Climate Governance Initiative Australia

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FACT SHEET 6: Assurance and verification pathways

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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.

While 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 ISSA 5000 General Requirements for Sustainability Assurance Engagements states one of the preconditions of sustainability assurance engagement includes, but is not limited to, that management/those charged with governance have a reasonable basis for the sustainability information disclosed.

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

The Climate Reporting Legislation mandates the 'end point' of assurance – being mandatory assurance over all disclosures – from 1 July 2030, leaving interim assurance requirements to the Auditing and Assurance Standards Board (AUASB).

In September 2024, the AUASB issued the **Proposed Australian Standard on Sustainability Assurance (ASSA 5010) Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001 (Cth)** for consultation. The consultation sets out the AUASB's proposed timeline for the phasing in of mandatory assurance. The proposed timetable applies equally to all groups (see **Table 1**), and includes:

- Limited assurance over scope 1 and 2 emissions from the first year of reporting, progressing to reasonable assurance in the second year of reporting;
- Limited assurance over governance and strategy (risks and opportunities) from the first year of reporting, progressing to reasonable assurance in the fourth year of reporting; and
- Limited assurance over all other disclosures from the second year of reporting, progressing to reasonable assurance in the fourth year of reporting.

Even though assurance may not be mandated for certain Groups from the outset, directors may still elect to voluntarily obtain external assurance.

TABLE 1: AUASB's proposed mandatory assurance timeline (September 2024)

REPORTING YEAR	1ST*	2ND	3RD	4TH	5TH	6TH**
Governance	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Strategy - Risk and Opportunities***	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate Resilience Assessments/ Scenario Analysis	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Transition Plans	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Risk Management	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Scope 1 and 2 Emissions	Limited	Reasonable	Reasonable	Reasonable	Reasonable	Reasonable
Scope 3 Emissions	N/A	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate-related Metrics and Targets	None	Limited	Limited	Reasonable	Reasonable	Reasonable

* Group 1 – Years commencing 1 January 2025; Group 2 – Years commencing 1 July 2026; Group 3 – Years commencing 1 July 2027.

** Group 3 is to be subject to reasonable assurance across all disclosures by years commencing 1 July 2030.

*** The phasing for assurance on statements where there are no material climate-related financial risks and opportunities is the same as for "Strategy – Risks and Opportunities."

Source: AUASB (September 2024)

ISSA 5000 – THE INTERNATIONAL SUSTAINABILITY ASSURANCE STANDARD

There have been continued efforts both globally and nationally to standardise the way in which sustainability assurance engagements are conducted. The International Auditing and Assurance Standards Board (IAASB) has issued a global sustainability assurance standard, **ISSA 5000 General Requirements for Sustainability Assurance Engagements**, which is intended to be an overarching standard to provide a global baseline for sustainability assurance engagements, and support the consistent performance of quality engagements. The standard was **approved** by the IASB on 20 September 2024, following a lengthy consultation.

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.

It is expected that an Australian equivalent of ISSA 5000 will be issued by the AUASB by the end of December 2024. This Australian equivalent is expected to apply to assurance mandated by the AUASB under the mandatory climate regime, as well as voluntary assurance over both Australian Sustainability Reporting Standards-compliant and sustainability information that is non-Australian Sustainability Reporting Standards (such as disclosures in non-mandatory stand-alone climate or sustainability reports). The AUASB is also seeking to issue a 'frequently asked questions' (FAQ) document around January 2025 to assist assurance practitioners with their obligations.

WHAT IS THE ROLE OF VOLUNTARY ASSURANCE IN MEETING DIRECTORS' DUTIES?

Even if mandatory assurance over climate disclosures more broadly is a year or two away for your organisation (depending on the Group and phasing), seeking earlier voluntary assurance or adoption of reasonable assurance before it is mandated can help directors prepare for mandatory assurance. Conducting 'dry runs' of assurance engagements allows the directors' assumptions, methodologies and disclosures to be challenged by an independent third party.

Voluntary assurance engagements present the opportunity for the auditor to identify material errors or deficiencies in the directors' disclosures, as well as time for management to implement changes and make improvements to their internal reporting processes and systems, before mandatory reporting under the AASB S2 framework is required.

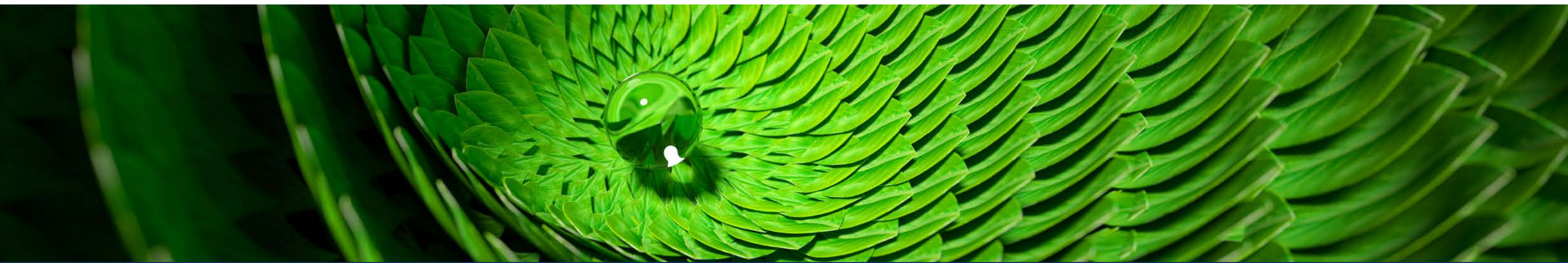
Although this may result in additional upfront costs, it can assist the directors and management to know what to expect for an entity's first year of mandatory reporting, and provide comfort that they are ready for mandatory assurance.

Directors should consider enquiring of management regarding what level of external assurance may be obtainable. In addition, like with other corporate reports, directors should expect management to have in place robust internal verification processes.

Additionally, directors may seek voluntary assurance over other climate and sustainability information that is included in annual reports or other reports, to increase confidence in the quality and reliability of such disclosures. Practically, it may be easier to obtain reasonable assurance earlier for disclosures that are based on historical information rather than forward-looking information or assumptions.

The International Federation of Accountants (IFAC) has published details of what to expect in the switch to high-quality sustainability assurance requirements.[3]

3 IFAC (June 2024) What to Expect from Sustainability Assurance.



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