Grant Thornton

Director
Climate Disclosure Unit
Climate & Energy Division
Treasury
Langton Cres
Parkes ACT 2600
ClimateReportingConsultation@treasury.gov.au

Grant Thornton Australia Limited
Level 17
383 Kent Street
Sydney NSW 2000
Locked Bag Q800
Queen Victoria Building NSW 1230

T +61 2 8297 2400

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To whom it may concern

We welcome this opportunity to provide feedback to Treasury on *Treasury Laws Amendment Bill 2024: Climate-related financial disclosure* (Exposure Draft Legislation) concerning whether in our view, the Exposure Draft Legislation appropriately reflects and gives effect to the policy intent outlined in the *Mandatory climate-related financial disclosures policy position statement* (Policy Statement), and Policy Impact Analysis.

In our response we have also made reference to the *AASB Sustainability Reporting Exposure Draft ED SR1 Australian Sustainability Reporting Standards – Disclosure of Climate-related Financial Information* (ASRS Exposure Draft) published by the Australian Accounting Standards Board (AASB) in October 2023. We acknowledge that some of our observations below may be the result of timing differences between the drafting of the ASRS Exposure Draft and the Exposure Draft Legislation.

Whether amending legislation to require a 1 Jan 2025 commencement date for Group 1 entities would improve the quality of reporting during the transition year

We note the Policy Statement specifically asks for feedback as to whether requiring a 1 January 2025 commencement date for Group 1 entities would improve the quality of reporting during the transition year. We agree that the quality of sustainability reporting is likely to increase where additional time to prepare for first-time adoption is given. We note however, that there are generally more companies with a June year end than a December year end in Australia, and therefore this may, in effect, delay reporting by one year for the majority of Group 1 entities.

We observe that the current proposed commencement date of 1 July 2024 gives entities less than 6 months to commence implementation of effective processes and internal controls over the sustainability reporting process. Best practice for internal controls over sustainability reporting would require the processes and controls to be in effect at the start of the reporting period (i.e. 1 July 2024). By contrast the lead time for implementation of new accounting standards is generally 2 – 3 years.

We also observe that although the ASRS Exposure Draft has been available since October 2023, a lack of both authoritative standards and legislation has resulted in entities delaying implementation of sustainability reporting until Treasury provided clarity as to whether any changes were contemplated from the June 2023 consultation paper.

As such, we expect significant effort will be required from those entities in Group 1 that are less resourced (e.g. unlisted companies and listed companies with fewer economic resources), in the next six months in order to have internal controls implemented by the start of the reporting period of 1 July 2024.

We expect there may also be a consequential impact on the scale of effort required from assurance practitioners in order to provide limited assurance where appropriate internal controls were not implemented for the full reporting period, with potential impact on limited assurance reports.

Application of thresholds

We note that the Exposure Draft Legislation has introduced a new threshold of entities required to report. In the Policy Statement, we note this is described as “Asset owners (such as registrable superannuation entities and registered schemes) will be considered large if funds under management are more than $5 billion”. We further note that this threshold is described in the Phasing section of the Policy Statement as “$5 billion assets under management or more”. In the Draft legislation, s292A (7), the threshold is described as “if the value of assets at the end of the financial year of the entity and the entities it controls (if any) is [$5 billion] or more”.

We observe that the terms “funds under management”, “assets under management” and “value of assets” are not terms that are generally considered directly comparable and interchangeable. The threshold applied in the legislation “value of assets”, with subsection (9)(b) requiring that the “value of assets…be calculated in accordance with accounting standards in force at the relevant time”, would be equivalent to “total controlled assets” at reporting date. We query whether this was the Government’s intention, given this is a different concept to “funds under management” and “assets under management”. Neither “funds under management” nor “assets under management” are terms that are defined in the Australian Accounting Standards.

We also note that subsection (9)(b) refers to “consolidated revenue…calculated in accordance with accounting standards in force at the relevant time”, and would like to draw Treasury’s attention to the fact that “revenue”, while being a widely-used term, is not a concept defined in the Australian Accounting Standards. While regulators have provided informal guidance as to the definition of ‘revenue’, no authoritative guidance exists in the Australian regulatory framework.

There is therefore potential that certain entities – for instance, entities that enter into operating lease contracts – may consider their economic inflows as being ‘income’ as described by the relevant accounting standard rather than ‘revenue’ as referred to by the Exposure Draft Legislation, and arguably are not considered to meet the thresholds of entities in-scope.

Clarification of group head entity

We note that s292A(2) introduces the concept of a group head entity which is defined in s292A(2)(a) as an entity required by accounting standards to prepare financial statements in relation to a consolidated entity for the financial year. The Explanatory Materials accompanying the Draft Legislation explain in para 1.36:

“If the entity is required to prepare financial statements on a consolidated basis, it may choose to prepare a sustainability report on a consolidated basis (as the group head).”

We observe that the accounting standards do not dictate whether an entity is required to prepare financial statements; but only dictate whether the financial statements must be prepared on a consolidated basis. Furthermore, the ultimate Australian parent entity of an Australian group may be an entity that is not required to prepare an annual report under Chapter 2M of the Corporations Act (e.g. a trust entity). Partnerships and trusts are included in the definition of an entity under s64A. A non-corporate entity may voluntarily choose to prepare consolidated financial statements, but would not be required to prepare an annual report under Chapter 2M.

To create clarity as to which entities meet the definition of a “group head” for the purposes of s292A(2), we suggest the wording is updated to “an entity required to prepare an annual report under s292” or similar clarification as to whether the group head is permitted to be an entity that is not preparing an annual report under s292.

Group 3 materiality exemption

We note in the Policy Statement and the explanatory materials that the Government is proposing an exemption that is only permitted for Group 3 entities, in that where Group 3 entities assess that they do not have material climate-related risks or opportunities, they would only be required to disclose a statement to that effect. It appears from our reading of the Policy Statement and explanatory materials that the Government's implied intention is that an entity in Group 1 or Group 2 should not be able to disclose a statement that they do not have material climate-related risks or opportunities.

We note that the ASRS Exposure Draft already has introduced Australian specific paragraphs to permit this approach ([draft] ASRS 1 paragraph Aus6.2 and [draft] ASRS 2 paragraph Aus4.2). Those paragraphs in the ASRS Exposure Draft would mean that any reporting entity that determined that that they do not have material climate-related risks or opportunities would, in compliance with the sustainability standards, disclose that fact and explain how it came to that conclusion. Therefore the ability of a Group 3 entity to make this statement is already contemplated in the ASRS Exposure Draft.

As the ability to make this declaration is already in the ASRS Exposure Draft, we observe that the Exposure Draft Legislation amendments to s296B subsection (1) and subsection (2), does not prevent an entity from Group 1 and Group 2 to make a statement that they do not have material climate-related risks or opportunities. This is because s296B (1) refers back to s296A(1) and s296A(2), which defines "the climate statements for the year are the climate statements in relation to the entity required by the sustainability standards", and the sustainability standards permit reaching the conclusion that an entity does not have material climate-related risks or opportunities.

We note in practice, it may be quite difficult for a reporting entity in Group 1 and Group 2 to justify to their registered company auditor that they have no material climate-related risks or opportunities, however we note that it would likely be equally difficult for a Group 3 entity to make the same statement, applying a materiality relative to the size of the entity.

We also observe that the nature of sustainability reporting standards, similar to accounting standards, is that the preparer of the sustainability report is only required to report information that is material to the user of the general purpose financial statements. If the Government's intention in limiting the ability of entities to reaching the conclusion that an entity does not have material climate-related risks or opportunities, such a requirement would need to be in the legislation without the context of materiality. This approach would be akin to the remuneration report requirements for listed entities.

Greenhouse gas emissions

References to Corporate Value Chain (Scope 3) Accounting and Reporting Standard

We observe that the Exposure Draft Legislation makes amendment to Section 9 to include in the definition of scope 3 emissions "Corporate Value Chain (Scope 3) Accounting and Reporting Standard, published by the World Business Council for Sustainable Development and the World Resources Institute, as existing on the commencement of this definition". We note that this document is an external document outside the control of the Government, which may in future be subject to amendments and is included as an element of the proposed Australian sustainability reporting regime by Exposure Draft ASRS 101 *References in Australian Sustainability Reporting Standards*, which specifies the appropriate version of external documents to be applied when applying the sustainability standards. As Corporate Value Chain (Scope 3) Accounting and Reporting Standard is able to be included by reference by the AASB and maintained without the implementation of additional legislation, it may be more effective to include the requirement to reference Corporate Value Chain (Scope 3) Accounting and Reporting Standard within ASRS 101. Similarly, we note that reference is made within the draft legislation to a specific version of the *Greenhouse Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standard.* The selection of the appropriate standard may be more effectively and efficiently achieved by deferring to the AASB to mitigate the need for potential future amendments to the Corporations Act to update the reference, should changes arise in future.

Scope 3 emissions as a legislative requirement, as opposed to ASRS requirement

Section 296D(1)(d)(ii) requires the disclosure of scope 3 emissions for the entity, and the Note below subsection (ii) states “If the climate statements and notes prepared in compliance with the sustainability standards would not require these disclosures, additional information must be included in the notes to the climate statements under paragraph 296A(4)(c)”. Subsections (a), (b) and (c) of section 296A all make reference to the requirements of the sustainability reporting standards.

As such the requirement to disclose Scope 3 emissions is currently the only climate statement in s296D that applies irrespective of ASRS Exposure Draft requirements, and which would also suggest irrespective of materiality. We query whether this was the intention of Government, as the Policy Statement is not clear on this point of distinction, although the Policy Statement does state “[Scope 3 emissions] will be established in legislation”.

For clarity, we suggest inclusion of a subsection (e) “The measurement of amounts mandatorily disclosed in compliance with subsection (d) is to be in accordance with sustainability standards” or similar, which will then incorporate materiality considerations. We further recommend that the Note commencing “If the climate statements and notes” below section 296D(1)(d)(ii) be amended to include explicit reference to the relevant subsections (e.g. (a) through (d)) to which it applies. For further clarity, Treasury may consider amending the Note such that it becomes a separate subsection (f) “For the purposes of paragraphs (a) to (d), if the climate statements…”.

First year reporting relief

We note in the Policy Statement that “Scope 3 emissions must be reported from an entity’s second reporting year onwards. This requirement will be established in legislation”. This is reflected in s296D subsection (3) of the Exposure Draft Legislation which states that the requirement to disclose scope 3 emissions “does not apply if the financial year is the first financial year for which the entity is required to prepare a sustainability report.” We wish to draw attention to the transitional provisions in the ASRS Exposure Draft (which are also in the IFRS Sustainability Disclosure Standards) that in the first year of reporting in compliance with the ASRS, an entity is not required to disclose gross Scope 3 emissions ([draft] ASRS 2 paragraph AusC4.1).

In a situation where an entity voluntarily early adopts the ASRS (e.g. a Group 3 entity), the Exposure Draft legislative requirement will create a potential conflict where the entity is no longer in the first annual reporting period of applying ASRS 2 (and therefore should disclose Scope 3 emissions), but is relieved from doing so in accordance with s296D subsection (3).

We suggest that the relief from reporting Scope 3 emissions is retained in the ASRS Exposure Draft rather than in the Exposure Draft Legislation, or that the wording s296(3) to indicate the relief only applies where it does not conflict with the sustainability standards, in order to maintain consistency in reporting content between entities, and international alignment in reporting.

Climate resilience assessments

The Policy Statement states an expectation that “entities should be permitted to commence with qualitative scenario analysis, with quantitative analysis required for financial years commencing on or after 1 July 2027”. We observe that the ISSB in drafting IFRS S2 observed in BC64 and BC65 that as part of their response to proportionality concerns, that the entity is required to “use an approach to climate-related scenario analysis that enables it to consider all reasonable and supportable information that is available to the entity at the reporting date without undue cost or effort, taking into consideration: (a) the entity’s exposure to climate-related risks and opportunities; and (b) the skills, capabilities and resources available to the entity to enable it to carry out the climate-related scenario”. As a result, the ISSB observed that “an entity with fewer resources and relatively low risk exposure might develop a scenario narrative focused on a key product, business unit or operating location. However a larger entity with high risk exposure and greater analytical experience might carry out sophisticated quantitative modelling...”.

We observe that if quantitative scenario analysis is required for financial years commencing on or after 1 July 2027, less resourced entities in Group 3 may not have yet developed the skills, capabilities and resources available to the entity to enable it to carry out a quantitative climate-related scenario analysis.

Incorporation of Australia's greenhouse gas emissions estimation methodologies (via NGER Scheme Legislation)

Incorporation of NGER Scheme Legislation creating significant and continuing international misalignment in reporting

The Government's Policy statement states that the Government intends to create "a rigorous, internationally aligned and credible climate disclosure regime" in order to "support Australia's reputation as an attractive destination for international capital and help draw the investment required for the transition to net zero".

However, in our view, the goal of international alignment is not achieved due to the incorporation of the *National Greenhouse and Energy Reporting Act* 2007, and associated Regulations and Measurement Determination (collectively "NGER Scheme Legislation") in the definition of Scope 1 and 2 emissions in the Exposure Draft Legislation, and the Policy Statement's expectation to use NGER Scheme methodologies in the measurement of greenhouse gas emissions.

1) Definition of Scope 1 and Scope 2 emissions

The definitions of Scope 1 emissions and Scope 2 emissions in the Exposure Draft Legislation are defined by reference to the NGER Regulations. This definition differs from that of Scope 1 emissions and Scope 2 emissions in the ASRS Exposure Draft, which uses the same definition utilised in the international standards (and is based on the GHG Protocol Corporate Standard).

The definition of Scope 1 and Scope 2 emissions in the NGER Regulations are respectively:

- "scope 1 emission of greenhouse gas, in relation to a facility, means the release of greenhouse gas into the atmosphere as a direct result of an activity or series of activities (including ancillary activities) that constitute **the facility**"; and
- "scope 2 emission of greenhouse gas, in relation to a facility, means the release of greenhouse gas into the atmosphere as a direct result of one or more activities that generate electricity, heating, cooling or steam that is consumed by the facility but that do not form part of **the facility**".

The definition of Scope 1 emissions and Scope 2 emissions in IFRS S2 (and the ASRS Exposure Draft) are respectively:

- "direct greenhouse gas emissions that occur from sources that are owned or controlled by **an entity**"; and
- "indirect greenhouse gas emissions from the generation of purchased or acquired electricity, steam, heating or cooling consumed by **an entity**. Purchased and acquired electricity is electricity that is purchased or otherwise brought into an entity's boundary. Scope 2 greenhouse gas emissions physically occur at the facility where electricity is generated".

While the two sets of definitions are not contradictory, the concept of the 'facility' in a sustainability reporting context exists only within NGER Scheme Legislation. This 'boundary' is generally not compatible with the concept of a 'reporting entity' which is required to be used both in the accounting standards and in the sustainability standards. The concept of the 'facility' is also inconsistent with the application of Part 2M of the Corporations Act in determining the entity that is required to prepare an annual report and, pursuant to the Exposure Draft Legislation, a sustainability report.

We recommend instead that the definition of Scope 1 emissions and Scope 2 emissions is defined by reference to the sustainability standards to avoid any misalignment in reporting requirements.

2) Expectation to use NGER Scheme methodologies

The requirement to use NGER Scheme methodologies in the measurement of greenhouse gas emissions is a departure from the international IFRS S2 *Climate-related Disclosures* standard (IFRS S2) issued by the ISSB in June 2023, which require measurement of Scope 1 and 2 greenhouse gas emissions in accordance with the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (GHG Protocol Corporate Standard). It is also a departure from the approach to measuring greenhouse gas emissions in the European Union, New Zealand, the UK and many other jurisdictions which measure their greenhouse gas emissions using the GHG Protocol Corporate Standard, and which also constitute a major source of capital for Australian entities.

Furthermore, we expect the misalignment to standards issued by the ISSB will continue to increase over time. The GHG Protocol Corporate Standard is currently in a process of being updated following a consultation period from November 2022 – March 2023. There are multiple proposed amendments to the GHG Protocol Corporate Standard being contemplated, including potential adjustments to organisational boundary approaches, and adjustments to the methodologies of Scope 2 emissions (both market-based and location-based approaches).

One of the suggested pieces of feedback to GHG Protocol Corporate Standard suggests amendment to the organisational boundary approaches such that a new consolidation approach aligned to financial accounting requirements would be required. In such an instance where this approach was adopted in the GHG Protocol Corporate Standard, Australian sustainability reports prepared in compliance with the Exposure Draft Legislation will not conform with international sustainability reporting standards.

Future amendments to the GHG Protocol Corporate Standard will likely widen the gap in definitions and reporting methodologies with NGER Scheme Legislation, resulting in Australian companies preparing information that increasingly diverges from internationally-accepted practice that is not comparable internationally, which is unlikely to make Australia an attractive destination for international capital.

We recommend that the basis of the measurement of greenhouse gas emissions is reverted back to the original requirements of IFRS S2 (i.e. the GHG Protocol), in alignment with the global community. This will result in Australian sustainability reporting that is internationally aligned and supports the usefulness of Australian sustainability reporting in attracting and retaining international investment.

3) Misconception in rationale for incorporation of NGER Scheme Legislation

We understand that the initial intention for the requirement to use NGER Scheme methodologies was due to the Government's desire to avoid increasing regulatory burden on NGER registered entities. From the Basis of Conclusions (paragraphs BC64 – BC 65), we note the AASB incorporated this departure from international standards into the ASRS Exposure Draft in order to align to Treasury's second consultation paper (June 2023). The AASB further incorporated a requirement for the global warming potential values to be based on the IPCC 5th assessment (AR5) rather than the IFRS S2 requirement to use the most recent IPCC (currently the IPCC 6th assessment (AR 6)), directly in response to concerns from the DCCEEW "that if Australian entities were required to convert greenhouse gases using the GWP values in AR6, it would increase the regulatory burden for entities that would also be required to report under NGER Scheme legislation, which requires the use of the GWP values in AR5".

We observe that contrary to the DCCEEW's concerns, the original wording of the international standard <u>would not have increased the regulatory burden on NGER registered corporations</u>. This is because IFRS S2 paragraph B24 states "An entity is required to use the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) unless the entity is required by a jurisdictional authority or an exchange on which it is listed to use a different method for measuring its greenhouse gas emissions. *If the entity is required by a jurisdictional authority or an exchange on which it is listed to use a different method for measuring its greenhouse gas emissions, the entity is permitted to use this method rather than using the Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (2004) for as long as the jurisdictional or exchange requirement applies to the entity*" [emphasis added].

Accordingly, NGER registered corporations were always able to disclose their emissions using methodologies in NGER Scheme legislation, without departing from IFRS S2 in preparing its sustainability report. This is consistent with the AASB's analysis of the same issue as per paragraph BC64 of their Basis of Conclusions.

As such, we do not consider there to be additional regulatory burden created by the requirements of the international standards for NGER registered entities.

By contrast, the international misalignment created from the incorporation of NGER Scheme Legislation will create significant regulatory burden for non-NGER registered entities, as discussed below.

Incorporation of NGER Scheme Legislation imposing significant regulatory burden and increasing cost of compliance for non-NGER controlling corporations

In our view the Government's position requiring the use of NGER methodologies for all reporting entities (i.e. non-NGER Scheme registered corporations), imposes a significant regulatory burden on non-NGER registered entities, which represent a substantial majority of entities affected by the Exposure Draft Legislation**.**

Our rationale is explained as follows:

1) International subsidiary reporting requirements

The most widely accepted model for the reporting of greenhouse gas emissions is the GHG Protocol Corporate Standard (consistent across all jurisdictions requiring sustainability reporting to date). Australian subsidiaries of multinational companies will be required to calculate their greenhouse gas emissions under two separate frameworks as a result:

- GHG Protocol Corporate Standard (for international consolidation and reporting); and
- NGER Scheme Legislation (for compliance with the Draft Legislation).

This will result in Australian subsidiaries being required to calculate and maintain two separate carbon emissions records, resulting in duplicative effort, and increasing the cost of Australian compliance with the Draft Legislation.

Australian entities which are required to report in Australia and which also have subsidiaries located in other jurisdictions may also be required to incur cost in these other jurisdictions to conform with the GHG Protocol Corporate Standard. Certain entities operating in certain jurisdictions other than Australia will be required to report GHG Protocol Corporate Standard-compliant information for all global operations, including those in Australia. We also note that the these entities are likely to overlap with registered NGER controlling corporations (as the overseas reporting obligations primarily impact more economically significant entities).

2) Limited applicability of international guidance, tools and software

The departure from the international standard significantly limits the ability of Australian reporting entities to access guidance, tools and software to meet their reporting obligations. The majority of carbon accounting software, educational materials, online calculators and other similar resources which are available would not conform with the specific methodologies of NGER Scheme Legislation.

Report preparers therefore would be required to develop Australian-specific tools and/or software (which are at present, not widely available), at their own cost, increasing the cost of compliance.

3) Creating additional resource constraints of finance professionals with appropriate capability in industry

In an already limited resource environment, the inclusion of NGER Scheme Legislation would increase the resourcing constraints for both annual report preparers and professional services firms. The departure from the international standard significantly limits the pool of finance professionals with the technical capability to a relatively small subset of finance professionals, when there is already a recognised shortage of skilled accounting and finance professionals in the market globally.

Globally, there are many more professionals with in-depth knowledge of the GHG Protocol Corporate Standard, than there are individuals with in-depth knowledge of the NGER Scheme Legislation due to its niche application to date in the Australian market. This reduces the available pool of professionals to support report preparation (both as in-house preparers and consultants). It also reduces the effectiveness of international resourcing arrangements to support Australian finance professionals in meeting reporting deadlines. We expect this is also likely to increase the cost of implementation, well beyond the Policy Impact Analysis estimates.

4) Increased cost to upskill existing finance professionals

There are significantly fewer training and educational resources available for training in NGER methodologies than there are in the GHG Protocol Corporate Standard. We expect there is a significant cost to the Australian economy from all aspects of the finance sector, and from the Government to support the creation of additional resources to upskill the majority of report preparers. By contrast, the GHG Protocol Corporate Standard is well-established and in-depth training is freely available on the GHG Protocol website, as well as other widely available free and reputable educational resources.

Overall, we strongly recommend that the Government reconsider this position, and will be providing similar feedback in our response to the AASB in relation to the ASRS Exposure Draft.

Assurance requirements

Legislative remit of the AUASB

The Policy Statement stated "in particular, the AUASB will also set out a pathway for phasing in requirements over time, which would commence with assurance of Scope 1 and 2 emissions disclosures from years commencing 1 July 2024 onwards and end with assurance of all climate disclosures made from years commencing 1 July 2030 onwards". This statement indicates that a "phasing in" of assurance requirements might occur between 1 July 2024 and 1 July 2030, led by the Audit and Assurance Standards Board (AUASB).

However, the Policy Statement does not provide any explicit information on the powers of the AUASB in developing the assurance standards necessary to enable auditors to provide assurance over the Sustainability Report, nor on their powers to define the "pathway for phasing in requirements over time".

It is our understanding that the AUASB does not have the legislative authority to define which entities are subject to audit, and their role would be, when they are given the legislative authority to do so, limited to the development and issuance of sustainability assurance standards. This appears to be a legislative power that is only introduced in the Draft Legislation in s1705D. Historically, the role of standard-setters (such as the AASB and AUASB) has been to develop the standards, whereas the Government has been responsible for defining the obligations of entities that are required to utilise the standards set by those standard-setters.

Therefore, if it was the intent of Treasury for there to be incremental assurance steps in the assurance above the limited assurance of Scope 1 and 2 greenhouse gas emissions for the period 1 July 2024 – 30 June 2030, this incremental increase in assurance is currently not reflected in s301B of the Exposure Draft legislation.

We believe it would be beneficial for the Government to clearly articulate whether they see the Treasury or the AUASB taking on this role.

Timeline of auditing standards issuance on assurance engagement acceptance

It is our understanding that the AUASB does not currently have the power to make auditing standards for subsection 301B(1), and is not expected to have this legislative power until the Draft Legislation is enacted. The first period expected to be subject to limited assurance will commence on 1 July 2024, and the auditing standards are required to be made before 1 July 2024 per s1705D(2) (i.e. the same date of the first period subject to assurance).

As part of the auditing standards, the auditor has responsibility to establish certain preconditions for an audit are present before the engagement may be accepted. Auditing standards also require audit firms to establish quality objectives that address the acceptance and continuance of client relationships and specific engagements.

In order to provide assurance over the Sustainability Report, the auditor would ordinarily, as part of the contemplated sustainability assurance standards, need to establish preconditions over the sustainability report for acceptance of a sustainability assurance engagement.

As the Exposure Draft Legislation contemplates the registered company auditor of the entity is required to also provide assurance over the Sustainability Report, in a situation where the sustainability assurance standards are not issued with sufficient time to allow the auditor to complete pre-acceptance procedures over the sustainability report, this may increase the risk of a limitation of scope to the assurance engagement, with a corresponding impact on the auditor's report.

Auditor's reports

Limited assurance reports

s301B introduces limited assurance of sustainability reports before 1 July 2030, which are only required to cover "climate statements relating to scope 1 emissions or scope 2 emissions of greenhouse gases". However the requirements of s309A, states in subsection (3) "An auditor who reviews the sustainability report must report to members in accordance with subsections (4), (5), (6) and (7) on whether the auditor became aware of any matter in the course of the review that makes the auditor believe that the sustainability report does not comply with Division 1".

In our view, this wording places an additional requirement on the auditor to assess the whole of the sustainability report for compliance with Division 1 (which requires a sustainability report prepared in compliance with the sustainability standards); in effect, to review the entirety of the sustainability report, and not just the climate statements in relation to scope 1 or scope 2 emissions. In our view, this did not appear to be the intent of the Policy Statement.

We suggest that this language could be clarified so that "the sustainability report" is replaced with wording, perhaps by cross reference to s301B(2), that limits the statements to the scope of the limited assurance provided by the auditor.

Financial statement auditor's responsibilities under existing auditing standards

We additionally note that the auditor of the financial statements is required by Australian Auditing Standard ASA 720 *The Auditor's Responsibilities Relating to Other Information* paragraphs 14 – 15 to read the entire annual report (which includes the complete Sustainability Report) and:

- consider whether there is a material inconsistency between the other information and the financial report; and
- consider whether there is a material inconsistency between the other information and the auditor's knowledge obtained in the audit, in the context of audit evidence obtained and conclusions reached in the audit.

If the auditor identifies that a material inconsistency appears to exist (or becomes aware that the other information appears to be materially misstated), the auditor shall discuss the matter with management and, if necessary, perform other procedures to conclude whether a material misstatement of the annual report or the financial statements exists, and respond as required by paragraphs 16 – 20 of ASA 720.

In our view, in order for an auditor to meet the requirements of the auditing standard, an auditor would need to design and perform appropriate procedures over the entirety of the sustainability report as it relates to the financial statements, to appropriately conclude whether a material inconsistency appears to exist, and whether a material misstatement of the other information exists.

Scope 3 emissions reports

If the sustainability report includes any additional information under paragraph 296A(4)(c), which concerns the inclusion of notes, the auditor's report must also include a statement of the auditor's opinion on whether the inclusion of that additional information was necessary to make the disclosures required by section 296D. As noted previously in our observations in relation to Scope 3 emissions, by making the requirement to disclose Scope 3 emissions legislative rather than a requirement of the sustainability standards, the Government has not incorporated the concept of materiality to the quantity of Scope 3 emissions.

As such, in a scenario where an entity did make additional disclosures for their Scope 3 emissions required by section 296D, which were not required by the sustainability standards, we foresee a potential conflict in the ability of an auditor to provide an opinion as required by section 309A subsections (1) and (6) in accordance with the auditing standards, as the auditor would be asked to opine on whether a disclosure, which was considered immaterial in accordance with the sustainability standards, is not materially misstated.

Yours sincerely

GRANT THORNTON AUSTRALIA LIMITED