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To Whom it may concern

Consultation on Sustainability Assurance

KPMG welcomes the opportunity to provide comments on the External Reporting Board ('XRB') Sustainability Assurance Consultation Document, September 2023 (the 'Consultation'). Our responses to your questions are as follows:

1. What sustainability assurance engagements do you currently perform?

We perform assurance engagements over subject matter information including:

- Greenhouse gas inventories
- Reporting baseline and performance information in relation to sustainability linked loans
- GRI reports
- ESG metrics in sustainability reports compiled using an entities' own suitable criteria
- Performance against greenhouse gas reduction targets
- Statements of service performance information.

2. What sustainability assurance engagements have you been requested to perform?

In addition to the subject matter information above, we have also been invited to tender for assurance engagements reporting against the NZ Climate Standards – both the greenhouse gas inventories and the broader climate-related disclosures.

3. What assurance standards do you currently use to perform each type of sustainability assurance engagement?

ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* for all the above engagements. SAE 3100 (Revised) *Compliance Engagements* and ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements* where appropriate.

For audits over statement of service performance information, we use NZ AS 1 (Revised) *The Audit of Service Performance Information*.

We plan to use NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures* when applicable.

4. What are the key challenges in assuring sustainability information in accordance with these standards?

Assuring sustainability information comes with a range of challenges, predominantly driven by the pace at which the reporting standards have been developed, and the relative reporting immaturity of many organisations in New Zealand. Specific challenges we have encountered are as follows:

- The standards lack detail around the difference in assurance effort between limited and reasonable assurance, with the professional judgement of the assurance practitioner being heavily relied upon. This creates risk around consistency of work across assurance engagements where the assurance practitioners are different.
- As mentioned above, generally organisations' reporting function for sustainability information is not as mature as the financial reporting function, and as such documentation is generally not as readily available or of as high quality. Organisations also lack an understanding the pre-conditions to assurance, particularly around the requirements of a suitable criteria, which can cause issue where the primary criteria are required to be supplemented by entity developed criteria.
- Currently the standards we use do not specifically address forward looking sustainability information, which may cause further challenges if we are asked to assure, for example, the outcomes of scenario analysis or anticipated impacts and financial impacts in climate statements.
- Lastly, the standards do not contain as much detail as the audit standard (i.e., there is limited guidance around estimates compared to ISA (NZ) 540 *Auditing Accounting Estimates and Related Disclosures*). As such, we must leverage off the guidance in the audit standards, which have not been designed to be applied on sustainability information as an underlying subject matter.

5. What assurance activities do you think are most suited to sustainability reporting in New Zealand and why?

We believe assurance over quantitative and qualitative information are both of value in New Zealand. For example, with relation to the Aotearoa New Zealand Climate Standards, assurance over both the greenhouse gas inventories, and the full climate statements are important to provide confidence to stakeholders. This is important for the standards' ultimate aim to support the allocation of capital towards activities that are consistent with a transition to a low-emissions, climate-resilient future.

We do not see significant value in attempts to provide assurance over the specific scenarios an organisation selects, the anticipated impacts of the scenarios and their financial consequences or the resulting transition plan, given the subjectivity of the assumptions that these disclosures are based upon. Rather we anticipate our assurance approach be focused on transparent and accurate disclosure of the systems, processes,

controls and assumptions used by the client. We believe this approach will more closely align efforts of reporters and assurers with the objectives of the standards. Specifically, with regard to assurance over the Aotearoa NZ Climate Standards, we would like to see clear guidance issued from the XRB on what our assurance opinion should cover, reducing differences in opinions between assurance firms and as such reducing the risk of a large expectation gap between the intended users and the assurance practitioner.

While we have not been requested to perform assurance over controls related to sustainability reporting or materiality assessments, we see no issue in assuring this information subject to the pre-conditions to assurance being met.

6. Do you have any comments on the IAASB's ED 5000 to inform the External Reporting Board's submission?

Comments made by KPMG on the IAASB's ED 5000 are made by KPMG International. As such, we have no further comments on the exposure draft.

7. What standards do you apply for quality management for sustainability assurance engagements?

PES 3 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

8. What standards do you apply for Ethics and Independence when performing sustainability assurance engagements?

- *PES 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*
- *PES 4 Engagement Quality Reviews*

9. What could be some key pillars for Ethical and Independence standards for sustainability assurance?

A distinguishing mark of the audit and assurance profession that currently undertakes statutory financial audits in New Zealand is the responsibility to issue high quality conclusions and opinions. This outcome is reached when assurance engagements are executed consistently, in line with the requirements and intent of applicable professional ethical and independence standards, within a strong system of quality controls.

We understand requiring application of these standards is likely to restrict market access to those who have already made the significant investment in quality management systems and processes necessary to support them. We also recognise that the Greenhouse Gas Inventory assurance market will benefit from having practitioners participating that come from a more diverse range of backgrounds than just financial auditing and that some of those practitioners will need to make a significant investment in quality management systems to meet the standards firms complying with PES 1, 3 and 4

are expected to achieve. However, we note that the “at least as demanding” expectation has already been set in NZ SAE 1 and by international standard setters, therefore it is only a matter of time before other practitioners have a sufficient system of control in place.

As such, we recommend that the same Ethics and Independence standards that apply to statutory financial audits apply to sustainability assurance.

10. What issues could Ethical and Independence standards for sustainability assurance address?

We are aware of debate in the market about the quality of work between different providers and what systems of quality management are required to issue an assurance opinion or conclusion. We would recommend a consistent set of ethics and independence standards to be applied, regardless of who participates in the market.

We have no further comments on the Consultation.

Yours sincerely



Darby Healey
Partner

Yours sincerely



Ian Proudfoot
Partner