Regulatory updates on assurance of climate disclosures in Australia

February 2025

Latest developments

The Auditing and Assurance Standards Board (AUASB) has approved two new standards that address the assurance of climate disclosures in Australia. Understanding these developments is crucial for Australian entities as they navigate the evolving landscape of sustainability reporting and assurance. This publication provides an overview of the key discussions and decisions made by the AUASB, highlighting the implications for businesses and the steps they need to take to help ensure compliance.

Highlights:

- The ‘assurance pathway’ that prescribes the minimum phasing in of assurance on an entity’s climate-related financial disclosures has been finalised by the AUASB
- The AUASB has approved a new auditing standard for sustainability assurance engagements that applies for financial years commencing on or after 1 January 2025.

Sustainability assurance phasing

The amendments to the *Corporations Act 2001*, which introduced the mandatory climate-related financial disclosure regime requires entities to obtain independent assurance of their climate-related financial disclosures from the firm that is their financial statement auditor. The amended Corporations Act requires sustainability reports to be subject to audit (i.e., reasonable assurance) for financial years commencing on or after 1 July 2030. The Act specified that, until that time, the extent to which a sustainability report is subject to audit or review (i.e., limited assurance) will be determined by an auditing standard that will be issued by the AUASB.

On 28 January 2025, the AUASB approved ASSA 5010 *Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001*, which specifies the minimum level of assurance that must be obtained on the various components of an entity’s climate-related financial disclosures. The assurance phasing that the AUASB has prescribed is set out in the following table:

<table>
<tr><th></th><th>Year 1*</th><th>Year 2</th><th>Year 3</th><th>Year 4</th></tr>
<tr><td>Scope 1 & 2 emissions</td><td rowspan="2">Limited</td><td rowspan="8">Limited</td><td rowspan="8">Limited</td><td rowspan="8">Reasonable</td></tr>
<tr><td>Governance</td></tr>
<tr><td>Strategy – risks and opportunities**</td><td>Limited***</td></tr>
<tr><td>Climate resilience assessments/ scenario analysis</td><td rowspan="4">None</td></tr>
<tr><td>Transition plans</td></tr>
<tr><td>Risk management</td></tr>
<tr><td>Climate-related metrics and targets</td></tr>
<tr><td>Scope 3 emissions</td><td>N/A</td></tr>
</table>

*The same assurance pathway applies to Groups 1, 2 and 3.

**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’.

***Only paragraphs 9(a), 10(a) and 10(b) of AASB S2 Climate-related Disclosures.

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The Corporations Act specifies different first-time application dates for Group 1, Group 2 and Group 3 entities.[1] However, although the timing of first-time application is different for each Group, all Groups will follow the same 'assurance pathway' from the first year of application to the fourth year of application, which is when the entire sustainability report (i.e., which represents the entity's climate-related financial disclosures) will be subject to reasonable assurance.

In Year 1, at a minimum, the following disclosures will be subject to limited assurance (including the related general disclosures in Appendix D to AASB S2 *Climate-related Disclosures*):

- Scope 1 and Scope 2 greenhouse gas (GHG) emissions (refer to paragraphs 29(a)(i)(1)-(2) and 29(a)(ii)-(v) of AASB S2).
- Governance (refer to paragraph 6 of AASB S2).
- Strategy, specifically the disclosure of descriptions of the climate-related risks and opportunities that could reasonably be expected to affect the entity's prospects, including whether those risks are physical risks or transition risks (refer to paragraphs 9(a), 10(a) and 10(b) of AASB S2).

All other disclosures required by AASB S2 will not be subject to limited assurance in Year 1, although an entity will still be required to make those disclosures in its sustainability report and the directors of the entity will need to make a declaration that the sustainability report is prepared in accordance with AASB S2.[2] The only disclosure that does not need to be provided in an entity's first sustainability report is the entity's Scope 3 GHG emissions, which do not need to be disclosed if the entity elects the transition relief allowed in AASB S2 paragraph C4(b).

Group 1 entities with annual reporting periods that commence between 1 January and 30 June will be able to apply the Year 1 assurance pathway for both their first and second sustainability reports. In the second year of applying the Year 1 assurance pathway, entities will need to disclose their Scope 3 GHG emissions, noting no assurance is required for that disclosure in that year's sustainability report.

In Years 2 and 3, all disclosures required by AASB S2 will be subject to limited assurance, and in year 4, all of those disclosures will be subject to reasonable assurance. The first entities that will be subject to limited assurance across all disclosures will be Group 1 entities with an annual reporting period commencing 1 July 2026 and the first entities that will be subject to reasonable assurance across all disclosures will be Group 1 entities with an annual reporting period commencing 1 July 2028.

The main changes that the AUASB made to the assurance pathway proposed in Exposure Draft 02/24 *Proposed Australian Standard on Sustainability Assurance ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* were as follows:

- Deferring the timing of reasonable assurance of Scope 1 & 2 GHG emissions, which was proposed to commence in Year 2 but will now commence in Year 4.
- Reducing the scope of the Strategy disclosures that would be subject to limited assurance in year 1 (e.g., limited assurance of disclosures such as current and anticipated financial effects is only required in Year 2).
- Clarifying that Group 1 entities with years commencing 1 January to 30 June will repeat the Year 1 phasing in the second year, after which all Group 1 entities continue to Year 2 phasing.

The phasing model specified by the AUASB represents the minimum level of assurance required. We anticipate many entities will obtain assurance beyond the minimum requirements to:

- Safeguard the integrity of published information
- Meet expectations of capital providers

Each entity's climate-related financial disclosures will undoubtedly receive an increased level of scrutiny from stakeholders, particularly investors. This scrutiny will focus on complex reporting requirements such as the consistency of scenarios, resilience assessments, and key judgments and assumptions made. This highlights the importance of connectivity and consistency across climate and financial reporting, sustainability reporting, and public statements in the market.

We recommend CFOs, boards and their auditors start planning for the new assurance requirements, including updating audit plans to include an assurance journey and considering baseline assurance.

1 Refer SD Hub publication [Mandatory climate-related financial disclosures: update and summary](#) for further details on the determination of Groups 1-3 and the timing of first-time application.

2 The Corporations Act requires that an entity's sustainability report must include a directors' declaration whereby the directors declare whether, in their opinion, the contents of the sustainability report are in accordance with the Corporations Act, including that the sustainability report complies with AASB S2. For the first three years of the mandatory climate-related financial disclosure regime (i.e., being from 1 January 2025 to 1 January 2028), the directors are only required to provide an opinion as to whether the entity has taken reasonable steps to ensure the contents of the sustainability report are in accordance with the Corporations Act.

Australian Sustainability Assurance Standard approved

The International Auditing and Assurance Standards Board have developed an international overarching standard on sustainability assurance called ISSA 5000 *General Requirements for Sustainability Assurance Engagements* (ISSA 5000). This standard is designed as an 'end-to-end' standard that addresses all phases of a sustainability assurance engagement.

Locally, on 28 January 2025, the AUASB approved ASSA 5000, the Australian equivalent of ISSA 5000, which is effective for financial years commencing 1 January 2025. Therefore, all mandatory climate-related financial reporting from its commencement for financial years starting on or after 1 January 2025 will be subject to assurance under ASSA 5000.

Given the effective date for ISSA 5000 is for periods commencing on or after 15 December 2026, this means that Australia is, in effect, early adopting ISSA 5000.

Why is this important?

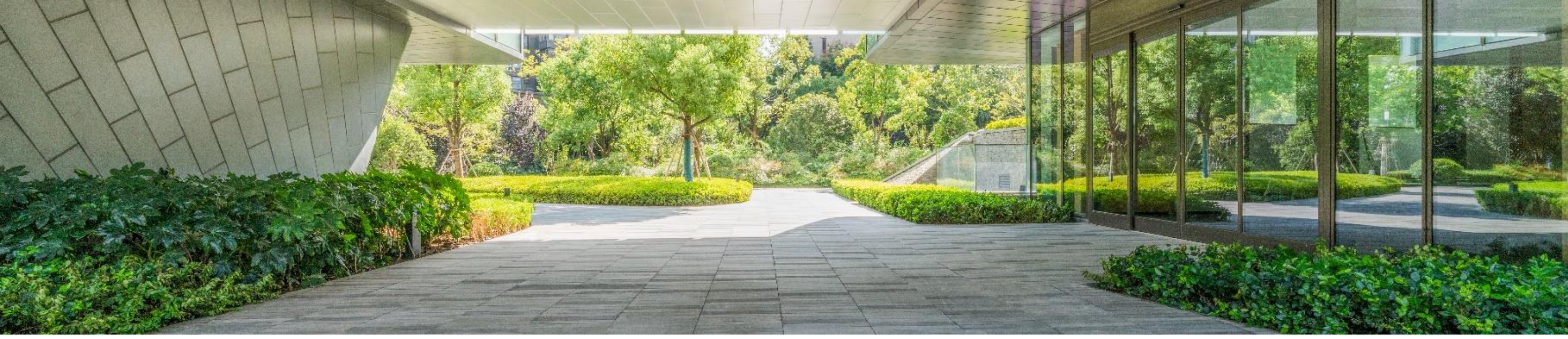
The early adoption of ASSA 5000 in Australia ensures that entities will follow a consistent and comprehensive framework for sustainability assurance from the start of mandatory reporting. This alignment with an elevated international standard means that the requirements for assurance are clear and robust, providing greater clarity and consistency for auditors and companies alike. While this may introduce additional complexity for Australian entities, it ultimately enhances the credibility and reliability of climate-related financial disclosures, meeting the heightened expectations of stakeholders and capital providers.

ASSA 5000 will replace the existing standard (ASAE 3000) which has historically been used for sustainability assurance. The requirements of the new standard are more robust, and the procedures required are more akin to financial statement assurance requirements. Specifically, the standard helps align the assurance requirements more closely with the requirements for financial reporting purposes and incorporates targeted material from certain existing and new auditing standards to provide more robust requirements and guidance.

The table below outlines the key areas that may impact the auditor's level of work over sustainability reporting:

Topic	ASSA 5000	What this means for Australian entities
Clarity on work effort	Clearly distinguishes between Limited Assurance and Reasonable Assurance, particularly in relation to the auditor's work effort for risk identification and assessment and responses to those risks.	As Entities move from no assurance to limited assurance to reasonable assurance in coming years, Management should expect a significant step up in audit testing, evidence requests and robustness of audit procedures.
Internal controls and risk assessment	Requires a thorough understanding of the entity's control environment, including IT general controls. Concepts from the new risk identification auditing standard (ISA 315) have also been incorporated in respect of the IT environment as have increased requirements in respect of identifying and documenting risk assessments.	High degree of questioning and time requirements in the planning phase. In-depth questions being asked in respect of the control environment, IT systems, control activities, risk assessments and monitoring of internal controls relating to sustainability reporting. IT systems and controls will need to be comprehensively understood and assessed for risk.
Use of Experts	"Use of expert" requirements akin to financial statement audit requirement (aligned to ISA 620). Auditors will be required to assess and document competence, capability and objectivity of external experts, agree with the expert on the nature, scope and objective of their work and evaluate the adequacy of their work.	Your auditor may require direct engagement with any third-party specialists used in the sustainability reporting process. Detailed information may be requested in respect of the scope of expert's work, rationale for assumptions adopted, methodology applied by the expert, and experts experience and qualifications.
Estimates	Expands on the existing principles by incorporating requirements of the new auditing standard on estimates (ISA 540). The auditor must obtain sufficient appropriate evidence about estimates adopted.	Heightened level of documentation required in respect to estimates made in sustainability disclosures. Your auditor will require information from Management in respect of the methods used for developing estimates, and changes in estimates from prior periods. Further for reasonable assurance, your auditor will be required to test underlying data and assumptions used in the estimates and in some cases develop our own estimate (or range) as a comparison to Management's estimate.
Materiality	Entire Sustainability Report is now subject to assurance, rather than just selected criteria. Therefore, materiality considerations are required over the full report and all disclosures. Materiality must be determined for quantitative and qualitative disclosures with a separate performance materiality determining the assurance testing thresholds for quantitative figures.	More disclosures will be in the scope of assurance work and will be considered material due to the full report being subject to assurance. Application of "Performance Materiality" means testing will be performed to a lower level than materiality, based on risk.

In addition to being a significant step up in the level of disclosures made by entities, the associated assurance which your financial statement auditor is required to provide under the new ASSA 5000 also represents a significant increase in time and audit effort relative to prior sustainability work performed. Moreover, as the required level of assurance will increase over time (from limited to reasonable), this will be a multi-year journey whereby we expect the level of auditor involvement to continually increase from year 1 to year 4+.



Why is this important? (cont.)

ASSA 5000 also specifies that practitioners performing sustainability assurance engagements are subject to APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* and the provisions in Part 5 of the *International Ethics Standards for Sustainability Assurance (Including International Independence Standards)*. These standards address matters such as risks to the integrity, quality and effectiveness of sustainability reporting and assurance (e.g., bias, conflicts of interest, pressure to act unethically, fraud including greenwashing, non-compliance with laws and regulations) and threats to the independence of assurance practitioners.

Conclusion and next steps:

The recent updates from the AUASB mark a significant advancement in the assurance of climate disclosures in Australia. The early adoption of the Australian equivalent of ISSA 5000, along with the proposed sustainability assurance phasing, provides companies and their auditors with clarity on the minimum assurance requirements. These changes will require entities to adapt to more stringent assurance requirements, ensuring that their climate-related financial disclosures meet the highest standards of quality and ethics.

Entities should begin preparing for these changes by understanding the new requirements, assessing their current reporting and assurance processes, and planning for the increased audit effort that will be required. This preparation will involve a thorough review of internal controls, risk assessments, and the use of experts, as well as ensuring that all material disclosures are adequately documented and supported.

As the regulatory landscape continues to evolve, it is crucial for businesses to remain proactive in their approach to sustainability reporting and assurance. By doing so, they can safeguard the integrity of their published information, meet the expectations of capital providers, and contribute to building a more sustainable future.

Next steps:

1

Engage with your auditors

Work closely with your financial statement auditors to help ensure a smooth transition to the new assurance requirements and agree on an assurance timeline targeted to the entity's own reporting priorities.

2

Assess current processes and assurance readiness

Evaluate your current sustainability reporting and assurance readiness to identify any gaps or areas for improvement. Consider pre-assessment activities or early assurance procedures to provide confidence in the assurability of climate disclosures.

3

Plan for increased audit effort

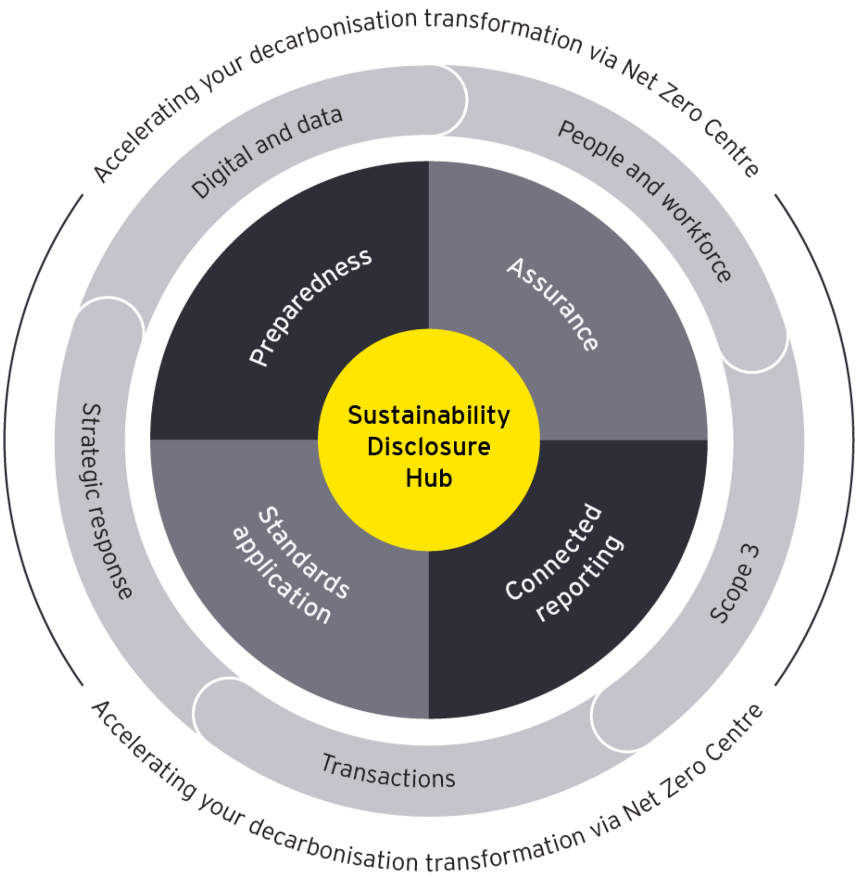
Prepare for the increased audit effort required under the new standards, including enhanced documentation and evidence gathering. Engage data owners from across the entity early to get assurance ready.

4

Stay informed

Keep up-to-date with any further guidance or updates from the AUASB regarding the implementation of ASSA 5000 and related standards.

Sustainability Disclosure Hub



The EY Sustainability Disclosure Hub offers practical guidance to assist companies across the region prepare for mandatory reporting of climate and sustainability-related reporting.

Headed by Oceania market-leading financial and non-financial reporting professionals, the Sustainability Disclosure Hub brings together EY capability locally and across the globe – coupling financial and non-financial reporting strategy, readiness and assurance capabilities that have an intimate knowledge of the work of the International Sustainability Standards Board (ISSB) and local market insights, including the development of the climate-related disclosure requirements by the Australian Accounting Standards Board (AASB) and New Zealand's External Reporting Board (XRB).

The Sustainability Disclosure Hub collaborates closely with the EY Net Zero Centre, which helps EY clients to make the right decisions at the right times and set themselves on a pathway for success in a net zero economy.

Please reach out to our Sustainability Disclosure Hub team to discuss what the requirements mean to you.

Contact us

Sustainability Disclosure Hub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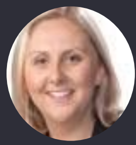
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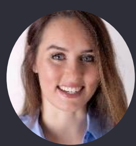
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