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From: [redacted]
Sent: Friday, 21 July 2023 1:17 PM
To: Climate Reporting
Subject: Climate-related financial disclosure - Consultation Feedback from Carbon Intelligence Pty Ltd

Dear Treasury,

I am writing to provide some feedback to the Treasury's consultation on Climate-related financial disclosure.

To give some context, our company "Carbon Intelligence Pty Ltd" has worked in Greenhouse Gas and Energy Auditing in Australia since 2007 when the NGER Act was legislated. We are a specialist audit firm that only conducts assurance and verification engagements relating to GHG and Energy, environmental and sustainability reporting. We have worked with organisations and projects across Australia, in most sectors, and across many of the schemes administered by the Clean Energy Regulator including NGER, Clean Pricing Mechanism (CPM), Safeguard Mechanism (SGM), Carbon Farming Initiative, and Emissions Reduction Fund. Our team is one of the most experienced in this field in Australia given the length of time we have been conducting assurance engagements focused on GHG emissions and due to the number of projects we have worked with.

I personally have been a Registered Greenhouse and Energy auditor since 2012, I have audited some of the largest facilities and companies in Australia and have also audited more ERF projects than most other RGEAs. I am also a fellow chartered accountant (FCA), with a background in financial audit, and have a PhD in Mechanical Engineering, and have also worked as a post-doc researcher in Greenhouse Gas Measurement. I am also a Certified Measurement and Verification Professional with a background in Life Cycle Assessment.

This background is relevant as we offer some highly relevant perspective on the plans for implementing Climate-related financial disclosure (CRFD).

Firstly, we welcome the proposals as climate-related standards are required. In particular we are highly supportive of the proposed mandatory disclosure requirements, including requirements for mandatory assurance based on international standards and to be provided by appropriately qualified professionals.

Our company has experienced being the first audit firm to audit new schemes, for example we have audited over 15 different ERF methodologies, with at least 10 of these we were the first audit firm to conduct audits. Similarly with the CPM and SGM we were among the first to conduct audits of facilities so we had to work with clients and CER to interpret the legislation. Our insight from this is invaluable as all new schemes and standards take time to establish and be implemented, and the legislative text is often very difficult to follow for practitioners. It therefore makes sense to have some leniency and less severe penalties in the first few years as the standards are implemented. If the risk to auditors is high then there will be very few who would want to engage in this subject area, after all providing assurance about the future and various uncertain factors is very difficult and in many cases not possible, particularly Reasonable Assurance.

Phasing in reporters also makes sense as Treasury rightly notes there is a shortage of assurance providers. Our knowledge of the quality of RGEAs and relevant experience would suggest there would be insufficient personnel available to provide assurance services, however this could be mitigated by offering training to existing RGEAs. Unfortunately as the CER as phased out Category 1 RGEAs there are less technically sound RGEAs available.

Another area the Treasury should consider is the skill set of the RGEAs who do not belong to financial audit firms. These are some of the most technically sound and experienced RGEAs in the pool. Some of the Treasury proposals are concerning as they require financial auditor leads which in our reading implies the bigger accounting firms would be expected to do most of this work. Our experience of Big 4 firms in particular is that everything is performed internally which would mean many of the RGEAs would not be engaged. This further reduces the pool of suitably qualified personnel to provide these assurance services. It is also a risk to the integrity as in the NGER and ERF audits

Big 4 firms only use internal peer reviewers so receive less external scrutiny, whereas smaller specialist firms like ourselves only ever use external independent peer reviewers. This is something the Treasury should give some consideration to.

On Page 19, it states "for example, temporary carve outs for climate disclosure audit requirements" – in this case it surely makes more sense for the assurance to be led by Category 2 auditors rather than financial auditors?

On Page 22 it states "Consultation feedback indicated broad agreement for phasing and scaling of assurance requirements. This would allow for skills, capacity, and processes to be developed in the market at a workable pace" – We fully support this. Having standardised disclosures will make reporting and auditing easier to implement.

On Page 23, it states "assurance to be carried out by a qualified and experienced independent provider (conducted or led by the financial auditor). It is proposed that further consultation on areas that extend beyond climate disclosure assurance is conducted by the AUASB, after the release of draft international sustainability assurance standards." – This does not make sense as it implies the assurance is led by the financial auditor (who may have limited or no knowledge of GHG reporting and climate risk), but it also goes on to say a further consultation is required. It is therefore not clear why this reporting is established with the financial auditor as lead when other standards are still consulting and ISSA 5000 is looking for broader leaders.

The new ISSA 5000 does not assume assurance has to be done or led by typical financial auditor - acknowledging that sustainability assurance likely needs more professionals involved. RGEAs would likely need to play a key role.

On Page 24, Treasury recognises "While financial auditors will have both requisite professional qualifications and knowledge of assurance processes, they may not possess the skills or technical expertise to assure climate-specific elements". However this is a mis-understanding of the skills and knowledge that RGEAs are required to have. We have to have qualifications and knowledge of assurance, in addition to deep technical understanding of climate risk and GHG reporting.

"Delegation to third-party assurance providers increases the available pool of auditors and broadens the market, while maintaining professional, ethical, and quality controls". This seems highly optimistic. All of the large financial audit firms have personnel who are RGEAs, therefore they are highly unlikely to delegate to third-party assurance providers. This is not reality and that is not how the big accounting firms work. Furthermore, a big accounting firm would not take on the risk of delegating this type of work as they would have less control and wouldn't want to risk any reputational damage if it didn't go well. Therefore although we appreciate the intention and sentiment this is not going to be very realistic in practice.

"It is important that new players are encouraged to enter the market to build capacity and avoid entrenching a highly concentrated assurance market that inhibits completion" – Agreed with the sentiment, however if Treasury choses to have financial auditors as lead then it will have the opposite effect as smaller specialist firms with engineering backgrounds are likely to leave the market or won't be able to enter the market as they are not financial auditors. This seems very misaligned to us. If financial audit firms start leading all of this assurance work, then there will only be a very small number of large firms that delivery the assurance engagements. Whereas if it starts with RGEAs being able to lead then the market would develop in a different way, it is that simple. Treasury should understand that the smaller firms with RGEAs all communicate with one another and most would be unable to enter this assurance market if led by financial audits, it is that simple, so a likely outcome is smaller firms leave or are merged into bigger firms.

We welcome that Treasury recognises the Register of Greenhouse and Energy auditors which seems to suggest this is highly regarded, this does not align to the requirement to have financial auditors leading assurance of climate risk.

On Page 25, Treasury recognises qualifications and experience as paramount, and notes restricting provision to company auditors will stifle opportunities for greater competition. It also notes the need for further consulation, therefore it is unclear why start reporting with financial auditors as lead.

Table 3 is a concern. I know many of the RGEAs in Australia, and I struggle to think who would be able / willing to sign off reasonable assurance over climate disclosures. Perhaps I misunderstand how detailed and define the disclosures will be, but based on my current knowledge of disclosures and requirements for a Reasonable Assurance engagement then I'm not sure many auditors would be keen to lead these engagements. If you look at the ERF scheme many of the bigger firms do not audit these due to perceived risk and their lack of knowledge/experience in the Methodology, I think the same would be true for climate related disclosures. I've issued around 100 Reasonable Assurance engagements but I can tell you these are high stress, high amounts of work, so developing a pool of willing auditors is one thing. Maintaining the auditor pool is quite another, particularly if there is a significant risk of liability.

With the liability and enforcement, I think that many firms will issue highly caveated or protected assurance statements which will significantly reduce their value to the users of reports. This could reduce the value of assurance if the assurance statements are weakened.

One final thought around liability is that for global companies or Australian only companies, the impacts of climate change are global not local, therefore the risk of liability from other parts of the world is surely increased? I'm not a legal expert but if say an auditor provides assurance over a disclosure which then turns out to be incorrect and impacts people then surely there could be situations where the auditor is liable. I'm not sure many sane auditors would be providing assurance with anything that has uncertainty, which would be most climate related disclosures?

I hope this is helpful, please send me an email if you require any further input or clarification.

Best Regards,

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Registered Greenhouse Gas and Energy Auditor
Category 2, Category 1
Carbon Intelligence Pty Limited