for such assurance – given all RGEA Cat 2s are subject to the same requirements, including regulatory inspections relating to how we meet those requirements. So – AUASB may consider: 1. Clarifying to Treasury that RGEA Cat 2s in fact practice to the same AUASB standards, including the APES 110 code and using appropriate ASAEs in performing assurance – so, they should be able to lead assurance of climate related disclosures when the concern is primarily about the proven ability to do so without	Included under "Capacity and Capability Uplift" theme in this Paper.

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		having it be subject to a financial auditor's discretion as to what is scoped to RGEA Cat 2s – noting in particular that RGEA Cat 2s already in fact also have proven expertise in some of the climate-related assurance required, something most financial auditors do not have. 2. Providing further specific guidance on how financial auditors that rely on the work of other professionals should engage with such professionals for an appropriate scope of assurance – refer also answer below to IAASB's question on this re. ISSA 5000. Additionally – the assurance scope in Treasury's latest consultation is very ambitious – probably too ambitious – and will require significant development of the criteria required to evaluate different matters to be assured – e.g., relating to risk disclosures, and other narrative disclosures to be assured – noting that some of this will change the matter audited to be about the process by which the disclosures were prepared, assuring the preparation of it against such criteria, rather than assuring the fair presentation of the disclosures themselves – a finer technical point which it does not seems not to have been fully appreciated in Treasury's consultation paper. Depending on the final assurance requirements, there may well be additional guidance that should be provided. A foreseeable matter to be assured relates to scope 1 and 2 emissions at Group Consolidated level – whilst Treasury's consultation states it should be per NGER, it is noted that NGER applies only to larger Australian operations, and for emissions at facilities under the 'operational control' of the reporting entity – there may well need to be further guidance on assurance requirements for global scope 1 and 2 emissions that may be reported under either financial control or equity methods – i.e., a different reporting boundary basis as those may well be what is more relevant for the primary users of this reporting – that said, assurance professionals with strong NGER assurance credentials should be able to do this already, and it may be more about clarifying the criteria for	

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		preparing scope 1 and 2 emissions reporting, and less about clarifying how it is to be assured. Another foreseeable matter to be assured relates to scope 3 emissions – which will be challenging because the practice of preparing scope 3 inventories is very limited, and the data to support good scope 3 inventories are difficult to obtain – however, if the scope 3 emissions estimate is prepared with appropriate disclosures regarding the criteria used and the limitations within them, it should be possible to assure – possibly with an 'Emphasis of Matter' paragraph – guidance on this may be useful for AUASB to prepare – noting further, this is an issue not just in Australia given many other jurisdictions will require scope 3 emissions to be reported and assured – so perhaps international guidance should be pursued.	
		<u>AICD</u> There remains significant market uncertainty as to how to undertake, and therefore assure, materiality assessments of sustainability information. To assist, we highly recommend that the AUASB and AASB update their 2019 guidance, including to take into account significant developments since April 2019 such as the issue of the ISSB Standards and the draft Australian Climate Standard (ED SR1). As you are aware, materiality is a threshold issue for sustainability reporting. Crucially, the AASB is proposing to deviate from the ISSB standards by requiring that entities which conclude that there are no material climate-related risks and opportunities that could reasonably be expected to affect its prospects, disclose this fact, and explain how it came to that conclusion. In light of this, we foresee that there will be considerable scrutiny by	Included under "Implementation Guidance and Education Materials" theme in this Paper.

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		regulators, investors and other stakeholders (including those seeking to bring private litigation), as to the veracity of materiality assessments. Whilst the Draft ISSA 5000's Application Guidance on materiality at A270 to A285 provides useful guidance to assurance practitioners, significant market uncertainty persists (including at the director and report preparer level), as to how to make a materiality assessment on sustainability issues. To assist market understanding, we recommend that the AUASB and AASB update their 2019 guidance on the making of materiality assessments in respect of climate-related risk to take into account subsequent significant developments, such as the issue of the ISSB Standards and the draft Australian Climate Standard.	
		<u>PwC</u> The following areas may be subject to judgement and potential inconsistencies which may require further consideration and guidance from AUASB: a. The concept of "at least as demanding as the IESBA Code and ISQM 1" This will be a significant area of professional judgement by practitioners in firms that do not comply with the IESBA Code and ISQM 1 and would also be challenging and cause inconsistencies for practitioners when evaluating other practitioners' compliance with ethical requirements. Further guidance on which standards are "at least as demanding as the IESBA Code and ISQM 1" is needed to address this and the IAASB in Paragraph 25 of the Explanatory Memorandum acknowledges that regulators and national standard setters share the responsibility for this determination. We strongly encourage that any determination includes compliance with all elements of ISQM 1.	Addressed as part of the AUASB's response to the IAASB's ISSA 5000 ED. Included under "Implementation Guidance

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		b. Sufficiency and appropriateness of evidence for qualitative information and forward-looking information Sustainability information may comprise disclosures about a wide range of topics and aspects of topics, and the underlying characteristics of the disclosures may vary (e.g., may be qualitative or quantitative, may relate to historical or forward-looking information, or may be factual or involve the use of judgement). Qualitative and prospective information in relation to Sustainability subject matter have not traditionally been subject to assurance. Significant professional judgement will be required in evaluating what constitutes sufficient appropriate evidence for these areas. Practitioners may have to consider: • Whether substantive testing alone will provide sufficient appropriate evidence (in the case of a reasonable assurance engagement). If not, practitioners may need to perform tests of controls over the integrity of data, or other controls within the entity's information system that support the preparation of the qualitative information; and • Source of information intended to be used as assurance evidence, how such information has been captured and processed by the entity's information system, and how this may affect the reliability of the information. In addition, challenges posed by estimates and forward-looking information may include a high degree of estimation uncertainty and significant judgement involved, including management's selection and use of appropriate methods, assumptions and data. Evidence to support the assumptions on which the forward-looking sustainability information is based may also be forward looking and, therefore, speculative in nature. The nature and	and Education Materials" theme in this Paper.

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		availability of evidence for forward looking sustainability information, and what constitutes sufficient appropriate evidence, will vary depending on the nature. In some circumstances, the evidence available may support a range of possible outcomes with the disclosure falling within that range. c. Sufficiency and appropriateness of evidence for third party information Third party providers' reports or evidence may not be sufficient or appropriate for the practitioner to draw a conclusion. When the engagement team cannot be sufficiently involved in understanding the methods or assumptions used or validate those details, it will be difficult to form a conclusion. As such, further guidance on this area would be critical as the implications of not obtaining sufficient appropriate audit evidence are significant. d. Using the work of "other practitioner" (OP) As other reporting entities' Scope 1 and 2 emissions may form inputs for an entity's Scope 3 emissions, some of the challenges we anticipate in this area include: • There may be country restrictions (for OPs based in a foreign jurisdiction) which may pose challenges in the local assurance practitioner obtaining access to the OPs' work; • As the proposed ISSA 5000 is a global baseline for sustainability assurance, it may not be adopted by every jurisdiction in the same manner and therefore, OPs (especially foreign OPs) may perform their work based on a different standard such as AccountAbility's AA1000 Assurance Standards or International Organisation for Standardisation (ISO) Standards. This may pose challenges and	

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		inconsistencies in evaluating foreign OPs independence, compliance with ethical requirements, scope and adequacy of foreign OPs' work; • Reconciling the levels of assurance required where a practitioner may be engaged to perform a reasonable assurance engagement, but the OP is engaged to perform a limited assurance engagement; • Reconciling reporting periods where an OPs' work is based on a different period/financial year end than the entity; and • Managing conflicting timeframes, for example where an OPs' work may be performed at a different time and may not coincide with the practitioner's timeline despite entities and those in its value chain having a similar period/financial year end. Reasons for this may include local statutory filing timeline of the other reporting entities, resources of the OPs, preparedness of the entities, among others. e. Using the work of an external expert Whilst Paragraphs 49 - 50 of the Proposed ISSA 5000 prescribe assurance requirements if a practitioner plans to use the work of an external expert, there may be challenges in evaluating the adequacy of the external expert's work, especially where the external expert's work involves significant assumptions and/or where proprietary methodology and tools are utilised (for example, a proprietary input-output modelling). Further guidance is needed in line with c) above. Consideration of the requirements in ASA 620 in relation to auditor's experts may be a useful reference.	

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		Deloitte We would be supportive of the AUASB issuing guidance in the following areas: *1. Mandatory climate-related financial disclosure:* Given the significant impact on corporate reporting in Australia that is expected from the issuance of mandatory climate-related financial disclosures by Treasury, in conjunction with AASB, including Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information ("ED SR1"), we would be supportive of the AUASB developing specific guidance on applying ISSA 5000 in the context of this framework, to enable consistent application of ISSA 5000 and reporting to users. Specifically, guidance regarding the timing of adoption of ISSA 5000 would be helpful. Acknowledging that the release of ED SR1 and ISSA 5000 in Australia are still to be finalised, there may not be alignment in the effective dates of the proposed reporting legislation and the assurance standard, with the first wave of assurance being provided in accordance with ASAE 3000 if ISSA 5000 is not ready to be applied. This may result in duplication of effort required in developing assurance methodologies, training staff and educating users in both ASAE 3000 and ISSA 5000 assurance standards for SR1 reporting. Specifically, we note: • If ISSA 5000 is issued prior to the first year of mandatory reporting under ED SR1, but is not yet effective, guidance on whether ISSA 5000 is expected to be early adopted. • If ISSA 5000 is not released in time for the first year of mandatory reporting under ED SR1, guidance for transition from ISAE 3000 to ISSA 5000 will be needed,	Included under "Implementation Guidance and Education Materials" theme in this Paper.

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		including the form and content of communicating the need for the different assurance standards to users. *2. Other guidance* *a) Applicability of Australian specific Assurance Standards* Where Australian specific assurance standards are available (e.g. ASAE 3100 and ASAE 3150) and the sustainability matter and sustainability information for an engagement are within the scope of these Australian standards (e.g. compliance engagements or engagements on controls), guidance will be required from the AUASB to determine which standard should apply. *b) Applicable standard for assurance engagements under the NGER Act* For assurance engagements conducted in Australia required under the NGER Act, the assurance standard(s) applicable for the engagement are typically specified by the CER or by the relevant legislation. Guidance from the AUASB, in conjunction with the CER, regarding the applicable standards for such assurance engagements will be required. Revisions to Guidance Statement GS 021 *Engagements under the National Greenhouse and Energy Reporting Scheme, Carbon Pricing Mechanism and Related Schemes* may also need to be considered. *c) Application of ISAE 3410 / ASAE 3410* We understand the IAASB has adopted a straight-forward approach, to exclude sustainability engagements when the practitioner is providing a separate conclusion on a GHG statement, from the scope of ISSA 5000. However, from our experience, in many	

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		cases the practitioner is requested to provide assurance on GHG information that is both included with other sustainability information and in a separate statement. In such circumstances it may not be readily apparent to practitioners which standard should be applied (ISSA 5000, ISAE 3410 or ISAE 3000). In addition, conducting such engagements that are required to comply with multiple standards will result in duplication of effort (particularly in areas of planning, documentation, and other processes necessary to comply with ASQM 1 and ASQM 2). Refer to further comments in Q3. *d) Fraud and greenwashing* Significant professional judgement will be required to identify and understand the difference between the risk of intentional fraud and misrepresentation and the risk of management bias, particularly for qualitative disclosures. Noting that the ACCC and ASIC have released guidance to businesses to improve the integrity of environmental and sustainability claims made by businesses and to protect consumers from greenwashing, the AUASB should consider issuing guidance on greenwashing directed at assurance practitioners, in the context of the Australian public interest and reporting environment, and specifically how this should be considered in the identification and assessment of risks of fraud. In addition to greenwashing, there are other areas of potential fraud related to sustainability information that are not addressed in ISSA 5000 (e.g., social and other non-climate related sustainability matters). Additional guidance or examples of possible fraud schemes related to sustainability information to guide the practitioner's understanding of their role and responsibilities in this area would be helpful. *e) Materiality*	

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		Practical guidance and examples on how to consider materiality for the purpose of determining risks of material misstatement, designing further procedures and evaluating disclosures both individually and in the context of the sustainability reporting as a whole will aid in supporting consistency in conducting assurance engagements. *f) Use of an Assurance Practitioner's Expert or Other Practitioners* Circumstances for when a practitioner's expert is needed will require judgement and may change over time as practitioners continue to develop their own knowledge of sustainability matters and experience. We welcome clarification from the AUASB addressing when a practitioner's expert would be expected to be engaged. There are also likely to be complexities involved when using the work of other practitioners, for example, where the sustainability information is part of the reporting entity's value chain but outside of the reporting group, or where different providers assure different information in the same report. There will likely be practical challenges in obtaining access to information external to the group to test directly, or in determining whether the scope of the work of another practitioner is sufficient, particularly where the entity itself has no contractual right to access this information. *g) Estimates and forward-looking information* We support the IAASB's considerations of a topic-specific ISSA for estimates and forward-looking information in the future, particularly as sustainability frameworks continue to mature and common significant areas of estimation uncertainty can be addressed more specifically. In the interim, AUASB guidance on this topic is welcomed, particularly in	

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		understanding what would be considered sufficient and appropriate evidence to assure such information reported. *h) Assurance on sustainability information of groups and consolidated sustainability information* ISSA 5000 provides only high-level requirements for conducting assurance engagements over group and consolidated sustainability information. Significant judgement will be required by assurance practitioners when determining the most appropriate approach to obtaining evidence for group engagements. As such, we strongly support IAASB's consideration of a topic-specific ISSA that is aligned, where relevant, to the requirements of ISA 600 Revised and includes specific application to qualitative disclosures, which can be practically applied in conjunction with the requirements of ISSA 5000 for using the work of Other Practitioners. In the absence of a separate standard, additional guidance is needed to clarify the requirements for performing assurance over group sustainability information.	
4	While Appendix 2 of Proposed ISSA 5000 provides illustrations of assurance reports on sustainability information, should an Australian specific assurance opinion be developed?	<u>Pitcher Partners</u> Yes, we believe it would be extremely beneficial for practitioners if the AUASB provides illustrations of Australian specific assurance reports for more common and differing circumstances.	Included under "Implementation Guidance and Education Materials" theme in this Paper.
		<u>CPA & CA ANZ</u> Yes. As it is likely that Australia will adopt a "climate first" approach to sustainability reporting and assurance, we believe it would be useful to have Australian-specific opinion(s) included as additional illustrations of assurance reports, akin to the approach taken in ASA 700 *Forming an Opinion and Reporting on a Financial Report (Compiled)*.	

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		<u>Deakin</u> An Australian specific assurance opinion should be considered and the Deakin Integrated Reporting Centre offers to assist with any drafting.	
		<u>Leon Olsen</u> Probably – it may well be useful to have some specific Australia assurance opinions for both mandatory climate-related disclosure assurance statements – and possibly also for voluntary assurance of broader sustainability information – and the ways in which to distinguish the two.	
		<u>PwC</u> As the proposed ISSA 5000 is expected to be used by professional accountants and non-professional accountants, Australian specific examples of assurance opinions mirroring the proposed assurance requirements outlined in Treasury's June 2023 Consultation (e.g. reasonable assurance over governance disclosures, Scope 1 and 2 greenhouse gas emissions, limited assurance for Scope 3 greenhouse gas emissions, scenario analysis and transition plans) would be beneficial to the development of sustainability assurance ecosystem in Australia.	
		<u>Deloitte</u> To maintain consistency with ASAE 3410 and ASAE 3402, the AUASB could consider updating the illustrative assurance reports to reflect the Australian specific ethical and independence requirements and quality management standards.	

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		If ISSA 5000 will be required to be used for all sustainability assurance engagements in Australia, the AUASB could consider including illustrative assurance reports or separate guidance for other engagement types, e.g. compliance and controls engagements or for reporting under Australian specific legislation (e.g. under the NGER Act or ED SR1).	
5	Do stakeholders foresee any implementation issues regarding Proposed ISSA 5000 in the context of the proposed assurance requirements as being discussed through the recent Treasury Consultation Paper?	Pitcher Partners Yes, we foresee potential implementation issues as outlined in our responses to the IAASB questions below including the differentiation of limited versus reasonable assurance engagements, the application of materiality and the quality and consistency of procedures performed by assurance practitioners.	Included under "Implementation Guidance and Education Materials" theme in this Paper.
		CPA & CA ANZ The proposed ISSA 5000 is one element within the broader sustainability ecosystem that includes, amongst others, sustainability reporting standards, legislative requirements, quality management standards, ethical and independence requirements, and suitably qualified and competent professionals. The AUASB will have a significant role in considering how the sustainability assurance standard will interact with some of these other elements and may also be in the best position to indirectly contribute to other areas by positively influencing and contributing through thought leadership. To further elaborate on our comments in the cover letter and our response to question 3 above, the proposed ISSA 5000 is a suitable starting point as a global baseline. Generally, we agree with the premise of the proposed ISSA 5000 and its direction, as an overarching sustainability assurance standard and the foundation for a potential future suite of ISSAs that may be developed over time to meet assurance practitioner and stakeholder needs.	Addressed as part of the AUASB's response to the IAASB's ISSA 5000 ED.

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		However, some concerns have been raised around the very high-level approach taken in ISSA 5000 and how this may translate to specific reporting regimes and circumstances such as that being envisaged in Australia. One of the key concerns that we have heard is the need to manage expectations around the reporting and assurance outputs arising from a nascent reporting environment. As outlined in Table 3 of the most recent Treasury Consultation Paper, Group 1 entities are expected to obtain limited assurance of Scope 1 and 2 emissions and reasonable assurance of governance disclosures from the financial year ended 30 June 2025. Feedback we have received indicates that the proposed assurance roadmap and timeline are likely to be challenging, particularly in ensuring high-quality climate reports that have been subject to assurance. Some of the specific implementation challenges include the following: • Although the proposed ISSA 5000 is based on the extant ISAE 3000, ISAE 3410 and Extended External Reporting Guidance (EER Guidance), the proposed ISSA 5000 is perceived as a step-up from the extant standards and guidance as it includes more advanced considerations around matters such as risk assessments and internal controls. Therefore, there will be additional work effort involved in transitioning from the current framework to ISSA 5000. • Assuming the AUASB will adopt the final ISSA 5000, which is expected to be finalised and issued in September 2024 and assuming early adoption is permitted, this still translates to a very tight timeframe for practitioners to adopt the final ISSA 5000 into their assurance methodologies, and to train engagement teams for first-year mandatory assurance for the financial year ending 30 June 2025. Although many large, listed entities already undertake some level of sustainability reporting and assurance, such reporting and assurance is mostly voluntary, therefore, the	

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		entity's processes and controls in generating such information may not be at a sufficient stage of development to enable an assurance engagement to be undertaken. Some entities will require time for their systems and processes to mature and data quality and reporting to improve. Accordingly, on initial implementation of a mandatory climate-related disclosures regime, market expectations, including the expectations of regulators need to be managed. The AUASB and other stakeholders, including CPA Australia and CA ANZ, have a role to play in managing such market expectations. For example, an expectation of overwhelmingly "clean" assurance opinions may need to be tempered against the fact that assurance practitioners will need to consider an immature climate reporting ecosystem in the initial years of reporting. As outlined in the liability section in the most recent Treasury Consultation Paper, reporting entities will be afforded protection from false or misleading representation claims from private litigants in relation to forward-looking statements for the first three years (modified liability approach). However, the modified liability approach will only provide protection to the reporting entities and their directors. The same protection is not extended to the assurance practitioners. We believe similar protections should also be considered for assurance practitioners and we will be advocating for such protections with Treasury. There is some concern that there is a potential for assurance practitioners to take on some of the responsibilities that should rest with management and those charged with governance. For example, particularly in the initial years of implementation, the extensive work expected to be undertaken by assurance practitioners may create an expectation that they will identify any concerns with the quality of sustainability information and the systems and processes that underpin it. Similarly, the identification of intended users is	Included under "Implementation Guidance

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		primarily the responsibility of management, but however, the extent of work expected by assurance practitioners in identifying intended users may be perceived as a shifting of some responsibility in this matter from management to the assurance practitioner. We recommend consideration be given to guidance that clarifies the respective responsibilities of management/those charged with governance and assurance practitioners.	and Education Materials" theme in this Paper.
		<u>Deakin</u> The recent Treasury Consultation Paper contemplates assurance over descriptions of Governance as it relates to climate-related financial disclosures. The Deakin Integrated Reporting Centre submission to the IAASB focuses on assurance practitioner evaluations of the description of the business, including of Governance in relation to climate-related financial disclosures.	Included under "Implementation Guidance and Education Materials" theme in this Paper.
		<u>Leon Olsen</u> Yes – but it is probably more to do with the very ambitious assurance requirements that the Treasury Consultation Paper puts forward and less about the Proposed ISSA 5000 – particular relating to more narrative, qualitative and forward-looking disclosures need further consideration – refer also section 3 of our response to Treasury's consultation (attached). In terms of ISSA 5000 it is noteworthy that the additional requirements for risk procedures, focussed in particular on evaluating controls and control environment may stifle the necessary innovation in assurance process and evidence required to work out how best to assure some of these different sustainability assurance matters. Noting in this respect, on a broader basis, that sustainability reporting is based on various frameworks that do not have the same understanding of terms such as 'control' and 'internal control' and 'control	Addressed as part of the AUASB's response to the IAASB's ISSA 5000 ED.

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		environment' that financial reporting is clearly based upon – and which may not translate well to other matters to be assured under ISSA 5000, both broader sustainability information as well as climate-related disclosures – indeed, for some of the sustainability information to be assured, this convergence on a control framework developed for financial reporting may be counter-productive to effective assurance, as that framework at times may even be considered contrary to the overall objectives of such frameworks – that is, some more robust assurance process here may be warranted, but converging on a specific way of doing things based on what works for financial reporting is contrary to the widening up on what in fact needs to be assured – so, converging on what works for financial reporting given the breath of sustainability information (including for climate-related disclosures) may not be appropriate to ensure value-adding sustainability assurance – that is, it may translate well to some sustainability information to be assured, but is often not well supported by and at times may be seen as contradicting the relevant sustainability framework criteria put forward for how such information should be prepared for reporting in a robust manner, and may therefore not work that well – then for some sustainability matters it may be entirely inappropriate requiring assurance professionals to apply a framework that possibly does not work at all for the matter to be assured. A more flexible approach is required for the Proposed ISSA 5000 than through the convergence on this financial reporting controls framework approach. For more on this, refer also responses to IAASB's questions. An additional problem is the above mentioned proposal by Treasury that financial audits must lead climate-related disclosure assurance – that is contrary to the intent of ISSA 5000, and as mentioned above also something we believe will be counter-productive in achieving more professionals to get involved in this area, as well as misinformed in terms of the requirements, skills and experience of RGEA Cat 2s. Refer also section 2 of our response to Treasury's consultation (attached).	

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		<u>AICD</u> Given the threshold nature of preconditions of assurance, we highly recommend that support and guidance is provided to companies and directors to meet the preconditions for assurance. It is also unclear what will happen to organisations which fail to meet preconditions for assurance where there is a legal requirement to obtain sustainability assurance (as is being proposed by Treasury). For instance, consideration should be given to whether the carveout in paragraph 74 of the Draft ISSA 5000, which allows the acceptance of an assurance engagement even where conditions of preconditions for assurance have not been met where it is "required by law or regulation," would apply in these circumstances.	Included under "Implementation Guidance and Education Materials" theme in this Paper.
		<u>PwC</u> Please refer to our response to "Aus 3". More specifically the implementation issues relevant to the stakeholders may be with respect to providing assurance with respect to qualitative and forward-looking statements.	Included under "Implementation Guidance and Education Materials" theme in this Paper.
		<u>Deloitte</u> The requirements proposed in the Climate-related financial disclosures – Consultation paper (June 2023), and subsequently released ED SR1, are high in volume and significantly complex and granular, and reporting entities will need time to collect data and to build processes, systems, internal controls and governance structures that are needed to support high-quality corporate reporting, which is a pre-requisite for high-quality independent assurance.	Included under "Capacity and Capability Uplift" theme in this Paper.

No.	Question	Respondent Comment	Office of the AUASB Commentary
		Refer to our response in question Aus 3 above, regarding potential challenges that may arise from different effective and/or application dates of ISSA 5000 and ED SR1. This will create challenges for practitioners, who will need to be trained to apply both ISAE 3000 and ISSA 5000, as well as reporting entities and users who will need to be informed and understand the reason for different assurance standards, and any resulting implications. Significant time and investment will be required to train and upskill practitioners in the requirements of both ISSA 5000 and those proposed in the Climate-related financial disclosures – Consultation paper (June 2023) (and ED SR1) to undertake assurance engagements in accordance with the proposed timelines.	
6	Have applicable laws and regulations been appropriately addressed in the proposed standard?	Pitcher Partners Nothing to note.	NA
		CPA & CA ANZ As the proposed mandatory climate-related disclosures regime has not yet been finalised, we cannot comment on the appropriateness at this stage.	
		Deakin Yes.	
		Leon Olsen No comment. I haven't read proposed ISSA 5000 material enough about this to comment.	

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<u>AICD</u> The Draft ISSA 5000 and Explanatory Memorandum appears to equate all greenwashing with fraud, which does not reflect the majority of greenwashing cases which may involve unintentional misleading disclosures. Consideration needs to be given as to how incidents of non-fraud greenwashing will be addressed, including how and when such cases should be raised with directors and/or management. The AUASB may need to amend the standard and/or issue Australian-specific guidance to align with Australian law. In Australia, entities are held liable under misleading or deceptive conduct and disclosure laws, with a "reasonable grounds" test applying to forward-looking representations. For the reasons set out in section 3c, establishing reasonable grounds can be fraught with difficulty. In light of these Australian-specific nuances, we recommend that the AUASB issue guidance and/or make specific modifications to the standard to ensure consistency with Australian law.	Included under "Implementation Guidance and Education Materials" theme in this Paper.
		<u>PwC</u> The proposed ISSA 5000 excludes detailed requirements targeted at jurisdictional requirements. However, we would suggest updates to Clean Energy Regulators' guidance or references to reflect the adoption of ISSA 5000 when effective and replace ISAE 3000 (Revised). We would expect ISSA 5000 to be applied to all assurance engagements that address sustainability subject matters, except when the practitioner is providing a separate conclusion on a GHG statement, in which case ISAE 3410 applies.	Noted.
		<u>Deloitte</u>	NA

No.	Question	Respondent Comment	Office of the AUASB Commentary
		Refer to response in question "Aus 3" above in relation to consideration of reporting requirements under the NGER Act. We are not aware of any other specific Australian laws and regulations that should be addressed in the proposed standard.	
7	Are there any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions (refer paragraphs 19-20 of this Consultation Paper).	Pitcher Partners Nothing to note.	NA
		CPA & CA ANZ No comments.	
		Deakin No.	
		Leon Olsen The inter-operability between different audit and assurance frameworks needs to be considered – e.g., the fact that Australia already have assurance professionals that apply AUASB's standards for assuring climate related subject matters, under the NGER Act, NGER Regulations and NGER Audit Determination, and the fact that ISSA 5000 needs to also be used for reporting under the corporations act – and the fact that Treasury is proposing that CER's register of auditors be expanded – all this needs to operate better together, to also address the concerns about how to expand the number of auditors / assurance providers that contribute to this field.	Legislative changes are not within the AUASB's remit.

No.	Question	Respondent Comment	Office of the AUASB Commentary
		Another aspect is how ISAE 3410 and ISSA 5000 is to operate together – ISAE 3410 works well with ISAE 3000 – whilst ISSA 5000 is using the same underlying framework, it also has significant additional requirements that may not work all that well when having to perform assurance using both standards – noting for NGER audits ASAE 3000 must be used for energy reporting, and ASAE 3410 must be used for emissions reporting – in future that would then be ISSA 5000 and ASAE 3410 – how should this work, given the significant changes to ISSA 5000? Refer further comments to IAASB's questions below. Additionally – auditor liability may need to be addressed – without knowing the details, I understand (but don't know) that there are some limitations financial auditors' liability under the Corporations Act and/or under Professional Standards Legislation that apply to them – which other practitioners may not have access to – and auditor liability may well be a significant factor on whether other professionals get involved in any serious way – so, this may also need to be addressed – refer also section 4 of our response to Treasury's consultation (attached).	
		<u>PwC</u> We are unaware of any laws or regulations that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard.	NA
		<u>Deloitte</u> We are not aware of any specific laws or regulations that may, or do, prevent or impede the application of ISSA 5000, or may conflict with the proposed standard.	

No.	Question	Respondent Comment	Office of the AUASB Commentary
8	Are there any principles and practices considered appropriate in maintaining or improving assurance quality in Australia that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard? Stakeholder feedback will directly inform AUASB compelling reason discussions (refer paragraphs 19-20 of this Consultation Paper).	<u>Pitcher Partners</u> Nothing to note.	NA
		<u>CPA & CAANZ</u> One of the key challenges we have heard consistently that may impact assurance quality are the provisions for other ethical, independence and quality management requirements to be "at least as demanding" as those the accounting profession are subject to. It is not clear how the assessment of "at least as demanding" will be made, who will make this assessment and the ramifications for the monitoring of ongoing equivalence and associated compliance. In order for high quality sustainability assurance to be achieved, it is important for there to be consistency in ethics, independence and quality management requirements for all practitioners. To avoid inconsistency, it may be necessary for regulators and/or standard setters to assess the various options for ethical, independence and quality management standards used by non-accountant practitioners and determine which frameworks are acceptable in Australia. We encourage the AUASB to engage with regulators and other stakeholders to consider how this could be achieved.	Addressed as part of the AUASB's response to the IAASB's ISSA 5000 ED.
		<u>Deakin</u> No.	NA
		<u>Leon Olsen</u>	Noted.

No.	Question	Respondent Comment	Office of the AUASB Commentary
		No comment directly to this question. However, it is noteworthy that Australia, through the legislation that the CER administers, has significant experience and practice in building a program of assurance of non-financial matters that support high quality assurance provision to AUASB's standards – both in terms of when it is provided by traditional (financial) audit firms, and when provided by non-financial audit entities – this good practice experience on how to broaden quality assurance practices to other fields may be something to consider how it can be expanded further – noting in this respect that it is understood that the quality management systems in some firms do not always translate to non-financial assurance – but we only know this through anecdotal information from the CER's inspection program – so, that inspection program has in fact been a key part in maintaining and improving assurance quality – as has strong guidance in the audit handbook and regular outreach by the CER to its auditor community (including an annual auditor workshop) – learning how this has been developed and maintained could be significant learning for the broadening of this area in Australia – and indeed across the World, as Australia's experience in this field is probably quite unique – this includes likely more experience in how to form and make informative modified assurance conclusions than in other jurisdictions given in particular a number of section 74 audits performed after submission of the reported subject matter – noting providing modifications to assurance conclusions is where auditor competence needs to be really sharp.	
		PwC We are unaware of any principles and practices that may, or do, prevent or impede the application of the proposed standard, or may conflict with the proposed standard.	NA

No.	Question	Respondent Comment	Office of the AUASB Commentary
		<u>Deloitte</u> We are not aware of any principles and practices considered appropriate in maintaining or improving assurance quality in Australia that may, or do, prevent or impede the application of ISSA 5000, or may conflict with the proposed standard.	
9	If you are an assurance provider, do you expect to have sufficient qualified and experienced staff and access to suitable experts to undertake assurance engagements under the Proposed ISSA 5000 under the proposals outlined in the June 2023 Treasury Consultation paper – *Climate-related financial disclosure: Second consultation*?	<u>Pitcher Partners</u> Resourcing is currently a broader issue for assurance providers and a new service is likely to increase the resourcing pressures especially given the short timeframe before implementation as proposed in the Treasury Consultation paper.	Included under "Capacity and Capability Uplift" theme in this Paper.
		<u>CPA & CA ANZ</u> No. Feedback we have received indicates there will be significant challenges in ensuring there are sufficient qualified and experienced staff and access to suitable experts to undertake assurance engagements, at least in the initial years. A concerted effort from all stakeholders involved in this important initiative, including the AUASB, CPA Australia and CA ANZ, will be required around capacity-building to ensure successful outcomes over time.	
		<u>Deakin</u> The Deakin University Integrated Reporting Centre is not an assurance provider. However as a university that researches and educates on sustainability reporting, and particularly integrated reporting, assurance we are concerned that the required capacity does not yet exist. We believe that financial statement auditors are ideally placed to lead sustainability	

No.	Question	Respondent Comment	Office of the AUASB Commentary
		reporting assurance teams, through supplementing their existing knowledge, skills and experience and bringing appropriate subject matter specialists to their teams. Universities have a critical role in the corporate reporting ecosystem. They can be an important contributor to the required capacity being built.	
		<u>Leon Olsen</u> At GHD, one of our key competitive advantages in current provision of climate related assurance is the access to many different professionals within our company – GHD is an employee-owned global professional services company with over 11,000 employees in 200 offices on five continents – and with approximately 5,000 of our employees in Australia in 44 locations. Our professional services are primarily within engineering and environmental services focussing on making water, energy and communities sustainable for generations to come. Accordingly, we are able to draw on specialist professionals in many different fields – for example oil & gas instrumentation specialists to review and assure complex oil & gas emissions reporting – or using foresters as part of review and assurance of carbon offsets projects. Likewise, for the climate-related disclosures proposed by Treasury, we believe we have significant professional competence to draw upon – including professionals that have significant experience in performing climate change risk assessment based on scientific climate projections in order to identify appropriate climate adaptations to mitigate the known impacts of climate change – and other professionals with experience in assisting clients in transitioning their business and operations – obviously, the very broad assurance scope proposed by Treasury may make it difficult to have all the required competence inhouse – so whilst we have yet to make a formal mapping of this we expect we should be able to identify appropriate professional skill	Noted

No.	Question	Respondent Comment	Office of the AUASB Commentary
		inhouse for a lot of the requirements – but probably not for all of it if the very ambitious assurance scope proposed eventuates.	
		PwC We have anticipated our resource requirements based on the proposals outlined in the Treasury's June 2023 Consultation. We are anticipating a number of options in relation to building capability and resources to meet the requirements proposed, including ensuring suitable skill and capability in both technical ESG knowledge and also assurance skill.	
		Deloitte Refer to our response in question "Aus 5" above, regarding the time and investment that will be required to adequately train and upskill staff. This will be an ongoing challenge for broader sustainability reporting as sustainability reporting frameworks continue to evolve and mature, and investor and public interest expectations of assurance continue to increase with respect to both the range of sustainability topics assured and extent of assurance provided. Talent and skills shortage in the accounting and auditing profession combined with the increased demand for professional services, to assure sustainability information across Corporate Australia, has created a challenge. To service and support an increased market demand, we have utilised a wide variety of talent across our firm network, including broader international talent to ensure the experience and wellbeing of our people remains a committed priority. We continue to review our capacity to meet these commitments.	Included under "Capacity and Capability Uplift" theme in this Paper.
10		Pitcher Partners	NA

No.	Question	Respondent Comment	Office of the AUASB Commentary
	Proposed ISSA 5000 requires the engagement leader to be a member of a firm that applies the ISQMs (in Australia the ASQMs) or other professional requirements that are at least as demanding as the ISQMs. Does your firm operate under the AUASB's Quality Management Standards? If your firm is not currently captured by the AUASB's Quality Management Standards: (a) Which quality standards are you operating under and would the use of those standards instead of the AUASB's Quality Management Standards create any impediments	Not applicable.	
		<u>Deakin</u> The Deakin University Integrated Reporting Centre is not an assurance provider. However members of the Centre who have been assurance practitioners operated under the AUASB's Quality Management Standards.	NA
		<u>Leon Olsen</u> As a major engineering and environmental services company, GHD applies ISO9001 as its general quality management system, which is regularly certified – as that is the most appropriate quality management system (QMS) for most of our services. There are obviously many commonalities to AUASB's quality management standards, but also some very significantly differences. For provision of climate-related assurance using AUASB's standards, GHD's climate-related assurance team operates additional QMS procedures to meet the additional ethical and quality management requirements for application of AUASB's standards – for example to ensure independence and freedom of conflict in provision of assurance services, to agree appropriate assurance engagement terms, to perform and peer review appropriate risk procedures, to perform and QA assurance procedures, to conclude and peer review and so forth – we have achieved this thorough a gap-analysis between our general QMS system and the requirements of AUASB's quality management requirements (including the APESB ethical requirements) and implemented additional procedures that need to be in place for all assurance engagements. This has satisfied ourselves that we apply the appropriate requirements. This approach has been subject to several inspections by the CER's auditor inspection process, and found to be appropriate.	Addressed as part of the AUASB's response to the IAASB's ISSA 5000 ED.

No.	Question	Respondent Comment	Office of the AUASB Commentary
	to applying proposed ISSA 5000? (b) Do you consider the quality management framework that you are using to be at least as demanding as that of the AUASB's Quality Management Standards? Please explain your response and how you have determined this. (c) What practical issues would arise if your firm were required to apply the AUASB's Quality Management Standards in addition to another quality management framework that already applies to your firm? Are there any impediments to applying the AUASB's Quality Management	We obviously also believe it is appropriate – it seems unreasonable and disproportionate to require GHD's full QMS for all our services to be per AUASB's standards – noting GHD has 11,000 employees primarily performing engineering, environmental services and advisory engagements, where ISO9001 is the required standard – this includes provision of major civil engineering and environmental services to some of Australia's largest infrastructure projects – and GHD's climate-related assurance team comprise approximately 30-40 professionals – noting further, GHD has many bespoke quality management enhancements to meet bespoke needs for specific services. For example, to deliver major project design services to Transport for NSW and Sydney Metro a robust 'design assurance' system must be in place that generally far exceeds AUASB's standards in respect of confirmed appropriate competence of lead professionals, and the level of technical quality review required – and which also requires strong ethical, probity and confidentiality requirements – but which does not meet AUASB's standards on other aspects. It would seem appropriate that GHD (and other multi-disciplinary firms) applies an approach that focus on ensuring the professional requirements to the areas of the business that provide the assurance service – and disproportionate and unreasonable to require it of the whole company – also under ISSA 5000, and indeed for provision of sustainability assurance more generally in Australia – just as we are currently do for assurance under CER's frameworks. So – in answer, we consider our approach to be at least as demanding as AUASB's Quality Management Standards, because we apply additional process on top of our ISO9001 certified QMS for our climate / sustainability assurance practice. If the requirement was to be imposed for the full company (as the 'firm'), then it would be neigh impossible, as the rest of the business would likely baulk at being subject to requirements that do not really apply or is relevant to their work and services – we note that anecdotal evidence suggests that for accounting firms, the AUASB's standards probably do not apply to the same	

No.	Question	Respondent Comment	Office of the AUASB Commentary
	Standards from 1 July 2024?	degree to non-financial audit work – including consulting but often also non-financial assurance work – at least often not being subject to the same level of scrutiny by the firm-wide monitoring of the approach – flexibility in how this is applied to be fit for purpose whilst robust is required. If the current flexibility that we apply is continued to be allowed, there should not be any impediments for us in applying AUASB's quality management standards from 1 July 2024, as we already apply them. We note that it is not easy to apply these quality management standards, and whilst they are obviously important, there is a trade-off where they can become too challenging for some organisations to apply that the additional quality benefit may exceed the cost, including too few assurance professionals participating for an effective market – as we have cracked 'the code' on how to do this, we obviously are comfortable that we can continue, but it is challenging also as there are regular updates that needs to be incorporated.	
		<u>AICD</u> Directors, particularly Audit Committee members, have a key role to play in the selection and periodic review of assurance providers. Key to this role is to consider the independence and competence of the assurance practitioner. Whilst current practice sees the majority of sustainability assurance engagements undertaken by the same firm as the financial audit,2 this may change given the scope and requirements of the proposed Australian mandatory reporting framework (and depending on Treasury's final position on whether the financial auditor must conduct or lead the sustainability assurance engagement). These requirements may see some entities, most likely smaller entities which may have price sensitivities, look beyond financial assurance providers.	Addressed as part of the AUASB's response to the IAASB's ISSA 5000 ED.

No.	Question	Respondent Comment	Office of the AUASB Commentary
		As such, it is important that non-accountant sustainability assurance practitioners are subject to vigorous quality management, ethical and independence standards. A failure to do so will impact the trust that investors and other information users have in the quality of sustainability disclosures. Whilst we appreciate that sustainability assurance is an emerging field, we consider that more needs to be done to identify quality management, ethical and independence standards which nonaccounting assurance practitioners could apply. In particular, there needs to be clarification as to how to assess whether a standard is "at least as demanding" as accounting standards and requirements, such as the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants or the International Standard on Quality Management (ISQM 1). We note that financial auditors in Australia are subject to a registration system managed by ASIC, with competency and skill requirements stipulated under the Corporations Act3 and administered by the professional accounting bodies.4 To ensure that sustainability assurance practitioners are subject to competency and ethical requirements "at least as demanding" as those required for financial auditors, consideration should be given to the development of similar competency standards for sustainability assurance providers. Of course, the approach should reflect the emerging nature of sustainably assurance, and be appropriately phased in.	
11	Proposed ISSA 5000 requires the practitioner to comply with relevant ethical requirements, including those relating	<u>Pitcher Partners</u> Not applicable.	NA
		<u>Deakin</u>	

No.	Question	Respondent Comment	Office of the AUASB Commentary
	to independence. Relevant Ethical Requirements are defined by Proposed ISSA 5000 for both accounting practitioners and non-accounting practitioners. Are you currently operating under the Accounting Professional and Ethics Standards Board (APESB) APES 110 Code of Ethics for Professional Accountants (including independent standards)*? If you are not currently operating under the APES 110: (a) Which ethical standards are you operating under and would the use of an alternative ethical framework create any impediments to applying proposed ISSA 5000?	Not applicable.	
		<u>Leon Olsen</u> Yes, we already apply APES 110 – noting the NGER Regulations 2008 define very similar ethical requirements for all RGEA Cat 2s, and as per above, the NGER Audit Determination also requires application of AUASB's standards, and therefore APES 110 also applies.	Noted

No.	Question	Respondent Comment	Office of the AUASB Commentary
	(b) Do you consider Ethics Framework that you are using to be at least as demanding as that expected from APES 110? Please explain your response and how you have determined this. (c) What practical issues would arise if your firm were required to apply APES 110 in addition to other ethical requirements that already apply to your firm?		
12	Is the Proposed ISSA 5000 consistent with existing frameworks or standards used to assess the professional competency of sustainability assurance practitioners?	<u>Pitcher Partners</u> Not applicable.	NA
		<u>Deakin</u> Yes.	
		<u>Leon Olsen</u>	

No.	Question	Respondent Comment	Office of the AUASB Commentary
		Proposed ISSA 5000's requirements for sustainability competence among Engagement Leader and assurance team is rather weak – what is known from Australia's excellent practice with greenhouse gas report assurance is that focus on assurance competence is important but also insufficient when the greenhouse gas reporting gets complex – the assurance practitioners, in particular the leading practitioners, need to be subject matter experts as well. It's a bit like considering financial audit with auditors that are not financial reporting experts – how would that work? Of course, financial auditors are also financial reporting experts, as that is part of their training and examinations, and ultimately for their ability to become and remain Registered Company Auditors – no such requirements exists currently for RGEA Cat 2s – the main requirement that must be proven is the assurance knowledge and experience – i.e., knowledge and experience in applying ASAEs and AUASB's quality management framework– with no known approach identified to validate subject matter expertise – the former is a strength, that is also supported by the Regulatory guidance (audit handbook and workshops), as well as regulatory inspections – but the latter is a significant weakness that is outstanding and really needs to be addressed – in particular as we go towards more mandatory climate-related assurance, as well as an increase in broader assurance of sustainability information. ISSA 5000 notes that Engagement Leaders must have some sustainability competence, but otherwise doesn't appear to address it much. And it is probably the thing that needs to improve most for good sustainability assurance – probably far more than the focus on various risk procedures and responses – such process can be documented by assurance practitioners without the appropriate subject matter expertise but will likely be poor where the assurance practitioners have poor subject matter expertise – again, consider financial auditors without financial reporting expertise performing these risk procedures	Comments relating to ISSA 5000 ED have been addressed in the submission to IAASB

No.	Question	Respondent Comment	Office of the AUASB Commentary
		and responses, how well would they be able to do it to appropriate reduce the assurance risk to an acceptable low level – they may be able to document they have done all manner of work that ticks all the boxes, but which may miss the key risks altogether because the team is incompetent in evaluating the subject matter – e.g., if auditing companies with widespread use of financial instruments, the audit team really needs to be on top of the risk and nature of financial instruments, not just be good auditors – so, ISSA 5000, and indeed application of it in Australia should probably focus a lot more on lead assurance practitioners having appropriate and sufficient subject matter expertise – and a lot less on increasing the assurance process requirements.	

AUASB

10.2 Sustainability assurance - Possible local standard/guidance

December 2023

Australian Government
Auditing and Assurance Standards Board

Purpose of Agenda Item

- Seek AUASB Member views on a consultation paper being prepared on a possible assurance pronouncement specific to the developing AASB climate reporting framework and related matters

Preliminary work

Activities to date in connection with possible Australian specific climate assurance pronouncement:

- Reviewed responses to AUASB Consultation paper on ISSA 5000 ED, which supported need for Australian pronouncement [see Agenda Paper 10.1]
- Undertook additional soft consultation, which also supported need for Australian pronouncement
- Considered issues that might be addressed in Australian pronouncement
- Commenced analysis of assurance approach for elements of developing AASB reporting framework (e.g. governance)

Possible areas for Australian pronouncement

- Governance, strategy, emissions, other metrics, scenario analysis, transition plans, etc
- Receiving and providing assurance on information through value chains
- Use of own experts
- Materiality
- Forward looking information
- ‘Greenwashing’
- Group audits
- Assurance reports:
  - Modified opinions, etc
  - Limited/reasonable assurance or a combined engagements

Pros and cons of local pronouncement

Pros	Cons
Promote assurance quality and support investor and user expectations of relevant and reliable climate information.	Resource commitment.
Demand from small and large firm practitioners for guidance and to promote consistent approaches to assurance and assurance reporting under the AASB reporting framework.	Need to avoid assurance pronouncements driving disclosures and reporting practices.
New area of assurance where standards and guidance are needed more than for financial report audits.	
Need for pronouncement on approach assurance for governance, strategy, Scope 3 emissions, value chains, scenario analysis, transition plans, etc under limited and reasonable assurance.	
Address complex issues for assurance providers to support audit quality (see Slides 6 and 7).	
Where auditor only – can set requirements to promote use of auditor's own expert (e.g. transparency without naming expert).	
IAASB and other National Sustainability Assurance Standard Setters (NSASS) are not developing framework specific assurance standards that we can leverage. IAASB has not indicated areas of work after ISSA 5000.	Need to develop without other IAASB or NSASS, which may necessitate revisions if other standards are developed internationally later.
Support appropriate regulation of assurance under the AASB reporting framework.	
Basis for assurance for future sustainability reporting areas (e.g. nature, biodiversity, human capital) that are likely to use the same disclosure pillars (i.e. governance, strategy, risk management, and metrics and targets).	

Possible assurance challenges

Area	Reporting	Assurance
Execution	Interoperability and cross-border issues.	Cross-border issues
	Consistency across reports.	Consistency across reports with different assurers.
	Materiality on financial report and climate report together.	Materiality: • Financial report and all assured sustainability information? • With different assurance providers. • Individual qualitative information and aggregation.
	Data and estimates for Scope 3 emissions.	Information and assurance received and provided through the value chain.
	Industry metrics selected by entity.	Appropriateness of metrics.

Possible assurance challenges

Area	Reporting	Assurance
Execution	Scenario analysis & transition plans.	Appropriateness of scenarios and assumptions.
	Relevance vs auditability/enforceability.	Assurance over forward-looking information, disclosure of assumptions, uncertainties.
	Splitting mandatory and voluntary information to not obscure mandatory information.	Referring separately to mandatory and voluntary disclosures in opinion.
	Proportionality criteria for certain information.	Does entity have 'financial resources'?
	-	Need to use own experts.
	Expectation that limited assurance avoids modified opinions.	Meaning of limited assurance. Reasonable assurance more achievable over information as a whole.

Possible next steps

Matter	Timing
Consultation paper	February/March 2024
Exposure draft	June 2024
Final pronouncement	December 2024

Question for AUASB members

Do AUASB members:

1. Agree with a consultation paper being prepared on a possible assurance pronouncement specific to the AASB climate reporting framework and related matters for release in February/March 2024 after Board review?
2. If so, have any further matters that should be considered for an Australian pronouncement?

Australian Government
Auditing and Assurance Standards Board

AUASB Agenda Paper

Title:	ISA for LCE	**Date:**	6 December 2023
Office of the AUASB Staff:	Rene Herman	**Agenda Item:**	12

Objective of this Agenda Paper

The objective of this Agenda Paper is for the AUASB to discuss and determine whether or not the AUASB adopt the IAASB's coming auditing standard for Less Complex Entities (ISA for LCE) in Australia or undertake further consultation before making a decision.

The AUASB will need to base its decision on whether to adopt the ISA for LCE on whether it considers that the standard will meet the needs of interested and affected parties in Australia and serve the Australian public interest.

Questions for the Board and Office of the AUASB recommendation

Question No.	Question for the Board	Office of the AUASB Recommendation
Question 1	Do AUASB members have any additional public interest considerations that should be considered for or against adoption of the proposed standard [refer paragraphs 8-9 of this Agenda Paper]?	N/A
Question 2	Which option does the AUASB support? • Option 1: Do not adopt the ISA for LCE standard in Australia • Option 2: Adopt the ISA for LCE standard in Australia • Option 3: Further Consultation [refer paragraph 10 of this Agenda Paper]	For the reasons outlined in paragraph 8, the Office of the AUASB recommends Option 1 ([refer paragraph 11 of this Agenda Paper].
Question 3	If the AUASB supports Option 3, does the AUASB support the approach and timing outlined in this Agenda Paper [refer paragraph 12]?	While the Office of the AUASB recommends Option 1, the Office recommends the approach outlined in paragraph 12-13 of this paper if the Board supports Option 3.

Stakeholders feedback

1. In July 2021, the IAASB issued the Exposure Draft on *Auditing of Financial Statements of Less Complex Entities*.

a. *A summary of parties making submissions, the outreach conducted then and subsequently is as follows:*

- Written submissions were received from JO'Connor Pty Ltd; Pitcher Partners; Australasian Council of Auditors General; Chartered Accountants Australia and New Zealand; Accounting and Finance Association of Australia and New Zealand and CPA Australia.
- One targeted roundtable in October 2021 were attended by seventeen stakeholders, including practitioners (small, medium and large), professional accounting bodies, academics and regulators;
- Two open roundtables in November 2021 were each attended by over thirty stakeholders, including practitioners (small, medium and large), professional accounting bodies, academics, ASIC and other regulators;
- Discussions with the Large National Networks Discussion Group representing the mid-tier firms, including a discussion in November 2023;
- Meetings with groups of small practitioners in Brisbane, Sydney and Melbourne, covering about 150 small practitioners in total;
- Discussions with the then Chief Accountant of ASIC;
- Discussions with the Chair of the IAASB about the jurisdictions that were the intended users of the standard;
- Discussions with the UK FRC; and
- A further meeting with twenty small practitioners in November 2023.

b. *The feedback from the submissions and outreach activities was as follows:*

- Overwhelmingly large, mid-tier and small firm practitioners, ASIC (and international securities and audit regulators) and users were strongly opposed to the adoption of ISA for LCEs in Australia. Reasons included:
  - ➢ Australian auditors were well skilled in the use of the full standards;
  - ➢ Australian auditors would need to 'park' their knowledge of the full standards to use the LCE standard;
  - ➢ Practitioners would need to train partners and staff in two sets of standards;
  - ➢ The full standards are scalable;
  - ➢ The standard does not change or simplify the audit process;
  - ➢ It would be necessary to refer to the full standards in many cases, whether or not required by the LCE standard;
  - ➢ Reporting the use of an LCE standard in the auditor's report would create perceptions among many users that the auditor was conducting a second rate audit;
  - ➢ Preparers may seek reduced fees where an auditor used an LCE standard; and
  - ➢ The AUASB standards portal makes the standards more accessible and easier to navigate.
- The UK FRC will not be adopting the standard in the UK.

- The Chair of the IAASB would have no concerns if the standard was not adopted in Australia. The standard was not intended for jurisdictions like Australia but rather jurisdictions such as some African countries.
- A handful of small practitioners (including JO'Connor) considered the standard to provide a holistic view of the audit, and simple and easy to digest.
- CAANZ and CPAA considered that there had been insufficient outreach to small practitioners. The AUASB Chair and staff met with CAANZ and CPAA representatives in November and had further follow up discussions with each body. Key points are:
  - ➢ The bodies suggested that an LCE standard could be useful for audits of NFPs and SMSFs. In the case of SMSFs the AUASB has GS 009 and while many SMSFs use administrators the LCE standard does not deal with the use of service organisations;
  - ➢ CPAA accepted that the outreach to small practitioners is sufficient; and
  - ➢ CAANZ believed that further consultation with small practitioners is needed. However, at the time of this paper, we are yet to update CAANZ on the LNND and small practitioner meetings in November 2023.

AUASB submission in 2021

2. The AUASB's submission to the IAASB, did not support the LCE standard in its current form for many of the reasons outlined above (Australia being ISA capable, the expectation gap and possible reductions in audit fees, additional firm training) and because the Authority of the standard was too restrictive and subjective. The AUASB considered that the proposed standard would add to the audit expectation gap, with users perceiving that the proposed standard results in a less robust audit, reduced audit effort and consequently an inappropriate expectation of reduced audit fees. The submission summarised feedback from Australian stakeholders. The submission acknowledged that an LCE standard may be appropriate for some other jurisdictions.

Other recent developments

3. In January 2023, the IAASB exposed a new Part 10 to the proposed standard on Group Audits. The AUASB submission supported the IAASB's proposals to allow audits with group audits to be within the scope of ISA for LCE, but did not support the proposal to scope out group audits when a component auditor is used (i.e. any work would be performed directly by the group auditor). In July 2023 the IAASB determined to proceed with its proposal except that a component auditor could be used where their work is limited to cases where a physical presence is needed for a specific audit procedure (e.g. a stock count).

4. At the June 2023 AUASB meeting, AUASB members discussed the need to engage with regulators and stakeholders and that any potential amendments would need to be exposed for public comment.

5. The IAASB approved the ISA for LCE following its September 2023 meeting, see the approved version here. This standard is likely to be approved by the Public Interest Oversight Board (PIOB) in December 2023, and will soon thereafter be released by the IAASB.

ISA compliance

6. If the AUASB were not to adopt this standard, practitioners would continue to follow the Australian equivalent of the ISA's and accordingly the AUASB would still be fully ISA compliant, consistent with the FRC's Strategic Direction to the AUASB.

7. Public interest matters for the AUASB to consider are detailed in the paragraphs below:

Public interest considerations

8. Public Interest Considerations <u>to NOT adopt</u> the ISA for LCE:

a) Create a user expectations gap:

- The perception that the proposed standard is a lesser quality or scaled down audit product, especially given use of the standard would be required to be explicitly stated in the auditor's report;
- Expectation of reduced work effort being applied than under the full ISAs, despite the proposed level of assurance being the same;
- Perception that some regulators may not accept the use of the standard on audits which are required by local statutory or regulatory requirements;
- An initial time lag in updating the LCE standard, for upcoming new fraud and going concern standards.

b) Creates a two-tier profession if, over time, the profession splits into auditors who perform ISA audits and those who perform audits of LCEs. Staff applying only the LCE standard may find their capability to apply the full suite of standards is not developed or diminished over time, impacting their career opportunities.

c) Increases the need for:

- education, training and maintenance for practitioners and firms that use both the full standard and the LCE standard; and
- education of users to mitigate the risk of an expectation gap and marketplace confusion.

d) Cost/Benefit considerations – The audit effort is unchanged. The matters raised in stakeholders feedback is that costs (expectation gap, education, etc) outweigh any benefits.

e) Audit Quality risk – Particularly given limited essential explanatory material, there is a risk that the LCE standard may be incorrectly or inconsistently applied in practice, reducing audit quality.

9. Public Interest Considerations <u>to adopt</u> the ISA for LCE:

a) Impact on Audit Quality – Potential to improve audit quality as auditors would be able to focus only on requirements that are relevant to the typical nature and circumstances of an LCE.

b) Valuable educative / training tool, particularly since it follows the flow of an audit.

c) Efficiency – The standard would allow auditors of LCEs to focus on performance rather than spending time on scaling the full suite of ISAs.

d) Where permitted, Australian practitioners may use the IAASB LCE Standard and reference that standard in the auditor's report in lieu of an Australian version of the ISA for LCE.

Options for the AUASB

10. There are three options:

a) Option 1 – Do not adopt the ISA for LCE standard in Australia OR

b) Option 2 – Adopt the ISA for LCE standard in Australia OR

c) Option 3 – Further Consultation whether to adopt or not

11. Given the overwhelming feedback from most Australian stakeholders consulted and the public interest matters as outlined in Paragraphs 7-8, the Office of the AUASB recommends Option 1.

12. If Option 1 was not supported by the AUASB, the Office of the AUASB recommends Option 3 given the overwhelming opposition of stakeholders to date. However, it is recommended that such consultation be deferred with any consultation document to be issued by the end of 2024:

a) Allow resources to be allocated to the work on sustainability assurance and other projects;

b) Gain a better understanding as to whether other jurisdictions are adopting the LCE standard; and

c) Allow time to first undertake 'soft' consultation to develop quantitative thresholds for applying the standard and discuss these at an AUASB meeting.

13. Any further consultation would be undertaken to:

a) Address the concern of CAANZ that there has been insufficient consultation with small practitioners; and

b) Seek feedback on the local quantitative thresholds for applying the standard.

Collaboration with NZAuASB and other standard setters

14. At its October meeting, the NZAuASB committed to developing a New Zealand version of the LCE Standard. The timing is not yet known.

15. The Canadian Auditing and Assurance Standards Board is considering whether to adopt the ISA for LCE. To inform its decision, the Canadian Board is reaching out to various jurisdictions to determine their way forward. If Option 3 is adopted, the Office of the AUASB will keep abreast of the Canadian outreach.

Work Program Update (excluding sustainability assurance)

November 2023

Board activities and timelines set out in this document are subject to change in accordance with the Board's decisions, such as changes in project priorities.

Australian Government
Auditing and Assurance Standards Board

2023-24 Work Program

Key outputs / projects completed to date

- Feedback Statements (Expanding Key Audit Matters beyond listed entities and PIR of ASAE 3500 Performance Engagements)
- Functionality enhancements to the AUASB Digital Standards Portal
- ASA 600 FAQs
- Bulletin – What not-for-profit entities need to know about the differences between an audit or review
- Consultation Paper on the IAASB's Proposed ISSA 5000 General Requirements for Sustainability Assurance Engagements
- Submission on the IAASB's Exposure Draft on ISA 570 (Revised) Going Concern
- Submission to PJC inquiry on 'Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry'

2023-24 Work Program

Key AUASB outputs / projects in progress

- Submission to IAASB on ED ISSA 5000
- Responses to AU questions in Sustainability Assurance Consultation Paper #
- AUASB Sustainability Assurance Workplan #
- AUASB Sustainability Assurance standard/guidance #
- Monitoring PJC inquiry on 'Ethics and Professional Accountability: Structural Challenges in the Audit, Assurance and Consultancy Industry'
- Review application of QM Standards (and possible enhancements) and Code of Ethics #
- Limited Scope revision of ASAE 3500 *Performance Engagements*
- LCE Standard – AU applicability #

Included on December 2023 AUASB Agenda

2023-24 Work Program

Projects on hold or yet to commence

- Consultation on IAASB proposed ISA 240 updates (Fraud)
- Review Engagement Guidance for NFP Assurance Engagements
- ASA 600 Compilations
- Update of ASA 600 related AUASB Guidance Statements
- Review of AUASB Bulletins
- Legislative drafting of assurance requirements (with Office of Parliamentary Counsel)
- Review of GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

2023-24 Work Program

AUASB Research Program

- Deakin-AUASB Sustainability Assurance Research Workshop (25 October)
- AUASB Research Report – Current reporting practices under ASA 720 (with Deakin University)
- Joint AASB-AUASB Research Report - Climate related disclosures and Assurance (with UNSW Sydney)
- AUASB Research Report – Current state of assurance choices for medium sized Australian charities (with AUASB Research Scholar, Jenny Yang UNSW Sydney)
- Additional Sustainability Assurance Research opportunities being considered

2023-24 Work Program

IAASB Projects

IAASB WORK PLAN

NAME	STATUS
AUDITS OF LESS COMPLEX ENTITIES	Approved
AUDIT EVIDENCE	Consideration of Comments
FRAUD	Exposure Draft Development
SUSTAINABILITY ASSURANCE	Exposure Draft - Out for Comment
GOING CONCERN	Consideration of Comments
LISTED ENTITY AND PUBLIC INTEREST ENTITY (TRACK 2)	Exposure Draft Development

Australian Government
Auditing and Assurance Standards Board

AUASB Agenda Paper

Title:	Listed Entity and PIE (Track 2) – Alignment of Definitions and Key Concepts with Code of Ethics	**Date:**	6 December 2023
Office of the AUASB Staff:	See Wen Ewe	**Agenda Item:**	15

Objective of this Agenda Paper

1. The objectives of this Agenda Paper are to:

   (a) Seek input of AUASB members on the proposed IAASB PIE Track 2 ED;

   (b) Seek input of AUASB members on the application of the proposed IAASB PIE Track 2 ED in Australian auditing standards; and

   (c) Update the AUASB on the IAASB's timing for its exposure draft and seek the views of AUASB members on the Office of the AUASB's proposed path forward.

Questions for the AUASB members

Question No.	Question for AUASB members	Office of the AUASB comments
Question 1	Do AUASB members have any comments on the IAASB proposals? • Definitions of PIE and publicly traded entity – see paragraphs 6 and 11-14 of this Agenda Paper • Expanding differential requirements in AUASB standard to cover 'PIEs' rather than 'listed entities' (including for the purposes of disclosing key audit matters (KAMs) in the audit report) – see paragraphs 7 and 15-17 of this Agenda Paper	The Office of the AUASB supports these proposals, with the exception of applying KAMs to public interest entities instead of listed entities.
Question 2	Subject to the release of the IAASB ED, do AUASB members agree that the AUASB should consult on adopting the APESB definitions and criteria for 'public interest entity' which would result in consistency in Australia and an ISA plus approach (see paragraphs 11-14)?	The paper will be presented to the AUASB after the IAASB exposure draft is issued.
Question 3	Do AUASB members agree with the proposal to bring a draft consultation paper to the Board after the IAASB ED is issued (see paragraphs 18-21)?	The Office of the AUASB proposes to bring a consultation paper to the Board at a meeting or out of session in early 2024.
Question 4	Do AUASB members have any other comments?	

Background and Previous Discussions on Topic

2. At the November 2022 AUASB meeting the Office of the AUASB updated the AUASB on the PIE Track 2 proposals. This project was put on hold for the past year while the IAASB fast tracked its PIE Track 1 project.

3. The PIE Track 1 project deals with amendments to ISA 700 *Forming an Opinion and Reporting on Financial Statements* and ISA 260 *Communication with Those Charged with Governance*, independence disclosures in the audit report for all 'public interest entities' (PIEs), as a result of the IESBA PIE independence amendments. The IAASB has issued final revised international standards and a final Australian standard will be considered in 2024.

4. The purpose of the IAASB's PIE Track 2 project is to:

   (a) Adopt the definitions and criteria for 'PIE' and 'publicly traded entity' in the IAASB standards in line with the revised IESBA Code of Ethics (see paragraph 6 of this paper); and

   (b) Replace 'listed entity' with 'public interest entity' as the basis for differential requirements in the IAASB standards, thereby enhancing confidence in the audits and reviews of more entities (see paragraph 7 of this paper).

5. At its December 2023 meeting, the IAASB is expected to approve an exposure draft of proposed amendments to the ISQMs[1], ISAs[2] and ISRE 2400[3] to align with the IESBA's[4] revision to the definitions of 'public interest entity' (PIE) and 'listed entity', as well as proposed amendments to expand differential requirements through several auditing standards. For more details on the background of the IAASB's PIE Track 2 project, refer to paragraphs 2-10 of the IAASB Explanatory Memorandum.

Matters for Consideration

IAASB Proposals

Definitions of PIE and publicly traded entity

6. The IAASB is proposing to adopt the definitions of 'publicly traded entity' and 'PIE' below in the definitions section of ISQM 1, ISQM 2 and ISA 200 . A comparison of the APESB, IAASB and IESBA approaches appears in the Attachment to this paper.

Replacing 'listed entity' with 'PIE'

7. The IAASB is proposing to revise the requirements in standards that currently refer to 'listed entities' to apply to 'PIEs', these changes as well as other changes arising from the amendments as outlined in paragraph 4, are shown in the table below:

Standard	How affected?
ISA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with International Standards on Auditing	Added new definitions of 'public interest entity' (PIE) and 'publicly traded entity' and added a requirement to treat an entity as PIE if the definition is met.
ISA 210 Agreeing the Terms of Audit Engagements	Change in terminology from public entities to PIEs in the application material.
ISA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	Expand application material examples to include PIEs.

1 International Standards on Quality Management (ISQMs)
2 International Standards on Auditing (ISAs)
3 International Standard on Review Engagements 2400 (Revised), *Engagements to Review Historical Financial Statements* (ISRE 2400)
4 International Ethics Standards Board for Accountants (IESBA)

Standard	How affected?
ISA 260 (Revised) Communication with Those Charged with Governance	Extend communication with TCWG from 'listed entities' to PIEs.
ISA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management	Change in terminology from 'listed entities' to PIEs in the application material.
ISA 315 (Revised 2019) Identifying and Assessing the Risks of Material Misstatement	Expand application material examples to include PIEs.
ISA 510 Initial Audit Engagements—Opening Balances	Change in terminology from 'listed entities' to PIEs in the illustrative auditor's reports.
ISA 570 (Revised) Going Concern	Change in terminology from 'listed entities' to PIEs in the illustrative auditor's reports.
ISA 600 Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)	Change in terminology from 'listed entities' to PIEs in the illustrative auditor's reports.
ISA 700 (revised) Forming an Opinion and Reporting on Financial Statements	• Extend communicating key audit matters (KAMs) in the auditor's report from 'listed entities' to PIEs; • Extend auditor's responsibilities to communicate threats to independence of audits of 'listed entities' to PIEs; and • Extend requirements of auditor's report prescribed by law or regulation to use a specific layout or wording that applies to 'listed entities' to PIEs.
ISA 701 Communicating Key Audit Matters in the Independent Auditor's Report	Extend communicating key audit matters (KAMs) in the auditor's report from 'listed entities' to PIEs.
ISA 705 (Revised) Modifications to the Opinion in the Independent Auditor's Report	Change in terminology from 'listed entities' to PIEs in the illustrative auditor's reports.
ISA 706 (Revised) Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent	Change in terminology from 'listed entities' to PIEs in the illustrative auditor's reports.
ISA 710 Comparative Information—Corresponding Figures and Comparative Financial Statements	Change in terminology from 'listed entities' to PIEs in the illustrative auditor's reports.
ISA 720 (revised) The Auditor's Responsibilities Relating to Other Information	Added footnote to align the definition of 'listed entity' to the new definition of 'publicly traded entity'.
ISA 800 (Revised) Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks	Consequential changes to the application materials for KAMs and name of the engagement partner that apply to 'listed entities' to PIEs.
ISA 805 (Revised) Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts to Items of a Financial Statement	Consequential changes to the application materials for KAMs and name of the engagement partner that apply to 'listed entities' to PIEs.
ISA 810 (revised) Engagements to Report on Summary Financial Statements	Change in terminology from 'listed entities' to PIEs in the illustrative auditor's reports.
ISQM 1 Quality Management for Firms That Perform Audits or Reviews of Financial Statements, Accounts or Items of a Financial Statement	Added new definitions of PIE and 'publicly traded entity' and added a requirement to treat an entity as PIE if the definition is met. Also extend: • the requirement of communications to TCWG to PIEs; and • the requirement for engagement quality reviews to PIEs.
ISQM 2 Engagement Quality Reviews	Extend the requirement for engagement quality reviews for audits of financial statements of 'listed entities' in extant paragraph 34(f) of ISQM 1 to PIEs.
ISA 220 (Revised) Quality Management for An Audit of Financial Statements	Expand application material examples to include PIEs.
ISRE 2400 (Revised) Engagements to Review Historical Financial Information	Extend the practitioner's report requiring a positive statement of independence of certain entities.

8. The IAASB believes that the proposed changes would:

(a) Respond to previous stakeholder feedback that financial institutions such as banks and insurance companies should be subject to the requirements that currently apply to listed entities.

(b) Promote more consistency among jurisdictions globally given that some jurisdictions[5] have already extended (or are considering extending) requirements to apply to PIEs.

(c) Align key concepts and definitions across the IAASB and IESBA standards and reduce complexity related to the types of entities which are subject to higher requirements.

9. The IAASB is not extending the reporting requirements in ISA 720 to entities other than listed entities as this was not supported by respondents[6] because practical difficulties in identifying and considering other information received after the date of the auditor's report were seen to outweigh the public interest benefits of doing so.

10. The ISREs, ISAEs and ISRSs do include differential requirements. However, given that Part 4A of the IESBA Code also applies to review engagements, the IAASB is proposing to amend ISRE 2400 (Revised) to address transparency about the relevant ethical requirements for independence applied for certain entities, in order to maintain consistency with the IESBA Code.

Considerations and Implications for the AUASB

A. Definition of PIE

11. The Attachment to this paper compares the IAASB's proposals for a definition of 'PIE' and 'publicly traded entity' and related criteria to those of the IESBA and the APESB. While the IAASB and IESBA definitions and criteria are similar, there are two differences in the APESB definition and criteria.

12. The recent APESB's *Revisions to the Definitions of Listed Entity and Public Interest Entity in APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* adopts the IESBA definition and criteria for 'PIE' but also retains the following Australian specific paragraph (now AUST R400.23.1) which states:

'The following entities in Australia will generally satisfy the conditions in paragraphs 400.14, R400.22 and R400.23 reflecting the significant public interest in the financial condition, having a large number and wide range of stakeholders and thus are likely to be classified as Public Interest Entities. In each instance Firms shall consider the nature of the business, its size and the number of its employees:

- Authorised deposit-taking institutions (ADIs) and authorised non-operating holding companies (NOHCs) regulated by the Australian Prudential Regulatory Authority (APRA) under the *Banking Act 1959*;
- Authorised insurers and authorised NOHCs regulated by APRA under the *Insurance Act 1973*;
- Life insurance companies and registered NOHCs regulated by APRA under the *Life Insurance Act 1995*;
- Private health insurers regulated by APRA under the *Private Health Insurance (Prudential Supervision) Act 2015*;
- Disclosing entities as defined in Section 111AC of the *Corporations Act 2001*;

[5] For example, the United Kingdom, Netherlands, European Union, Japan and New Zealand have extended in full or in part the differential requirements to apply to PIE.
[6] See paragraph 70 of IAASB September 2021 Meeting Agenda Item 5 Auditor Reporting Post-Implementation Review (PIR) Recommendations.

- Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeship that have five or more members, regulated by APRA under the *Superannuation Industry (Supervision) Act 1993*; and

- Other issuers of debt and equity instruments to the public.'

13. The APESB also requires a firm to determine whether to treat additional entities, or certain categories of entities, as public interest entities (paragraph AUST R400.24 of the APESB's revisions). The IESBA only encourages this determination.

14. The APESB's definition would capture more entities than the IAASB's definition.

B. KAMs

15. The IAASB is proposing to extend communicating KAMs in the auditor's report of listed entities to public interest entities (see paragraphs 30–31 of ISA 700 (Revised) and paragraph 5 of ISA 701 of the proposed ED).

16. In December 2022, the AUASB issued a Discussion Paper – Expanding Key Audit Matters beyond listed entities. At the May 2023 AUASB meeting,(see Agenda Item 5 of the board pack) the AUASB received a summary of the submissions received in response to the AUASB's Discussion Paper *Expanding Key Audit Matters beyond Listed Entities*. The AUASB supported not expanding KAMs beyond listed entities at that time and to reconsider the issue at a later stage depending on the outcome of the IAASB's Listed Entity/Public Interest Entity (PIEs) Project (refer to the Feedback Statement issued in June 2023 for more details.)

17. The IAASB plans to release the proposed ED in Q1 2024, now is the time for the AUASB to reconsider the implications of expanding KAMs to public interest entities considering the types of entities that would be impacted under the recent APESB revisions.

C. Timing

18. The IAASB plans to approve the proposed ED for issue at its December 2024 meeting. The ED is expected to be issued in January/early February 2024 for a 90-day comment period with responses due to the IAASB in April/early May 2024.

19. Historically, the first AUASB meeting of the year is not until late February / March, there is a risk that the proposed ED will not have enough time for public comment before submissions are due to the IAASB.

20. The Office of the AUASB proposes to draft a Consultation Paper 'wrap-around' to the IAASB ED and present the Consultation Paper for the AUASB's approval at a meeting or out of session in early 2024 (depending on IAASB timing). Does the AUASB agree with this approach?

21. It is expected that the final pronouncement for Track 2 of the Listed Entity and PIE project will be approved in December 2024, effective for financial reporting periods beginning from the first 15 December at least 18-24 months after the PIOB's accreditation on due process.

Collaboration with NZAuASB

22. At the NZAuASB November 2023 meeting, the NZAuASB agreed to proceed with proposals to amend NZ auditing standards to replace the listed entity criteria in standards with public interest entity criteria. Public interest entity would be as defined in the NZ Professional and Ethical Standards 3 and 4 which are contain enhancements to the IESBA definition.

ATTACHMENT: COMPARISON OF APESB, IAASB AND IESBA APPROACHES
[Yellow highlighting shows differences between APESB and IESBA. Blue highlighting shows differences between IAASB and IESBA.]

	APESB Code	IAASB proposed changes to ISQM1 and ISQM2 (paragraph numbering for ISQM1 shown & re-ordered to match IESBA Code)	IESBA Code
Amending Ethical Standard/ IAASB proposed exposure draft	Revisions to the Definitions of Listed Entity and Public Interest Entity in APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (apesb.org.au)	20231211-IAASB-Agenda Item 3-B - PIE Track 2 - Proposed Exposure Draft (Mark-up from Extant) (final).pdf	IESBA-Final-Pronouncement_Listed-Entity-and-Public-Interest-Entity.pdf (ethicsboard.org)
Operative	**Years commencing 1 January 2025**	**Not yet determined**	**Years commencing 15 December 2024**
Factors to consider	**Public Interest Entities** 400.13 Some of the requirements and application material set out in this Part are applicable only to the audit of Financial Statements of Public Interest Entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders. 400.14 Factors to consider in evaluating the extent of public interest in the financial condition of an entity include: • The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business. • Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations. • Size of the entity • The importance of the entity to the sector in which it operates including how easily	**Public Interest Entities** (Ref: Para. 18A–18B) A29A. Some of the requirements set out in the ISQMs are applicable only to audits of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders. A29C. Factors to consider in evaluating the extent of public interest in the financial condition of an entity may include: • The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business. • Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations. • Size of the entity. • The importance of the entity to the sector in which it operates including how easily	**Public Interest Entities** 400.8 Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders. 400.9 Factors to consider in evaluating the extent of public interest in the financial condition of an entity include: • The nature of the business or activities, such as taking on financial obligations to the public as part of the entity's primary business. • Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations. • Size of the entity.

	APESB Code	IAASB proposed changes to ISQM1 and ISQM2 (paragraph numbering for ISQM1 shown & re-ordered to match IESBA Code)	IESBA Code
	replaceable it is in the event of financial failure. • Number and nature of stakeholders including investors, customers, creditors and employees. • The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity. 400.15 Stakeholders have heightened expectations regarding the Independence of a Firm performing an Audit Engagement for a Public Interest Entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements and application material for Public Interest Entities as described in paragraph 400.13 is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's Financial Statements that can be used when assessing the entity's financial condition	replaceable it is in the event of financial failure. • Number and nature of stakeholders including investors, customers, creditors and employees. • The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity. A29B. Stakeholders have heightened expectations regarding an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements in the ISQMs that apply to public interest entities is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition.	• The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure. • Number and nature of stakeholders including investors, customers, creditors and employees. • The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity. 400.10 Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.8 is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition.
	Public Interest Entities R400.22 For the purposes of this Part, a Firm shall treat an entity as a Public Interest Entity when it falls within any of the following categories:	**Public Interest Entities** 18A Public interest entity – An entity is a public interest entity when it falls within any of the following categories:	**Public Interest Entities** R400.17 For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

	APESB Code	IAASB proposed changes to ISQM1 and ISQM2 (paragraph numbering for ISQM1 shown & re-ordered to match IESBA Code)	IESBA Code
	(a) A Publicly Traded Entity; (b) An entity one of whose main functions is to take deposits from the public; (c) An entity one of whose main functions is to provide insurance to the public; or (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15. 400.22 A1 When terms other than Public Interest Entity are applied to entities by law, regulation or professional standards to meet the purpose described in paragraph 400.15, such terms are regarded as equivalent terms. However, if law, regulation or professional standards designate entities as "public interest entities" for reasons unrelated to the purpose described in paragraph 400.15, that designation does not necessarily mean that such entities are Public Interest Entities for the purposes of the Code. R400.23 In complying with the requirement in paragraph R400.22, a Firm shall take into account more explicit definitions established by law, regulation or professional standards for the categories set out in paragraph R400.22(a) to (c). 400.23 A1 The categories set out in paragraph R400.22(a) to (c) are broadly defined and no recognition is given to any size or other factors that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies	a. A publicly traded entity; b. An entity one of whose main functions is to take deposits from the public; c. An entity one of whose main functions is to provide insurance to the public; or d. An entity specified as such by law, regulation or professional requirements, for a purpose related to the significance of the public interest in the financial condition of the entity. The categories of entities are more explicitly defined or added to as required by paragraph 18B. **Public Interest Entities** (Ref: Para. 18A–18B) A29D. Law, regulation or professional requirements may use terms other than "public interest entity" to describe entities that have significant public interest in the financial condition of the entities due to the potential impact of their financial well-being on stakeholders. The requirements in the ISQMs that are relevant to public interest entities also apply to such entities. However, if law, regulation or professional requirements designate entities as "public interest entities" for reasons unrelated to the significant public interest in the financial condition of the entities (see paragraphs A29A–A29C), the requirements for audits of financial statements of public interest entities in the ISQMs may not necessarily apply to such entities. A29E. The categories set out in paragraph 18A(a)–(c) are broadly defined and law, regulation or	(a) A publicly traded entity; (b) An entity one of whose main functions is to take deposits from the public; (c) An entity one of whose main functions is to provide insurance to the public; or (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.10. 400.17 A1 When terms other than public interest entity are applied to entities by law, regulation or professional standards to meet the purpose described in paragraph 400.10, such terms are regarded as equivalent terms. However, if law, regulation or professional standards designate entities as "public interest entities" for reasons unrelated to the purpose described in paragraph 400.10, that designation does not necessarily mean that such entities are public interest entities for the purposes of the Code. R400.18 In complying with the requirement in paragraph R400.17, a firm shall take into account more explicit definitions established by law, regulation or professional standards for the categories set out in paragraph R400.17 (a) to (c). 400.18 A1 The categories set out in paragraph R400.17 (a) to (c) are broadly defined and no recognition is given to any size or other factors

	APESB Code	IAASB proposed changes to ISQM1 and ISQM2 (paragraph numbering for ISQM1 shown & re-ordered to match IESBA Code)	IESBA Code
	responsible for setting ethics standards for Members to more explicitly define these categories by, for example: • Making reference to specific public markets for trading securities. • Making reference to the local law or regulation defining banks or insurance companies. • Incorporating exemptions for specific types of entities, such as an entity with mutual ownership. • Setting size criteria for certain types of entities.	professional requirements may more explicitly define these categories, by for example: • Making reference to specific public markets for trading securities. • Making reference to the local law or regulation defining banks or insurance companies. • Incorporating exemptions for specific types of entities, such as an entity with mutual ownership. • Setting size criteria for certain types of entities.	that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethics standards for professional accountants to more explicitly define these categories by, for example: • Making reference to specific public markets for trading securities. • Making reference to the local law or regulation defining banks or insurance companies. • Incorporating exemptions for specific types of entities, such as an entity with mutual ownership. • Setting size criteria for certain types of entities.
	400.23 A2 Paragraph R400.22(d) anticipates that those bodies responsible for setting ethics standards for Members will add categories of Public Interest Entities to meet the purpose described in paragraph 400.15, taking into account factors such as those set out in paragraph 400.14. Depending on the facts and circumstances in a specific jurisdiction, such categories could include: • Pension funds. • Collective investment vehicles. • Private entities with large numbers of stakeholders (other than investors). • Not-for-profit organisations or governmental entities. • Public utilities. AUST R400.23.1 The following entities in Australia will generally satisfy the conditions in paragraphs 400.14,	A29F. Paragraph 18A(d) anticipates that those responsible for setting law, regulation or professional requirements may add categories of public interest entities to meet the purpose described in paragraph A29B, and may consider the factors in paragraph A29C in doing so. Depending on the facts and circumstances in a specific jurisdiction, such categories may include: • Pension funds. • Collective investment vehicles. • Private entities with large numbers of stakeholders (other than investors). • Not-for-profit organizations or governmental entities. • Public utilities.	400.18 A2 Paragraph R400.17 (d) anticipates that those bodies responsible for setting ethics standards for professional accountants will add categories of public interest entities to meet the purpose described in paragraph 400.10, taking into account factors such as those set out in paragraph 400.9. Depending on the facts and circumstances in a specific jurisdiction, such categories could include: • Pension funds. • Collective investment vehicles. • Private entities with large numbers of stakeholders (other than investors). • Not-for-profit organizations or governmental entities.

	APESB Code	IAASB proposed changes to ISQM1 and ISQM2 (paragraph numbering for ISQM1 shown & re-ordered to match IESBA Code)	IESBA Code
	R400.22 and R400.23 reflecting the significant public interest in the financial condition, having a large number and wide range of stakeholders and thus are likely to be classified as Public Interest Entities. In each instance Firms shall consider the nature of the business, its size and the number of its employees: • Authorised deposit-taking institutions (ADIs) and authorised non-operating holding companies (NOHCs) regulated by the Australian Prudential Regulatory Authority (APRA) under the *Banking Act 1959*; • Authorised insurers and authorised NOHCs regulated by APRA under the *Insurance Act 1973*; • Life insurance companies and registered NOHCs regulated by APRA under the *Life Insurance Act 1995*; • Private health insurers regulated by APRA under the *Private Health Insurance (Prudential Supervision) Act 2015*; • Disclosing entities as defined in Section 111AC of the *Corporations Act 2001*; • Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeship that have five or more members, regulated by APRA under the *Superannuation Industry (Supervision) Act 1993*; and • Other issuers of debt and equity instruments to the public.		• Public utilities.
	AUST R400.24 A Firm shall determine whether to treat additional entities, or certain categories of entities, as Public Interest Entities for the purposes of this Part. When making	A29G. The firm may determine that it is appropriate to treat other entities as public interest entities for the purposes of the ISQMs. When making this determination, the firm may consider the factors	400.19 A1 A firm is encouraged to determine whether to treat other entities as public interest entities for the purposes of this Part. When making this determination, the firm might consider the

	APESB Code	IAASB proposed changes to ISQM1 and ISQM2 (paragraph numbering for ISQM1 shown & re-ordered to match IESBA Code)	IESBA Code
	this determination, the Firm shall consider the factors set out in paragraph 400.14 as well as the following factors: • Whether the entity is likely to become a Public Interest Entity in the near future. • Whether in similar circumstances, a predecessor Firm has applied Independence requirements for Public Interest Entities to the entity. • Whether in similar circumstances, the Firm has applied Independence requirements for Public Interest Entities to other entities • Whether the entity has been specified as not being a Public Interest Entity by law, regulation or professional standards. • Whether the entity or other stakeholders requested the Firm to apply Independence requirements for Public Interest Entities to the entity and, if so, whether there are any reasons for not meeting this request. • The entity's corporate governance arrangements, for example, whether Those Charged with Governance are distinct from the owners or management.	set out in paragraph A29C as well as the following factors: • Whether the entity is likely to become a public interest entity in the near future. • Whether in similar circumstances, a predecessor firm has applied differential requirements for public interest entities to the entity. • Whether in similar circumstances, the firm has applied the differential requirements for public interest entities to other entities. • Whether the entity has been specified as not being a public interest entity by law, regulation or professional requirements. • Whether the entity or other stakeholders requested the firm to apply the differential requirements for public interest entities to the entity and, if so, whether there are any reasons for not meeting this request. • The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.	factors set out in paragraph 400.9 as well as the following factors: • Whether the entity is likely to become a public interest entity in the near future. • Whether in similar circumstances, a predecessor firm has applied independence requirements for public interest entities to the entity. • Whether in similar circumstances, the firm has applied independence requirements for public interest entities to other entities. • Whether the entity has been specified as not being a public interest entity by law, regulation or professional standards. • Whether the entity or other stakeholders requested the firm to apply independence requirements for public interest entities to the entity and, if so, whether there are any reasons for not meeting this request. • The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.
	Glossary *Public Interest Entity*	[Revised definitions to the added to IAASB glossary to be identified later.]	**Glossary** *Public interest entity*

	APESB Code	IAASB proposed changes to ISQM1 and ISQM2 (paragraph numbering for ISQM1 shown & re-ordered to match IESBA Code)	IESBA Code
	For the purposes of Part 4A, an entity is a Public Interest Entity when it falls within any of the following categories: (a) A Publicly Traded Entity*; (b) An entity one of whose main functions is to take deposits from the public; (c) An entity one of whose main functions is to provide insurance to the public; or (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.15. [* Includes a listed entity as defined in Section 9 of the *Corporations Act 2001*.] The Code provides for the categories to be more explicitly defined or added to as described in paragraphs 400.23 A1 and 400.23 A2. *Publicly Traded Entity* An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a Publicly Traded Entity.	See paragraph 18A above. 18B Publicly traded entity – An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.	For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories: (a) A publicly traded entity; (b) An entity one of whose main functions is to take deposits from the public; (c) An entity one of whose main functions is to provide insurance to the public; or (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.10. The Code provides for the categories to be more explicitly defined or added to as described in paragraphs 400.18 A1 and 400.18 A2. *Publicly traded entity* An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange. A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

Australian Government
Auditing and Assurance Standards Board

AUASB Agenda Paper

Title:	ISA 240 Fraud	**Date:**	6 December 2023
Office of AUASB Staff:	Rene Herman	**Agenda Item:**	16.0

Objectives of Agenda Item:

1. The objective of this Agenda Item is to seek views from AUASB members on decisions on substantive matters affecting the Proposed Exposure Draft of the Revised ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* to be considered at the December 2023 IAASB meeting.
2. Member views may inform Bill Edge in providing his views to the IAASB as a member. More significant issues (if any) may also be communicated to the IAASB by the AUASB's IAASB Technical Advisor and/or the AUASB Chair. Matters that are not addressed by in the exposure draft would be covered in the AUASB submission.

Questions for the Board and Staff view/Position

Question No.	Question for the Board	Office of the AUASB comments
Question 1	Do AUASB members have any feedback on the proposals in relation to authenticity of documentation, in particular the retention of the sentence "The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary." in ISA 200 (see in paragraph 5a of this Agenda Paper)?	The Office of the AUASB is concerned by the retention of the sentence in ISA 200. We are also concerned that the proposed revised ISA 240 does not have sufficient regard to the increased use of electronic documents and the fact that such documents can be more easily falsified. It may be difficult or impossible to determine whether an electronic document has been falsified by looking at the document.
Question 2	Do AUASB members have any feedback as to the 'ramp up' of work when a fraud is identified and the 'off ramp' when the engagement partner determines that is appropriate (see paragraph 5b of this Agenda Paper)?	The Office of the AUASB has no concerns with this change to the proposed revised standard.
Question 3	Do AUASB members have any other comments in relation to the Proposed ISA 240?	The Office of the AUASB has no other matters to raise.

Background and Previous Discussions on Topic

3. The AUASB provided input into the initial IAASB Discussion Paper. All matters raised by the AUASB have been addressed in the current draft revised ISA 240 (other than a financial report disclosure matter that was not within the remit of the IAASB).

4. The Exposure draft of Proposed Standard [here] is due to be voted on by the IAASB at the December 2023 IAASB meeting.

Most significant decisions on proposed revised ISA 240 since September 2023

5. The more substantive decisions proposed by the Fraud Task Force since the September 2023 AUASB meeting are outlined below.

a. Authenticity of Documentation

Not to add the sentence "The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary." to start of paragraph 20 of proposed ISA 240 but not to remove the sentence from paragraph A24 of ISA 200.

Not adding the sentence to the paragraph 20 of ISA 240 was considered consistent with applying a fraud lens but was not considered to increase the work effort. Paragraph 20 only requires the auditor to perform procedures to determine whether a document/record is authentic or has been altered when conditions come to the attention of the auditor (see paragraph A27 of the proposed standard).

The Fraud Task Force considered the sentence would undermine the auditor's responsibility to maintain professional scepticism throughout the audit and dilutes the auditor's responsibility to respond when conditions indicate that a record or document may not be authentic.

However, the Task Force has decided to retain the sentence in paragraph A24 of ISA 200 to avoid any inference that deleting it would expand of the scope of the audit. The Fraud Task Force also concluded that retaining that sentence is consistent with the expectation that auditors will exercise professional scepticism because, the rest of the paragraph clearly describes the auditor's responsibilities to consider the reliability of information to be used as audit evidence.

Paragraph A24 says:

The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required to consider the reliability of information to be used as audit evidence. In cases of doubt about the reliability of information or indications of possible fraud (for example, if conditions identified during the audit cause the auditor to believe that a document may not be authentic or that terms in a document may have been falsified), the Australian Auditing Standards require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.

b. Work effort when fraud or suspected fraud is identified [paragraphs 54-58 of proposed ISA 240]

All frauds or suspected frauds affecting the entity that are identified by the auditor are subject to the additional 'ramp-up' procedures but these 'ramp up' procedures may be discontinued or 'offramped' by the engagement partner (paragraphs 54 and 55). Before 'off-ramping', the engagement partner must:

i. Apply the first of the 'ramp up' procedures, including obtaining an understanding of the fraud or suspected to develop a sufficiently informed perspective about the implications of the fraud or suspected fraud for the audit; and

ii. Determine that none of the remaining 'ramp up' procedures are applicable (e.g. because the fraud or suspected fraud is inconsequential).

The engagement partner should be directly responsible for performing some of the 'ramp up' requirements given the critical importance of obtaining a sufficient understanding of an identified fraud or suspected fraud and the determinations that are made based on that understanding.

Next steps/Way Forward

6. The IAASB intends to publish the Exposure Draft late January / early February 2024 for a 120-day exposure period. The final pronouncement is targeted for March 2025, to apply from periods commencing from the first 15 December that falls 18 months after PIOB approval.
7. The Office of the AUASB will prepare a draft AUASB Consultation Paper 'wrap around' to expose the IAASB exposure draft in Australia. This draft will be brought to an AUASB meeting for approval to issue in early 2024.

Australian Government
Auditing and Assurance Standards Board

AUASB Agenda Paper

Title:	IAASB Strategy and Work Plan for 2024–2027	**Date:**	6 December 2023
Office of the AUASB Staff:	Matthew Zappulla	**Agenda Item:**	17

Objective of Agenda Item:

The objective of this Agenda Item is to seek:

1. AUASB input on the revised IAASB Strategy and Work Plan for 2024–2027 being considered at the December 2023 IAASB meeting.
2. Member views may inform Bill Edge in providing his views to the IAASB as a member. More significant issues (if any) may also be communicated to the IAASB by the AUASB's IAASB Technical Advisor and/or the AUASB Chair.

Questions for the Board and Office of the AUASB comments

Question No.	Question for the Board	Office of the AUASB comments
Question 1	Do AUASB members continue to support that the IAASB should give priority to: 1. Sustainability assurance; 2. Addressing the use of technology at clients and on audits; and 3. Improvements to ISA 520 *Analytical Procedures*, ISA 530 *Audit Sampling* and *ISA 620 Using the Work of an Auditor's Expert*.	The Office of the AUASB continues to believe that the IAASB should give priority to the matters listed and identify the work areas for sustainability assurance.
Question 2	Do AUASB members have any comments on proposals related to two new projects: a) 'Integrated Approach to Audit Evidence and Risk Response, Including Focus on Technology and Internal Control'; and b) A new project - 'Conforming and Consequential Amendments Arising from IESBA's Use of Experts Project'.	See above. The project to make consequential amendments to the ISA arising from IESBA's project on the use of experts represents a good opportunity to also revise ISA 620. The IAASB should also consider ways to improve the timeliness of standard setting.

Background and Previous AUASB Discussions on Topic

1. The IAASB released its *Proposed Strategy and Work Plan for 2024–2027* consultation paper for comment in January 2023. The AUASB's submission to the IAASB on the consultation paper was sent to the IAASB in April 2023 and is available here.

2. In its submission the AUASB:

   - Supported the strategic elements included in the IAASB's proposed Strategy and Work Plan;
   - Focused on key themes the AUASB considered the IAASB should address to better achieve its goals and objectives as a global standard setter; and
   - Provided specific comments on which IAASB projects should be prioritised in its future work program.

3. At its September 2023 meeting, the AUASB discussed the IAASB's current draft of the work plan and:

   a. The need for the IAASB to have a more strategic approach to addressing the impact of technology in the ISAs, including a focus on the entity's use of technology, the auditor's responsibilities in an audit of financial statements, and ensuring that relevant IT topics are considered in developing new or revised ISAs.

   b. Generally supporting the IAASB's option to prioritise the update of the sampling and analytical procedures standards with a particular focus on the impact of entity and auditor technologies in those standards, as well as considering the development of guidance on the impact of certain new technologies on audits.

Matters for Discussion

4. The IAASB will be asked to approve an updated proposed *Strategy and Work Plan for 2024–2027* at its December 2023 meeting for release in early 2024 (see here for the proposed work plan).

Financial report audit

5. There are no significant changes to the proposed work plan since September 2023, other than the following two projects:

   - A project 'Integrated Approach to Audit Evidence and Risk Response, Including Focus on Technology and Internal Control', which will add updates to ISA 330 *The Auditor's Responses to Assessed Risks* and audit evidence standards (like ISA 520 *Analytical Procedures*) to existing work to revise ISA 500 *Audit Evidence* .The IAASB has committed to further analysis and consultation in early 2024 to ensure the scope of this project is appropriate.
   - A project 'Conforming and Consequential Amendments Arising from IESBA's Use of Experts Project' to reflect IESBA's project to address the specific ethics and independence matters that might arise when experts work alongside professional accountants in business and in public practice.

6. The AUASB submission to the IAASB highlighted that the IAASB should, as a priority, improve the timeliness of standards development (including greater use of narrow scope amendments to standards). Over the next 3 years the IAASB is proposing to complete five current projects in progress (see Table A on pages 15 and 16 of the revised IAASB Proposed Strategy and Work Plan for 2024–2027 and commence six new projects.

Sustainability assurance

7. The IAASB continues to be committed to consider further standards for assurance on Sustainability Reporting following the development and implementation of ISSA 5000 General Requirements for Sustainability Assurance Engagements. However, the specific subject matters to be covered are yet to be determined and will be subject to further consultation. As a guide the IAASB has indicated they intend to split their work 70:30 between financial report audit and new sustainability assurance topics over the proposed 3-year work plan period.

Next steps/Way Forward

8. The Office of the AUASB staff will consider the implications of the final IAASB work plan for the AUASB Work Program in 2024 and subsequent years.

AUASB Agenda Paper

Title:	ISA 500 Audit Evidence	**Date:**	6 December 2023
Office of AUASB Staff:	Rene Herman	**Agenda Item:**	18.0

Objectives of Agenda Item:

1. The objective of this Agenda Item is to update and seek AUASB input from AUASB members on the key matters that the Audit Evidence Task Force (AETF) have focused on since the September 2023 IAASB meeting.
2. Member views may inform Bill Edge in providing his views to the IAASB as a member. More significant issues (if any) may also be communicated to the IAASB by the AUASB's IAASB Technical Advisor and/or the AUASB Chair.

Questions for the Board

Question No.	Question for the Board	Recommendation by Office of AUASB
Question 1	Do AUASB members have any initial feedback on the suggested way forward on the key themes of: • Technology (paragraphs 4-8 of this Agenda Paper); • Definition of 'audit evidence' (paragraphs 9-12 of this Agenda Paper); and • Attributes of relevance and reliability (paragraph 13-14 of this Agenda Paper)?	The Office of the AUASB supports the direction of the IAASB in relation to the first two of these themes. However, we are concerned that there should be a focus on completeness and accuracy in relation to external evidence as well as internal evidence (see attributes of relevance and reliability in paragraph 13-14 of this Agenda Paper).
Question 2	Do AUASB members have any comments on the proposed way forward in relation to ISA 500 as outlined in paragraphs 16-17 of this Agenda Paper?	The Office of the AUASB supports the progression of ISA 500 and does not consider that ISA 500 needs to wait on progression of ISA 330. We believe that improvements to ISA 520 *Analytical Procedures*, ISA 530 *Audit Sampling* and *ISA 620 Using the Work of an Auditor's Expert* should be given priority in the IAASB Work Plan.

Background and Previous Discussions on Topic

1. In November 2022 the AUASB issued its consultation paper on the Proposed ISA 500 (Revised) *Audit Evidence* (ED ISA 500) which was in a 'wrap around' of the IAASB ED. For information, the AUASB submission to the IAASB on ED ISA 500 can be found **[here]**.

2. The high-level feedback provided in submissions to the IAASB included:

- **General agreement and support for a principles-based approach** to ISA 500.
- Concern that application material was becoming de-facto requirements and the IAASB needed to achieve the right balance between requirements and guidance.
- Clarity was sought for work effort and documentation expectations and for scalability aspects, particularly for the attributes of relevance and reliability.
- Revisions to ISA 500 alone are not sufficient to address all audit evidence related matters including technology and that a broader approach to addressing evidence through ISA 330 *The Auditor's Responses to Assessed Risks* and the ISA 500 suite was required, leading for calls to revise ISA 330 and certain ISAs of the 500 series.
- The IAASB should need to demonstrate how the proposed changes to ISA 500 will result in a **change in work effort/current practice and an improvement in audit quality**.
- That ISA 500 had not been sufficiently modernised in relation to **IT considerations**.

3. At the September 2023 IAASB meeting the IAASB commenced discussions from the feedback received and agreed to:

- Explore a conditional requirement, with supporting application material, when the auditor uses automated tools and techniques (ATT).
- Provide a description for ATT, rather than defining the term.
- Include application material to the definition of audit evidence to enhance understanding of how the principles to the "input-output model" apply and to illustrate how the nature, timing, and extent of the auditor's procedures to use information as audit evidence can vary from simple to more extensive procedures.
- Revisit the stand-back provision given its perceived duplication with ISA 330.

Key Themes

Technology

4. Proposed ISA 500 to include a new conditional requirement that specifically addresses the auditor's overarching responsibilities when using ATT that extends to matters relevant to the inputs and operation of the ATT and its outputs.

10A. If the auditor uses automated tools and techniques to design and perform audit procedures, as part of the auditor's evaluation in accordance with paragraph 9, the auditor shall: (Ref: Para. A65A–A65B, A65K–A65M)

(a) Consider the appropriateness of the inputs to the automated tools and techniques; (Ref: Para. A65C–A65E)

(b) Determine whether the automated tools and techniques operate as designed (Ref: Para. A65FA65G); and

(c) Determine whether the output(s) of the automated tools and techniques meet the purpose for which it is intended. (Ref: Para. A65H–A65J)

5. While there is not a new definition of ATT being proposed, there is a new application material paragraph that describes ATT:

A2A. Automated tools and techniques (a subset of technological resources) is a broad term that describes information technology enabled processes used by the auditor for the purpose of planning or performing the audit that involve the automation of methodologies and procedures, for example the analysis of data using modelling and visualization, or drone technology to observe or inspect assets. Other examples of automated tools and techniques are artificial intelligence and robotic process automation. The term is deliberately broad because technologies and related audit applications continue to evolve.

6. Substantial new application material / enhancements to application material discussing automation bias and enhanced linkages to ISQM 1 and ISA 220 with respect to technological resources and engagement partner's responsibilities.

7. New appendix with explicit recognition via examples that ATT can be used to perform audit procedures (risk assessment procedures, tests of control and substantive procedures).

8. To be further considered by the Task Force: The Task Force recognises that ISA 230 Audit Documentation, does not differentiate documentation considerations between the use of technology and manual. The Task Force is considering that it may be useful to develop application material within ISA 230 by addressing specific considerations when using ATT.

Definition of Audit Evidence

9. Stakeholders had some concern with the input-output model definition of audit evidence largely around:

   a) Unintended consequences of permitting the auditor to ignore relevant information simply because the auditor had not applied procedures to that information; and

   b) Scalability.

10. The Task Force is proposing the following amended definition of Audit evidence – *Information, after applying ~~to which~~ audit procedures ~~have been applied~~, that the auditor uses to draw conclusions that form the basis for the auditor's opinion and report. Audit procedures include evaluating the relevance and reliability of the information. (Ref: Para. A12A–A12C)*

11. To address the concern outlined in 10 a) above, the task force has:

   - Included a new paragraph within the introductory material that the auditor must not ignore information that is relevant to the audit;
   - Included a new paragraph within application material to recognise the role of the auditor's application of professional scepticism to remain alert for new information that is inconsistent with other audit evidence;
   - Integrated the requirements of other ISAs that include requirements and guidance when there are inconsistencies in formation.

12. To address the concern outlined in 10 b) above, the Task Force has provided guidance to emphasise that the auditor's procedures applied to the information may vary from very simple to more extensive.

Attributes of relevance and reliability

13. To address stakeholder's concerns regarding scalability, the threshold for consideration of attributes of relevance and reliability will be 'significant' in the circumstances (the ED was applicable in the circumstances). The ED will also be strengthened as new proposals will require the auditor to

perform audit procedures for those attributes that the auditor considers significant in the circumstances. The Office of the AUASB supports this proposal.

14. In response to regulatory views there is now a stronger requirement that accuracy and completeness are usually significant attributes for information sources internal to the entity.

IAASB Workplan

15. The IAASB work plan for 2024-2027 indicates that the i IAASB intends to pursue an integrated approach to address issues related to audit evidence and risk response. The integrated approach will include a more strategic emphasis on technology and revising ISA 330 at the same time as revising ISA 500. This approach will deal with the ‘reference framework’ aspects relating to judgements about sufficient appropriate audit evidence (ISA 500) and the ‘performance aspects’ of the auditor’s responsibility to design and perform audit procedures to obtain sufficient appropriate audit evidence (ISA 330 and possibly ISA 520 *Analytical Procedures*). Work on ISA 500 will continue while work on ISA 330 commences. This is discussed further at Agenda Item 17 on the IAASB work-plan and strategy.