



11 September 2018

Climate Change Authority
GPO Box 787
CANBERRA ACT 2600
Via email: submissions@climatechangeauthority.gov.au

Dear Sir or Madam

Review of the National Greenhouse and Energy Reporting legislation

Chartered Accountants Australia and New Zealand welcomes the opportunity to provide a submission to the Climate Change Authority on the Consultation paper – *Review of the National Greenhouse and Energy Reporting legislation*. We have focused our feedback on the key areas and questions where we consider we can add the most value to the consultation. Appendix A provides our detailed submission and Appendix B provides more information about Chartered Accountants Australia and New Zealand.

Key points

We consider:

- It critical to keep the objectives of the National Greenhouse and Energy Reporting (NGER) legislation and the users of the reporting information front of mind during the legislative review process.
- It is important that the Clean Energy Regulator applies appropriate levels of materiality and tolerance for error in accordance with the determination.
- In order to encourage, increase and maintain reporting and volunteer assurance under the scheme, a continued emphasis on upholding a supportive framework should be provided by the Clean Energy Regulator.

Should you have any queries concerning the matters discussed above or wish to discuss them in further detail, please contact Karen McWilliams via email at karen.mcwilliams@charteredaccountantsanz.com or phone (612) 8078 5451.

Yours sincerely,

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Appendix A

General Comments

We continue to support the NGER legislation and the positive work carried out by the Clean Energy Regulator (CER). During the consultation process, our members have also commended the CER's continued contribution towards global sustainable development.

Some of our members have expressed concern that there is inconsistency between the level of information reported under NGERS and that required for the intended user. For instance, reporters have been required to enter data on a facility by facility basis which is then signed off at the controlling corporation level. Other than for the purposes of maintaining the safeguard mechanism, members have questioned whether the facility level data requirement is still fit for purpose. Additionally, the tolerance for errors and materiality in the reporting and assurance process appears to be set particularly low by the CER, resulting in additional work. We recommend that this is reviewed in relation to the objectives of NGERS, the main users of reporting output and the level of information required by users to make informed decisions. As noted in the NGER Act 2007, the first object of the act is to:

- *Inform government policy formulation and the Australian public; and*
- *meet Australia's international reporting obligations*
- *Assist Commonwealth, state and territory government programmes and activities, and*
- *Avoid duplication of similar reporting requirements in the states and territories.*

The Act outlines that the primary user of the reporting output is Government (Commonwealth, state and territory) and the level of detail that is required by the Government for decision making and reporting obligations needs to be appropriately balanced with the compliance burden for reporters.

Chapter 2. The National Greenhouse and Energy Reporting Scheme

Q6. Is the Emissions and Energy Reporting System tool easy to use and fit for purpose?

Some of our members commented that whilst the Emissions and Energy Reporting system tool has improved overtime, limitations and complexities still exist in the system. For example, they are unable to efficiently upload subsidiary information for some reporting entities. They noted that the Australian Bureau of Statistics platform was easier to use.

Q8. Are there opportunities to streamline emissions and energy reporting obligations under the National Greenhouse and Energy Reporting scheme and other programs?

The National Pollutant Inventory (NPI) is currently due at the end of September, one month before NGERS. We consider there may be benefit to organisations if the reporting date for NPI was extended by one month to align with NGERS. Whilst we don't consider they could be combined, as the purpose and focus of reporting for each is quite different, some data is required for both and this could be streamlined if the information was entered once at the same time.

Q9. How does the National Greenhouse and Energy Reporting scheme contribute to providing useful information for climate-risk disclosure or other data users and are any enhancements to the reporting scheme desirable?

The NGER scheme provides robust data and a strong foundation to inform other internal and external climate and emission related reporting requirements for businesses such as the Carbon Disclosure Project and the Task Force on Climate-related Financial Disclosures (TCFD).

Some members have suggested that they would find it helpful if NGERS provided a measurement determination for Scope 3 emissions. Whilst we are not suggesting that this detail should be reported under NGERS, reporting entities may benefit from a robust calculation method for determining their Scope 3 emissions aligned to how they calculate Scopes 1 and 2, which can be used for other reporting schemes.

Q10. Is reporting of emissions and energy data meeting the needs of data users and inducing change in business operations? If so, how?

Some organisations noted that the information reported enabled high level comparisons between entities, which might lead to behavioural change.

Chapter 4. Data use and publication

Q24. How should the National Greenhouse and Energy Reporting scheme evolve over time to support changing data needs?

We note the use of energy storage, such as gas storage and batteries, is increasing and therefore consideration is needed to determine an appropriate method for reporting energy storage by entities under NGERS.

Chapter 5. Audits

Q25. Is the audit framework in the National Greenhouse and Energy Reporting legislation effective and efficient in ensuring compliance?

We support the use of audit standards set by the Australian Auditing and Assurance Standards Board in NGERS audits.

We consider the audit framework to be appropriate in ensuring compliance.

Q26. Are there opportunities for improving the audit framework such as reducing the cost of audits or making the audits more effective?

As mentioned in the consultation paper, 800 companies covering 60 per cent of Australia's emissions currently report under the NGER scheme with 380 audits (47.5% of reporters) undertaken and provided to the CER in 2016-17. As there is currently no legislative requirement for a reporter to obtain assurance, we are concerned that the CER, by re-auditing large proportions of these voluntary assured reports, may unintentionally discourage entities from undertaking voluntary assurance. We consider it important that voluntary assurance is seen to be encouraged and valued by the CER. We note that there is already a process for assessing the capability of registered auditors under the auditor inspection program and therefore we consider it important that the identification of entities for CER initiated audits is focused on the higher risk reports.

Our members have expressed some concerns in relation to the determination of materiality for reporting and assurance. We note that the definition of material in the audit determination is as follows:

Information is material if its misstatement or non-compliance could influence the decisions of users of the greenhouse and energy information. An evaluation of whether a misstatement or non-compliance is material is based on the audit team leader's assessment of the:

- *size, significance and pervasiveness of the matter in the particular circumstances of its misstatement or non-compliance, and*
- *effect it has on the reported greenhouse and energy information or on the audited body's compliance as a whole.*

However we understand in practice that the CER does not consider any level of unadjusted errors to be acceptable and that in many instances materiality is set exceptionally low. We consider it important for an appropriate level of materiality and tolerance for error to be set for assurance engagements in accordance with the determination.

Q28. Do the requirements for auditors effectively balance the cost and quality of audits?

We are aware of some concerns in relation to the specific assurance requirements for projects under the Emissions Reduction Fund (ERF). These projects are generally small in nature but high risk, given the level of complexity and degree of estimation and assumptions needed. We understand there have been instances where some experienced auditors have refused ERF assurance engagements as a direct consideration of the size of projects, the ability to maintain costs and audit quality and balance the associated risks.

Chapter 6. Governance and Compliance

Q33. What has been your experience of any compliance of enforcement activities by the Clean Energy Regulator?

Our members have expressed both positive and negative experiences when dealing with the CER. However the consensus has been that the CER has strived to improve and rectify any issues that have been identified. In order to uphold a supportive framework, we recommend that CER's key communications with stakeholders continue to be educative. However, in repeated instances of non-compliance, we consider it important that the CER is seen to use their enforcement powers.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand is a professional body comprised of over 120,000 diverse, talented and financially astute members who utilise their skills every day to make a difference for businesses the world over.

Members are known for their professional integrity, principled judgment, financial discipline and a forward-looking approach to business which contributes to the prosperity of our nations.

We focus on the education and lifelong learning of our members, and engage in advocacy and thought leadership in areas of public interest that impact the economy and domestic and international markets.

We are a member of the International Federation of Accountants, and are connected globally through the 800,000-strong Global Accounting Alliance and Chartered Accountants Worldwide which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents 788,000 current and next generation professional accountants across 181 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications to students and business.