

Accounting and Finance PhD Research Project

Costs and Benefits of Mandatory Assurance of Climate-Related Disclosure in Australia and New Zealand

Supervisory Team:

Associate Professor Simone Scagnelli

Dr Xuan Sean Sun

Dr Deepa Bannigidadmth

Abstract

This project aims to provide evidence on the costs, quality, and regulatory implications and relevance of sustainability assurance within the Australian context. With climate-related disclosures becoming mandatory in Australia from 2025, understanding the financial burden, assurance effectiveness, and market impact is timely and crucial. While assurance of financial disclosures is largely standardised globally, the rapidly evolving ecosystem around non-financial disclosure has led to no clear global consensus. Thus, important questions remain, including who should be allowed to assure sustainability/climate-related information, what assurance level is appropriate, what assurance standards should apply, and whether the benefits outweigh the costs.

Further details

The evolution of climate-related disclosures in Australia reflects increasing regulatory and stakeholder demands for transparency, yet significant inconsistencies persist. The Australian Accounting Standards Board (AASB) introduced AASB S1 and AASB S2 in late 2024, marking a significant shift toward mandatory climate-related financial disclosures. While AASB S1 remains voluntary, AASB S2 mandates disclosure for certain entities starting from January 2025, July 2026, and July 2027, depending on entity classification. *AASB S2 Climate-related Disclosures* requires companies to disclose climate-related risks and opportunities that could impact their cash flows, access to finance, or cost of capital over different time horizons.

Sustainability assurance plays a critical role in enhancing the credibility of climate-related disclosures (especially carbon emissions), improving transparency, aligning corporate reporting with global climate goals, strengthening governance, and driving financial and environmental benefits. Australia has introduced mandatory sustainability assurance requirements to enhance the credibility and comparability of climate-related disclosures. In

January 2025, Australian Accounting Standards Board (AUASB) approved *ASSA 5000 General Requirements for Sustainability Assurance Engagements* and *ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* to provide a structured framework for sustainability assurance engagements. These standards specify the phased implementation of assurance requirements over climate-related disclosures, outlining when such disclosures must be reviewed and audited.

The implementation of mandatory sustainability assurance in Australia (from 2025) presents an opportunity to assess its financial and informational impacts. This project will leverage data from New Zealand first, where mandatory climate disclosures and assurance over climate-related disclosure (i.e., carbon emissions) have been in place since 2023. By examining how New Zealand's market has responded to these changes, we aim to provide empirical insights into the cost implications, market reactions, and assurance effectiveness of Australia's new sustainability assurance standards in the coming years.

The PhD study will evaluate the quality of sustainability assurance reports, quantify the costs of sustainability assurance, and analyse the financial effects and effectiveness of mandatory sustainability assurance. It will explore how factors such as assurance level choices (limited vs. reasonable assurance), provider selection (incumbent auditors vs. external firms), and the amount paid for assurance services influence assurance credibility, reporting quality, and market reactions. The findings will help AASB and AUASB balance regulatory rigor with compliance costs, ensuring that Australia's new sustainability assurance standards are both effective and practical.

The following indicative research questions arise from the outline above and can form the initial basis of this research project.

1. How does the mandatory adoption of sustainability assurance affect the quality of climate-related disclosures and assurance reports, compared to the voluntary assurance period?
2. What are the direct costs associated with sustainability assurance, and how do these costs vary between voluntary and mandatory assurance periods, as well as by provider type?
3. Does sustainability assurance influence firms' financing costs (cost of equity and debt), audit fees, or reporting timeliness (audit and assurance report lag)?
4. How does the chosen level of assurance (limited vs. reasonable) impact the quality of sustainability disclosures and investor or market responses?

5. Does the type of assurance provider (incumbent auditor, external accounting firm, or non-accounting firm) affect the perceived quality of sustainability assurance and associated market reactions?

The following articles help provide a backdrop of the literature pertaining to this field.

- Caglio, A., Melloni, G., & Perego, P. (2020). Informational content and assurance of textual disclosures: Evidence on integrated reporting. *European Accounting Review*, 29(1), 55-83.
- Choi, B. B., Lee, D., & Psaros, J. (2013). An analysis of Australian company carbon emission disclosures. *Pacific Accounting Review*, 25(1), 58-79.
- Cotter, J., Najah, M., & Sophie Wang, S. (2011). Standardized reporting of climate change information in Australia. *Sustainability Accounting, Management and Policy Journal*, 2(2), 294-321.
- Datt, R., Luo, L., & Segara, R. (2024). Voluntary carbon assurance and the cost of equity capital: International evidence. *Australian Journal of Management*, 03128962241251498.
- Fan, H., Tang, Q., & Pan, L. (2021). An international study of carbon information asymmetry and independent carbon assurance. *The British Accounting Review*, 53(1), 100971
- Farooq, M. B., & de Villiers, C. (2017). The market for sustainability assurance services: A comprehensive literature review and future avenues for research. *Pacific Accounting Review*, 29(1), 79-106.
- Green, W., & Zhou, S. (2013). An international examination of assurance practices on carbon emissions disclosures. *Australian Accounting Review*, 23(1), 54-66.
- Hsiao, P. C. K., Scott, T., & Zang, Z. (2022). A snapshot of sustainability assurance market in New Zealand. *Pacific Accounting Review*, 34(5), 669-686.
- Luo, L., Tang, Q., Fan, H., & Ayers, J. (2023). Corporate carbon assurance and the quality of carbon disclosure. *Accounting & Finance*, 63(1), 657-690.
- Shen, Y., Su, Z. W., Huang, G., Khalid, F., Farooq, M. B., & Akram, R. (2020). Firm market value relevance of carbon reduction targets, external carbon assurance and carbon communication. *Carbon Management*, 11(6), 549-563.
- Simnett, R., Tan, Y. H., You, J., & Zhou, S. (2025). Australian listed companies' preparedness for mandatory reporting and assurance of climate-related disclosures. *ABACUS*, in-press.
- Zaman, R., Farooq, M. B., Khalid, F., & Mahmood, Z. (2021). Examining the extent of and determinants for sustainability assurance quality: The role of audit committees. *Business Strategy and the Environment*, 30(7), 2887-2906.
- Zhou, S., Simnett, R., & Green, W. J. (2016). Assuring a new market: The interplay between country-level and company-level factors on the demand for greenhouse gas (GHG) information assurance and the choice of assurance provider. *Auditing: A Journal of Practice & Theory*, 35(3), 141-168.

Desired skills: Qualitative research, Quantitative research (Stata, R, or Python)

Project Area: Accounting and Finance

Project level: PhD or MbR