

3 OCTOBER 2023

FACT SHEET 6:

Assurance and verification pathways

Assurance increases confidence in the quality and reliability of climate disclosures. It also provides an additional opportunity for management's assumptions, methodologies and disclosures to be tested by an independent third party.

GETTING COMFORTABLE WITH YOUR CLIMATE DISCLOSURES – REASONABLE GROUNDS

One of the key questions when preparing climate disclosures is how to demonstrate there are 'reasonable grounds' for the making of disclosures.

Whilst not determinative, a court may look to the due diligence processes that are in place, and the extent to which directors are constructively challenging management's assumptions, methodologies and conclusions. Internal and external assurance can play a significant role in demonstrating this.

Two key terms that often arise in this context are **verification** and **assurance**. A brief overview of these two terms is provided below.

VERIFICATION

Verification involves a rigorous internal assessment of the data, systems, processes and methodologies used to generate climate disclosures. This process aims to validate the reasonableness and reliability of the reported information by conducting thorough checks against established frameworks, standards, targets and internal controls.

Internal verification involves validating non-financial reporting information by the organisation itself. Internal verification is a necessary step to meeting the preconditions of external assurance.¹ By establishing clear procedures and enlisting internal teams to review data and processes, organisations can ensure that their disclosures are made on the basis of reliable information supported by robust internal control processes and systems. This helps to mitigate potential errors, inconsistencies and omissions that may arise during the information gathering and analysis phases.

External verification involves an external organisation reviewing and validating disclosures. Typically, external verification does not need to be performed by an accredited professional. Verification is often undertaken by applying a GHG emission or other climate disclosure verification standard.²

Entities starting the journey on climate-related disclosure assurance may first consider seeking out 'assurance readiness' services. This involves consultants obtaining an understanding of existing or planned data controls, processes, and disclosures, and recommending an action plan to ready the organisation for assurance.

¹ The Draft ISSA 5000 *General Requirements for Sustainability Assurance Engagements* states the preconditions of sustainability assurance engagement include: that there is a reasonable basis for sustainability information; that the sustainability matters within the scope of the engagement are appropriate (in the sense of being identifiable and capable of consistent measurement or evaluation against the applicable criteria); and that the applicable criteria for assessment of sustainability information is relevant, complete, reliable, neutral and understandable.

² E.g. ISO 1406 GHG Emission Verification Standard.

ASSURANCE

Assurance takes the verification process a step further, by requiring that the data checking processes are undertaken by an independent and accredited auditing professional acting under the required ethical, independence and quality standards.

Assurance over climate disclosures ultimately confirms that climate reports are held to the same standard as the audit of financial statements.

There are two main types of climate disclosure assurance available - reasonable and limited assurance.

- **Reasonable assurance:** In a reasonable assurance engagement, the assurance practitioner is required to obtain sufficient evidence that the subject matter is free from material misstatement. This would involve a similar rigour to the financial statement *audit*. A reasonable assurance opinion is expressed in a *positive* manner, such as: *“Based on the procedures performed, in our opinion, the management assertion on XYZ is reasonably stated.”*

- **Limited assurance:** In a limited assurance engagement, the assurance practitioner is also required to obtain sufficient evidence that the subject matter is free from material misstatement. However, the nature, timing and extent of procedures performed by the practitioner are more limited compared to a reasonable assurance engagement, and would involve similar rigour to a financial statement *review* (as distinct from an audit). A limited assurance conclusion is expressed in a *negative* manner, such as: *“Based on the procedures performed, nothing came to our attention to indicate that the management assertion on XYZ is materially misstated.”*

MANDATORY ASSURANCE OF CLIMATE DISCLOSURES IN AUSTRALIA

In its **June 2023 Consultation paper**, the Australian Commonwealth Treasury proposed that assurance would be mandatory, with requirements phased-in over a four-year period, as set out in the diagram **below**. Even though assurance may not be mandated for certain cohorts from the outset, directors may still elect to voluntarily obtain external assurance.



ISSA 5000 – THE NEW PROPOSED SUSTAINABILITY ASSURANCE STANDARD

On 2 August 2023, the International Auditing and Assurance Standards Board (IAASB) issued, for public consultation, a global sustainability assurance standard known as **ISSA 5000**. This standard is intended to be the ‘global baseline’ for limited and reasonable assurance over climate and sustainability disclosures, including under the ISSB Climate standard, IFRS S2.

ISSA 5000 sets out, among other things:

- preconditions for assurance engagements, including whether management/those charged with governance have a reasonable basis for the sustainability information; whether the information is relevant, complete, reliable, neutral and understandable; and whether the assurance engagement has a rational purpose;

- requirements for accepting and continuing assurance engagements, including ethical, quality, and independence standards;
- requirements for assessing sustainability disclosures, including identifying any disclosures where material misstatements are likely to arise and understanding the entity’s internal control systems; and
- requirements for the content of the assurance report.

The Australian Auditing and Assurance Standards Board (AUASB) has opened a **consultation** on the draft standard, seeking specific feedback on whether there are certain aspects of ISSA 5000 that requires additional guidance in order to operationalise it in Australia.



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