The Treasury: Climate-Related Financial Disclosure: June 2023 Consultation Paper comments

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Introduction

Bureau Veritas Australia ("Bureau Veritas") welcomes The Treasury's renewed focus on climate and ESG disclosures and writes in support of established rules that facilitate the disclosure of consistent, comparable, and reliable information on climate change. Specifically, Bureau Veritas supports requirements the phased implementation such that GHG emissions are stated across scope 1, 2, & 3 and that these data sets are subject to independent assurance to provide credibility that decarbonisation targets and strategies are effective.

Over the course of its almost 200-year history, Bureau Veritas has established a global reputation for being a reliable and impartial 3rd party in the areas of quality, health, safety, environment, and sustainability across every industry. Our independence and ethics are exemplary in building trust. Today we assist a broad range of customers (public and private) in the development, tracking and management of their GHG emission disclosures requirements (controls and procedures). We also sit on the IAASB Sustainability Task Force to influence global standard setting in relation to sustainability assurance and ISSA 5000. Given our expertise and experience we make the following recommendations for your consideration.

We fully support the Australian government's desire to find the most cost-efficient way to maintain a register of climate disclosure auditors – but fundamentally disagree with the proposed design and approach in relation to Assurance Providers and their professional requirements

- We strongly believe that it is in the interest of the Australian Economy to allow sustainability assurance to be led by non-accounting service providers **and** financial accountants to create a fair market.
- We also believe Australia should not diverge from international norms in relation to what is reported, and who provides assurance and their competency, quality management and ethical standards[1].
- The existing register of Greenhouse & Energy Auditors established under the NGER scheme and maintained by the Clean Energy Regulator (CER) is known to be flawed and has not kept pace with international best practice nor is it aligned to the Paris Agreement (and therefore the subsequent commitments made by the Australian government). The CER acknowledges this, and it is currently under public consultation.
- The risk of only using financial auditors to lead TCFD verification and assurance engagements risks further concentration of the audit market, which may threaten auditors' independence and lead to increases in audit fees, or sustainability reporting compliance charges.
- Failure to fix the competence process for auditors of climate related topics (and future ESG topics) will cause a shortage of qualified assurance practitioners / verifiers leading to a slower adoption of the needed targets and ultimately to delays in altering the trajectory of corporate GHG emissions. This will increase the cost of the economic transition for the Australian economy and make it a laggard in the G20.

[1] Internationally, our competency, quality and ethical procedures are verified by accreditation societies against ISO 17029:2019 Conformity assessment – General principles and requirements for validation and verification bodies. We use these same independently audited processes when completing ISAE 3000 and 3410 engagements (our internal procedures and processes have been designed to comply with the requirements of multiple voluntary, and regulatory methodologies to simplify the approach and ensure technical consistent deliverables globally.

Recommendations – Assurance Providers & Professional Requirements

1. **Entities other than financial auditors <u>should</u> be permitted to lead the assurance of GHG emission disclosures**.
    a. Sustainability assurance professionals have both the requisite professional qualifications and knowledge of assurance processes **AND** technical expertise to assure climate-specific elements (and other ESG KPIs such as nature, inequality & diversity, and ethics which are anticipated in the future, and which will also require mandatory assurance)
    b. Consumer choice is important. When appointing independent third-party verifiers, it is important they understand the organisation, its type of business, and its emissions. **The verifier/assurance practitioner's knowledge and experience are more important than the type of organisation that they are from.**
    c. Globally professional accountants conduct 57% of ESG assurance assignments, with specialist non-accountancy service providers (such as Bureau Veritas) performing the remaining 43%.[2] It is internationally proven that what matters for climate disclosure auditors is that they are competent, independent, have suitable ethics, and quality management processes in place (as per ISAE 3000 & 3410 or the proposed ISSA 5000).
    d. The option to 'delegate' assurance tasks to experts fails to acknowledge that contractual markup will occur delivering profits to financial auditors as opposed to technical specialists - this stifles brand awareness of alternate providers and limits their ability to invest in job creation to meet the market demand. This 'delegate' proposal will absolutely fail to encourage new market entrants and will inhibit competition. Instead, this will create competition for already scarce resources rather than collaborating and building greater skilled capacity – which is what is needed to accelerate the transition.
    e. The proposed approach is not scalable to meet future market needs, or the evolving scope for ESG assurance. It is widely acknowledged that soon the scope of ESG disclosure and mandatory assurance will increase and include additional environmental, social and governance KPIs (materials, pollution, nature, diversity & inclusion, modern slavery etc)
        i. Financial auditors are not competent to correctly identify all relevant sustainability risks – sustainability audits are typically more complex and challenging than financial auditing. This is because they require the auditor to assess a wide range of factors, and must consider impacts of reputational risks, supply chain risk, regulatory risks which are not normally captured by financial audits and involve qualitative judgement which moves away from the traditional approach accountants are accustomed to
    f. Limiting the permission to only have financial auditors lead sustainability assurance engagements would be counterproductive in seeking transparency, integrity, and accountability. Instead, it creates the risk of market distortions allowing the oligopoly of accounting firms to dominate and overcharge for their services.
        i. Constraining access to the market in this way is misaligned with ISSB's new global assurance processes.
        ii. Accounting firms have demonstrated time and again that they are unable to manage inherent conflicts of interest that their oligopoly situation creates
        iii. The recent senate inquiry has also shined a light on competency management practices when they extend into topics outside of financial audit – eroding trust, and integrity of ESG data which is critical for organisations and investors to make the changes required by the transition.
    g. Risks of conflict of interest arise both from the influence of consulting activities on the audit, and from the influence of financial issues on sustainability. In corporate strategy, financial and sustainable performance can sometimes be contradictory. Therefore, how can we ensure a real independence of the sustainability elements within the company if the sustainability audit remains an accessory of the financial audit? This proposed approach limits the importance of sustainability and the long-term thinking required to

[2] https://www.responsible-investor.com/professional-accountants-fall-out-of-favour-on-esg-assurance/

deliver the transformation required to meet the Australian Government's Emission reduction targets and therefore the planetary targets.

h. In summary we assess that the Australian Treasury faces a significant implementation risk, if "certification bodies" are excluded from the market. Opening the assurance service market to non-financial audit firms is necessary in Australia to bring advantages such as: consumer choice, stronger technical expertise, rigour, independence, absence of conflict of interest and better rates.

2. **Reviewing the competence arrangements for GHG assurance auditors for climate related financial disclosures and NGER and for future ESG topics**
    a. The systems should be aligned, but they require significant reform to prevent further divergence from international competency norms which build the trust and credibility expected on this data and therefore impact Australia's ability to trade and attract investment.
    b. The NGER scheme (and its competency requirements) are no longer fit for purpose, challenging to scale up for increased demand and volume and no longer aligned to international expectations compromising Australia's reputation and ability to attract future investment if no action is taken on this. Examples of specific well known and documented weaknesses include
        i. The institute for Energy Economics and Financial Analysis (IEEFA)[3] and the International Energy Agency[4] both highlight discrepancies with under reported emissions for methane (as an example) and will have a material impact on Australia's GHG reduction targets and achievements
        ii. The emission threshold is high meaning that a significant number of emissions are not being captured by the scheme and driving change
        iii. Do not require field-based sampling during verification which can identify key issues and drive faster reduction trajectories
        iv. Rely on self-reporting – which increases the risk of errors and omissions in the data limiting the need for assurance (and therefore maintenance of competency of auditors is challenged by a low level of utilisation)

We hope these views are helpful inputs for further consideration and we look forward to actively engage in further dialogue together on the evolution of standard setting for ESG topics.

Please contact the following representatives, for any questions related to this submission.

Sincerely

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Sincerely

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[3] https://ieefa.org/resources/gross-under-reporting-fugitive-methane-emissions-has-big-implications-industry
[4] https://www.iea.org/data-and-statistics/data-tools/methane-tracker

Appendix 1:

The following section explains how our accreditations are linked to the competency of our sustainability auditors and assurance practitioners.

Competency requirements, education, training and examination

Our accreditations require us to be able to link the right competence to the right task. Therefore, competence requirements, education, training, and examination are laid down in the management system and related documents. The academic prerequisites (education) are determined by subject area. They will typically include possession of a master's degree or equivalent in one of several scientific fields, engineering, business administration or law and / or a certain number of years' worth of work experience. When approved verifiers (or assurance practitioners) are trained for new areas; they undergo an internal or external training courses ending with a test of understanding and a certificate of achievement. After that, the employee in question will be a trainee who must continue doing on the job training working together with an experienced "lead verifier" on tasks covered by the accreditation. The candidate concerned must pass through a series of professional approval processes that end with a "witnessed audit". Their competence will be checked to see that he or she demonstrates an understanding of the project, client, and management of the verification team as well as technical questions from a third, independent "lead verifier". Within sustainability, a broad discipline, verifiers will typically be approved for a sub-area, e.g. climate, environment, social conditions, human rights, etc. There is also a requirement for continuous ongoing training and competence checking for the individual.

Professional ethics, independence, objectivity, confidentiality and professional secrecy

The accreditation has detailed requirements for impartiality and confidentiality. There will be differences in how individual competent bodies ensure independence and integrity under their accreditation. It is customary to have an "Impartiality" policy which all employees must follow. Risk assessments of the commitment are carried out at the start of each assurance engagement, including addressing impartiality and threats to impartiality from self-interest, self-assessment, confidentiality, and risk of intimidation. Conflict of interest analysis, etc. is carried out. It is a process that is continuously evaluated and improved. All employees are trained at intervals in this. Professional secrecy is also a requirement unless otherwise agreed with a customer.