

ASSURANCE ON A GREENHOUSE GAS STATEMENT

Consultation paper issued by the International Auditing and Assurance
Standards Board of the International Federation of Accountants

Comments from ACCA
February 2010



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Executive Summary

ACCA has been actively promoting transparency and best practice in sustainability reporting since 1990. We are very pleased, therefore, to have the opportunity to respond to the consultation paper *Assurance on a Greenhouse Gas Statement* issued by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants.

We found the appendix to the consultation paper to be particularly helpful in focussing our comments. It is a well-crafted working draft, drawing on existing pronouncements to illustrate how a possible International Standard on Assurance Engagements could emerge. The IAASB is currently also considering revision of ISAE 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, which acts as an umbrella standard for the ISAE series and we recognise that changes to it could affect the form of any specific standard.

The consultation paper contains 30 questions, which we have used to structure our detailed response. From our answers and the general comments that precede them, we highlight the following:

- We strongly suggest that this project should not result in a highly detailed standard that is only suitable where a large reasonable assurance engagement is carried out by auditors of public interest entities.
- In our view, to meet the demands of the market, the eventual standard must deal with both reasonable and limited assurance engagements.
- We consider that the IAASB needs to explain how its standards can be applied alongside the standards and guidance that are already in use for greenhouse gas assurance.
- We do not agree with a requirement in the working draft that the engagement partner must be a professional accountant, as multidisciplinary teams may be led by those with other qualifications.

General Points

ACCA has been involved with the unfolding debate on sustainability since 1990. We actively promote transparency and best practice in areas such as reporting and disclosure, and assurance. Our initiatives have included the ACCA Awards for Sustainability Reporting, research projects and collaboration with sustainability-related organisations such as Transparency International, GRI, and AccountAbility. In December 2009, with GRI, we examined the business world's response to climate change in a four part report: *High-impact Sectors: the Challenge of Reporting on Climate Change*. The report provides an insight into the degree to which large companies around the world from the 15 most high-impact industry sectors have begun to disclose their greenhouse gas (GHG) emissions and their strategies for reduction.

We very much welcome, therefore, the issue of the consultation paper *Assurance on a Greenhouse Gas Statement* and the progress made by the International Federation of Accountants (IFAC) towards full participation in sustainability issues.

On 29 January 2010, ACCA was pleased to host a roundtable in London at which the co-chairs of the relevant IAASB Task Force, by video link from Australia, were able to discuss the consultation paper with those carrying out GHG assurance work and other experts, including those in government and the ISO and AA1000AS fields. The event was chaired by Jon Grant (UK Auditing Practices Board and IAASB member) and was attended by other IAASB members and technical advisers. Written output and an audio recording from that event have been provided to the Task Force.

In framing our comments on the consultation paper, we have borne in mind that the IAASB is also considering a revision of International Standard on Assurance Engagements 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) which acts as the umbrella standard for the ISAE series. We recognise that the nature and extent of coverage of matters in ISAE 3000 will necessarily affect that in the resulting GHG assurance standard both initially and as a result of eventual consequential amendments.

We found the appendix to the consultation paper to be particularly helpful in focussing our comments. It is a well-crafted working draft, drawing on existing pronouncements to illustrate how a possible GHG ISAE could emerge.

An overarching issue with both revisions to ISAE 3000 and the working draft ISAE is the nature and extent of the requirements and hence the cost of applying the standards to a range of engagements from the largest international corporation to the smallest on which assurance is worthwhile. In an earlier communication with the IAASB concerning ISAE 3000 we explained that:

'ACCA notes that the IAASB is also consulting on proposed updating of ISRE 2400, and that a project to update ISA 700 is timetabled. ACCA strongly suggests that the IAASB updates all non-audit engagement standards (and the Assurance Framework) together so that users benefit from a comprehensive range of pronouncements that are consistent and allow report readers (including audit report readers) to both fully understand the individual engagement and to appreciate the benefit of involvement of a professional accountant or firm. While we see this as an opportunity to produce principles-based standards on a 'think small first' basis we also envisage the need for some highly detailed standards where the specific reasonable assurance engagement is carried out by auditors of public interest entities.'

We continued:

'Regarding specific matters for inclusion in ISAE 3000; in our May 2008 response to ISAE 3402, we put forward the view that the updating of ISAE 3000 should be preceded by a consultation on the approach to the whole series of ISAEs.

(Although not relevant for ISAE 3402, as it is to be used only by auditors) our response noted that knowledge of ISAs can no longer be assumed (as audit exemption affects the profession); and we expressed concern that the IAASB would create a hugely detailed ISAE 3000 that would escalate the cost of assurance engagements and price professional accountants out of the small assurance market.'

We recognise that there are significant time pressure on the IAASB to issue a GHG assurance standard and that there may not be sufficient time to adopt a

holistic approach incorporating the above elements. We suggest that the IAASB should nevertheless consider establishing a parallel project to address these issues over a period of years.

In setting auditing standards the IAASB has had to tread a fine line between standards at a principles level and standards that represent a methodology. The judgement of the right level for requirements has been informed by a considerable level of experience of financial statement auditing. There is much less experience of GHG assurance, which argues that, in the absence of evidence of common practices, a standard should lie closer to the principles level.

In preparing an exposure draft of a standard there needs to be a critical consideration of the extent to which requirements for auditing financial statements remain valid for GHG statements. There are fundamental issues that will require resolution, for example the assumed characteristics of users.

Feedback on the market need has indicated that the GHG standard should address ideally both reasonable and limited assurance engagements. We do not believe that there is a consistent approach to limited assurance levels as might be found in the financial statement review. We caution, therefore, against issuing a standard dealing with limited assurance on any basis other than prescribing the absolute minimum in terms of required procedures to reach a meaningful level of assurance; thus allowing the assurance practitioner to increase work effort to an appropriate level to meet market demands in relation to the particular GHG statement. We believe that this is, in general, the right approach to limited assurance engagements, whatever the subject matter, where there is not already a well-developed expectation as to the absolute level of assurance that such an engagement will deliver.

The IAASB needs to articulate how the proposed ISAE can be used alongside, or in place of, existing standards and guidance that are used in the area of GHG assurance. This would aid stakeholder knowledge as well as promote effective implementation of the eventual standard. There is also an opportunity for other standard setters to benefit from the assurance expertise of the IAASB when considering their own pronouncements. Within the standard itself, there is scope for additional material similar to that dealing with matters prescribed by law or regulation.

For those with a financial reporting background, the terminology in the GHG area can be problematic especially when words appear familiar, such as 'estimate' and 'materiality'. In the answers to specific questions in the next section of our response we have suggested additional guidance to address this.

Matters on which Specific Questions are Asked

In this section of our response we provide our views on the key issues identified in the consultation paper.

THE ENGAGEMENT PARTNER AND THE TEAM

Question 1

Would the requirements of paragraphs 12(a) and (b) of the working draft preclude any competent group that accepts the authority of the IAASB to set standards that apply to that group from adopting the standard? If so, which group would be precluded? Please provide suggestions of how the ISAE should deal with this.

Paragraphs 12(a) and (b) restrict the application of the standard to assurance practitioners where the engagement partner is a professional accountant in public practice. We understand that this would hamper the ability of certain firms of professional accountants to undertake engagements in compliance with the standard, as the lead person on such an engagement is not necessarily a professional accountant. Such a person will draw on the expertise in assurance possessed by other members of the multidisciplinary assurance team.

We note that recently issued ISAE 3402 *Assurance Reports on Controls at a Service Organization* deals with assurance engagements undertaken by a professional accountant in public practice, but it does not prescribe any particular characteristics of the service auditor engagement partner. This, we suggest, is an appropriate way to deal with the issues. While the IAASB has no mandate to issue standards for those who are not professional accountants in public practice, neither should it seek to restrict the use of its standards by competent assurance practitioners that accept their authority.

Instead of putting requirements into the engagement standard, it should be sufficient to rely upon the need for professional accountants in public practice to comply with the IFAC *Code of Ethics for Professional Accountants* (the Code). Under the Code, professional accountants in public practice must undertake only those services that they are competent to perform. In that context, the term refers to a firm of professional accountants in public practice and it is for a firm that the operation of this requirement is most relevant.

Question 2

Is the ISAE an appropriate place to provide benchmarks or further guidance regarding the skills, knowledge and experience an engagement partner should possess with respect to:

- (a) Assurance concepts and processes; or*
- (b) GHG quantification and reporting?*

If so, please provide examples of suitable benchmarks or guidance.

This question is one of several that are difficult to answer as the interface between a specific GHG assurance standard and ISAE 3000 is not yet determined. We suggest that the skills, knowledge and experience of the engagement partner are not directly relevant to a procedural standard for assurance engagements. As set out in our answer to question 1, what matters is the overall requirement that a firm does not undertake work that it is not capable of carrying out with appropriate expertise.

The IFAC International Education Standards include sustainability issues, such as an understanding of environmental issues and sustainable development, and it is reasonable to expect that professional accountants will generally become more familiar with such matters. Those working in the GHG assurance field will have more highly developed skills in such matters but there is an inherent difficulty in requiring there to be a degree of experience in work that may be new to the firm concerned. The impact of this could be that those not already working in the field may be deterred from entering it, which would be detrimental to competition.

Question 3

Given that engagements, in particular complex engagements, are ordinarily undertaken by a multidisciplinary team, does the working draft adequately reflect how multidisciplinary teams should operate? For example, does the working draft adequately address the collective competence and capabilities of the team? What further improvements could be made?

In general, where the engagement partner is a professional accountant, the working draft properly articulates the operation of multidisciplinary teams and this is done at an appropriate level of detail. Given that, in this field, the leader of an engagement may have other scientific or professional qualifications, the guidance should allow for the circumstance where professional accountants are involved only for their expertise in assurance and related matters.

Question 4

Is there a need for additional guidance regarding the measure of objectivity that should be applied with respect to external experts?

It is appropriate for the engagement partner to become satisfied concerning the objectivity of external experts. It is not necessary for the standard to deal at length with how such an assessment should be made. The issue will be common to many engagements that could fall to be undertaken under a standard in the ISAE series, and an overall approach in ISAE 3000 would be more appropriate.

Question 5

Should external experts be required to be independent? If so:

- (a) In what circumstances should an external expert be required to be independent?*
- (b) What measure of independence should be applied (for example, which elements of the IFAC Code, which has been written for application to accountants and accounting firms only, should be applied to external experts)?*
- (c) What would be the effect on practice (for example, the availability of experts) and the relevant cost and benefit considerations of requiring external experts to be independent?*

External experts will frequently be subject to their own ethical requirements regarding independence and it need only be that the engagement partner becomes satisfied that objectivity is not compromised. There is no reason to go beyond the requirements in ISA 620 *Using the Work of an Auditor's Expert*.

NUMBER AND NATURE OF REQUIREMENTS, AND COST AND BENEFIT CONSIDERATIONS**Question 6**

What would be the likely impact on the cost of a reasonable assurance GHG engagement if the ISAE included requirements of a similar number and nature as the working draft? Is this cost likely to be proportionate to the benefit to be derived?

In relation to the likely cost of using a new ISAE, we caution that by taking what would seem to be a thorough approach to setting requirements, the standard would necessarily be more suited to larger engagements carried out by large engagement teams. For smaller engagements, the use of the standard might not be cost-effective. We suggest either that a more principles-based pronouncement would be appropriate or, alternatively, such engagements need only be carried out in accordance with the overarching requirements in ISAE 3000. There should be scope for assurance practitioners to add value through smaller engagements even if they are not applying a specific subject matter ISAE.

Paragraph 6 of the *Preface to the international standards on quality control, auditing, review, other assurance and related services* describes the authority of ISAEs as follows: '[they] . . . are to be applied in assurance engagements other than audits or reviews of historical financial information.' We suggest that clarification is necessary to ensure that compliance with ISAE 3000 alone is a permitted alternative where the application of a specific GHG ISAE is prohibitively costly.

Question 7

In your judgment, are there any requirements that:

- (a) Have not been included in the working draft that should have been? If so, why?*
- (b) Have been included in the working draft that should not have been? If so, why?*

The requirements that have been included are analogous to those in International Standards on Auditing (ISAs) and individually appear sensible. The cumulative effect of so many requirements has been considered in our answer to question 6 above. It is a matter for general consideration as to whether and to what extent requirements should be incorporated in a revised ISAE 3000. There must necessarily be found a solution to the conflicting needs for a standard applicable to large public interest entities and one that is not so costly to apply that smaller engagements are prohibitively expensive.

RELATIONSHIP WITH REGULATORY REQUIREMENTS

Question 8

Are there any additional matters the IAASB should take into account with respect to engagements conducted in accordance with local laws or regulations?

Local laws or regulations frequently prescribe the nature of GHG assurance engagements and it is important that any IAASB standard is capable of being used in such a context. The working draft provides appropriate guidance on those aspects of an engagement that are most likely to be affected in such circumstances.

We do not agree with the requirement in paragraph 20, however, as it apparently seeks to prevent a practitioner from carrying out an engagement voluntarily in compliance with law and regulation. While it is important to ensure that such an engagement is not perceived as being carried out under ISAEs, the practitioner should be free to undertake a GHG assurance engagement under other law, regulation or standards. The positioning of the requirement in the ISAE, rather than it being a matter that determines whether the ISAE is applicable is an issue on which input could be sought at the exposure draft stage for the proposed standard.

Question 9

Should any aspects of the requirements written to apply only to voluntary reporting (see WD, paragraphs 15(b)(i)-(ii), 15(c), and 106(d)) also apply in other circumstances?

We believe that the requirements written to apply only to voluntary reporting have merit in circumstances where reporting is required and in practice, some GHG statement embody both types of reporting. We suggest that the standard needs to accommodate this rather than introducing an automatic restriction on certain requirements. For example, the non-voluntary reporting may involve criteria for which some matters listed under 15(c) and 106(d) remain relevant.

THE ASSURANCE PROCESS

Question 10

Does the working draft appropriately reflect the specific characteristics of analytical procedures used in practice on GHG engagements? In particular, are paragraphs 59-60 appropriate, for example, with respect to the reliability of data on which analytical procedures are based?

The requirements in paragraph 59 and 60 are at a high level and are appropriate.

Question 11

Is the approach to internal control adopted in paragraphs 45-46 of the working draft appropriate? If not, please provide details and suggestions for elaboration or modification of the working draft.

The approach to internal control mirrors that for controls under a financial model and is broadly acceptable. Those approaching GHG assurance from the background of financial statement auditing may need guidance to promote a wider view of controls. It is important to note that GHG reporting is relatively new for many companies and systems will be evolving. Those providing assurance may have to investigate a system and suggest improvements while gaining most of their assurance from substantive work. The balance of reliance on controls and substantive work may swing more in favour of controls as they mature.

Question 12

Is it appropriate to require practitioners to perform risk assessment procedures at the assertion level for GHG engagements? If not, why not? If so, do the assertions identified in paragraph A49 of the working draft provide an appropriate basis for the identification and assessment of the risks of material misstatement in a GHG statement?

The usefulness of assertions in the GHG area may be less than in a financial statement audit because information is not necessarily aggregated from transactions. For a reasonable assurance engagement, however, the requirement and associated guidance are appropriate, subject to the point we make in our answer to question 6 concerning smaller engagements.

Question 13

As well as referring to the risks of material misstatement at the assertion level, paragraphs 39 and 47 of the working draft refer to risks at the GHG statement level. In your experience, what are commonly the most significant risks at the GHG statement level?

Significant risks at the GHG statement level will be those that relate pervasively to the statement as a whole and potentially affect many assertions.

While this level of risk assessment is useful, there may often be merit in considering risk that relates to part of the GHG statement, albeit not at the assertion level, for example, a risk may be pervasive to the Scope 1 disclosures. This need not result in further requirements, as it is a matter that is best dealt with in guidance.

GHG statement level risks are equivalent to those at financial statement level but because the GHG statement is historical rather than forward looking (to the extent that that is necessary in financial reporting) issues potentially threatening going concern and valuation are relatively less important. Fraudulent reporting remains an important risk and the relative immaturity of GHG reporting means that there can be a heightened risk of breakdowns in control or errors of omission, miss-measurement, or inappropriate presentation.

Question 14

Do the requirements and guidance in the working draft with respect to materiality need modification or elaboration? If so, please provide details.

The question continues with examples of areas where modification or elaboration may be considered. We deal with these below our answer to the main question.

There is a general problem over wording as 'materiality' is a concept that pervades sustainability reporting and assurance and, in that context, is not a simple matter of threshold.¹ This should be covered in guidance.

Where the GHG assurance engagement is in a wider context, for example in relation to disclosures in a sustainability report, the assurance practitioner (if the same is engaged for both) will necessarily assess materiality overall taking into account the needs of a full range of stakeholders. If the wider assessment is made in relation to a limited assurance engagement, that may not involve, however, the level of interaction and knowledge as would be necessary to support an assessment of materiality in a reasonable assurance engagement. Because of the potential for such complexity, while the resulting standard should not ignore the possibility of a holistic assessment of materiality, it should only require the relatively simple assessment as set out in the working draft.

The eventual standard should be flexible enough to recognise that in a voluntary reporting arrangement, the materiality level or levels may be agreed with management, as this can be a large determinant of the cost of an engagement.

¹ The GRI definition focuses on stakeholders: 'The information in a report should cover topics and indicators that reflect the organization's significant economic, environmental, and social impacts, or that would substantively influence the assessments and decisions of stakeholders.' The definition from AccountAbility AA1000APS involves a process: 'Materiality is determining the relevance and significance of an issue to an organisation and its stakeholders.' It also includes reference to a relevance and significance threshold: 'A material issue is an issue that will influence the decisions, actions and performance of an organisation or its stakeholders.'

The requirements in paragraphs 77 and 78 are in respect of all misstatements and are not subject to a materiality test. They derive from requirements in relation to financial statements where misstatements are capable of combination through their effect on profit or net assets. They were introduced to create a climate in which management was encouraged towards accurate reporting and were opposed by some commentators as being an inefficient use of auditor and management time. We do not consider that there is a strong case for transposing such requirements to the GHG reporting environment and suggest that this issue could be included in the matters on which input is sought at the exposure draft stage for the proposed standard.

Question 14 provided examples of areas where modification or elaboration may be considered. We deal with these examples below. Our answers should be read together with our answer to the main question above.

For example:

- (a) *The requirements and guidance refer to materiality in terms of intended users “economic” decisions. Is it appropriate for materiality with respect to a GHG statement to be limited to economic decisions, or are there other forms of decision made by various users that should be taken into account? If so, how can those decisions best be categorized? Please provide examples.*

On the basis that almost any decision can be described as an economic decision, we are happy with this approach to materiality. Nevertheless, the word may not be understood in this context by those entering the field from a financial statement auditing background and appropriate guidance will be needed to explain its wider meaning.

- (b) *In light of the fact that GHG statements often deal with different types of emissions, is the determination of materiality in the aggregate and for particular types of emissions in the way set out in paragraph 36 of the working draft appropriate?*

The wording of paragraph 36 is reasonable but the cross-reference is to general guidance that does not deal with decisions relating to the particular types of emissions where a lesser materiality should be applied. We suggest that some discussion of this may be helpful.

- (c) *Does paragraph A39 of the working draft provide the practitioner with an appropriate frame of reference when the applicable criteria do not discuss the concept of materiality? If not, which elements of paragraph A39 are inappropriate, and why; or which other elements should be added, and why?*

The third bullet point of paragraph A39 is perhaps too definite in its statement that the needs of specific individual users are not considered. Where a statement is prepared in response to regulation but also published generally, we suggest that the needs of the regulator concerned could be deserving of individual consideration.

- (d) *Are the assumptions about intended users stated in paragraph A41 of the working draft appropriate? If not, which assumptions are inappropriate, and why; or which other assumptions should be added, and why?*

The assumptions are similar to those for financial statement auditing and reflect a high level of knowledge and understanding of both GHG reporting and assurance. This might be appropriate for some engagements but there will clearly be those where the assurance practitioner is informed that users are not so knowledgeable, diligent or reasonable. In such circumstances, an assumption is no longer appropriate and must necessarily be replaced by the practitioners informed perception (paragraph A41). The guidance should deal with the impact of this on the practitioner's determination of materiality. If there is no impact it calls into question the need for any discussion of user characteristics.

- (e) *When the engagement covers many but not all of the component elements of a GHG statement, should materiality be based on the total emissions or on assured emissions only (WD, paragraph A44)?*

Paragraph A44 refers to 'total emissions before removals, if any, and emissions deductions, if any'. As set out in our general comments, we do not think the working draft deals clearly with the (unusual) circumstances of an entity primarily responsible for removals. It is likely that users of GHG statements for such entities will focus on total removals.

We agree, however that total emissions before emissions deductions will often be the correct focus for materiality and that for assurance purposes the practitioner has to address materiality in relation to the assured emissions.

- (f) *Is the guidance regarding quantitative and qualitative factors in paragraphs A42-A46 of the working draft appropriate? If not, which aspects of that guidance are inappropriate, and why; or which other aspects should be added, and why?*

In general, and subject to our comments above on paragraph A44, these paragraphs are appropriate. We do not think, however, that paragraph A46 is clear in saying that an external threshold ‘provides a frame of reference’. A plain English approach is to be preferred. The paragraph operates to announce a benchmark percentage and there is a danger that this will receive considerable attention when professional judgement is more important. Despite its placement, the paragraph seems to be more closely connected to paragraphs A43 and A44.

Question 15

Is the manner in which the working draft has treated assurance with respect to estimates, for example, paragraphs 43(c), 62-63, 89(d), 106(d), and A52-A53 appropriate? If not, please provide details and suggestions for modification or elaboration of the working draft.

The treatment of assurance with respect to estimates parallels that for accounting estimates in ISAs. In GHG emissions the term ‘estimate’ is used to describe a specific form of uncertainty and, particularly for those coming from a financial auditing background, there could be unintended confusion over terminology. This should be addressed in guidance so as to tie together the helpful material in paragraphs A52 and A53 with the requirements at paragraphs 62 and 63.

In paragraph A52 we do not think that reference to ‘virtual impossibility’ is helpful.

Question 16

Should the role of disclosures in the GHG statement with respect to estimates be further emphasized in the working draft, particularly the disclosure of any uncertainty related to particular estimates, the factors that affect that uncertainty, and how those factors have been dealt with?

The working draft treats disclosures of uncertainty as adjuncts to the user's understanding of the information conveyed. It does not deal directly with errors in such disclosures – for example, if an uncertainty is explicitly or implicitly understated, to what extent is the related emission disclosure compromised? There is also a question as to whether assurance practitioners are equipped to form an opinion on the level of acceptable inaccuracy in estimation uncertainty.

It would be worth extending the guidance at least to deal with circumstances where applicable criteria exist on disclosure of estimation uncertainty and that disclosure is itself misstated.

Question 17

Are the definition of fraud, the requirements of paragraph 30 of the working draft, and the discussion of fraud throughout the application material sufficient and appropriate? If not, please provide details and suggestions for modification or elaboration of the working draft.

Although fraud is clearly more of a problem in relation to financial matters, as theft of carbon dioxide is not a significant problem, there is nevertheless a need to be aware of the motivations of management with regard to under- or over-reporting of emissions and hence to be alert to the possibility of GHG reporting fraud. In a pronouncement of this nature, when this point has been made clearly by paragraph 30 and guidance in A32 to A35, there is less need to continually emphasise fraud-related aspects than there is in relation to a financial statement audit. We agree, therefore, with the treatment in the working draft.

Question 18

Is the example report of a suitable length, and structured and worded appropriately, to meet the needs of users with respect to, for example:

- *Restrictions on scope?*
- *The practitioner's independence, quality control and expertise?*
- *The relative responsibilities of the entity and the practitioner?*
- *The wording of the practitioner's opinion?*
- *Uncertainties in the quantification and reporting of emissions?*

In general we find the example report acceptable. It is better to present a minimum level of reporting and expect elaboration rather than anticipate what may prove to be acceptable or usual in specific circumstances. It will be necessary to reconsider conformity with the approach in ISA 700 *Forming an Opinion and Reporting on Financial Statements* if and when that standard is revised.

Question 19

Should the ISAE include requirements with respect to Emphasis of Matter paragraphs and Other Matter paragraphs adapted from ISA 706 or are these concepts not particularly relevant to GHG engagements? If so, what are the circumstances in which it would be appropriate to include an Emphasis of Matter paragraph or an Other Matter paragraph in an assurance report on a GHG statement?

In our view it is necessary to include requirements with respect to emphasis of matter and other matter paragraphs for completeness, even though, in practice they may be less prevalent than in an audit of the financial statements.

Assurance practitioner recommendations could be included in a report as other matter paragraphs.

Question 20

Should a distinction be made between long-form GHG assurance reports that are provided to certain groups of users (for example, regulators in some schemes) and short-form reports that are made publicly available? How would this impact on the content of the report?

The production of a long-form assurance report of restricted circulation is, we believe, an entirely different engagement to one designed to result in a general purpose public report. In some instances, there may be no public interest in restricted reporting and hence no apparent need for a standard to regulate such matters.

Question 21

The working draft actively discourages including recommendations in the assurance report (see WD, paragraph A89). Are there circumstances in which it is appropriate to include recommendations in the assurance report? If so, please provide details.

We recognize that including recommendations in the assurance report has two principal drawbacks. Firstly, they may be mistaken for a qualification or other modification of the opinion; secondly, there is a danger that they replace valid comment by management on matters relevant to GHG statements. Nevertheless, many assurance practitioners would include recommendations in their reports as these are valued by users. We suggest that any resulting standard should neither encourage nor discourage the inclusion of recommendations but should make it clear that, where included, an appropriate mechanism is provided by the other matters approach. It may also be worth clarifying the 'other information' status of any management response to such recommendations.

Question 22

Is it appropriate for the ISAE to be written primarily for compliance criteria? Is there a common understanding of what fair presentation with respect to GHG statements means (for example, in what circumstances might adherence to regulatory criteria not yield fair presentation)? Are the criteria used in jurisdictions with which you are familiar compliance criteria or fair presentation criteria? Please provide examples of such criteria.

Where the GHG statement is required by law or regulation, it would be unusual for there to be a true and fair override in the same way as such a concept applies in the area of financial reporting. If included in a wider context, such as a sustainability report, the GHG disclosures would ordinarily have to meet the criteria for such a statement, which can equate to presenting a true and fair view (without the need for override). For example under the GRI Sustainability Reporting Guidelines a balanced and reasonable presentation of the organization's performance depends on meeting the GRI Reporting Principles for Defining Content and the GRI Reporting Principles for Defining Quality. The latter includes the principle of 'balance': the report should reflect positive and negative aspects of the organization's performance to enable a reasoned assessment of overall performance. It may not be meaningful to assess, however, the fair presentation of the GHG disclosures in isolation.

Overall, therefore, we support the prominence given to compliance criteria but confirm that the standard must necessarily also be capable of use in relation to a fair presentation framework.

Question 23

Should the ISAE provide requirements and guidance for cases where special purpose criteria are used? If so, how would it differ from the working draft? Are criteria in jurisdictions with which you are familiar special purpose or general purpose criteria? Please provide examples of such criteria.

Unless there is general publication of a statement prepared using special purpose criteria (see our answer to question 14(c) and 29) there may be little public interest in assurance and hence no need for an IAASB standard. It would, nevertheless, be simple for the assurance practitioner to adapt a general purpose standard to such circumstances.

We believe it would be appropriate for the standard to include guidance for those circumstances where special purpose criteria are used for general purposes, for example to consider the impact of the regulator as a 'super user'.

Question 24

Is the manner in which the working draft has dealt with deductions appropriate? If not, please provide details and suggestions for modification or elaboration of the working draft

In general we agree with the manner in which the working draft deals with deductions. It is important to avoid giving the impression that deductions are as real as the emissions themselves. It is only through the primary reduction of emissions that GHG targets will be met.

Question 25

Some purchased offsets are accompanied by an assurance report. How, if at all, should this be reflected in the content of the ISAE; for example, to what extent and in what circumstances, if at all, would the practitioner who assures the GHG statement be able to rely on assured offsets and provide an opinion on the net of emissions less offsets?

It is difficult to generalise about reliance on an assurance report on purchased offsets. There is unlikely to be scope for access by the assurance practitioner to the issuer of such an assurance report and there will be limitations, therefore, on their ability to achieve their own assurance at a level necessary to allow reporting at a reasonable assurance level. Where, nevertheless, there are no restrictions on the assurance practitioner's ability to obtain further evidence, reliance is a viable approach. Any resulting standard should allow for varying practices of the assurance practitioner with appropriate disclosure within the description of the work done.

We comment elsewhere on the need for requirements to set out in appropriate detail the work done by the assurance practitioner. In the case of a financial statement audit, this is normally done by reference to the auditing standards used and only briefly to the types of work undertaken. In relation to GHG statements, especially where included in a wider sustainability report, many assurance practitioners would explain what they had done irrespective of whether the assurance level was limited or reasonable. For this reason, we suggest that the standard should permit a long-form approach to the description of work done, irrespective of the level of assurance reported.

In view of the difficulties in assuring offsets, it may be better for the guidance in the standard to be written primarily on the basis that assurance will be given on the gross outputs; without eliminating the possibility that it could be the net outputs on which an overall opinion is issued.

Question 26

Where the GHG statement contains emissions deductions, is the treatment required by paragraph 111(d) of the working draft appropriate? If so, where in the assurance report should the required wording be situated? Would wording along the lines of that in paragraph 52 above be appropriate?

It is important that the scope of assurance reporting and the nature of procedures are clear, so we agree with the requirement in paragraph 111(d). The requirement should be positioned with scope and with description of work done as appropriate.

There is a question as to whether a reasonable assurance engagement, can be undertaken on a statement that includes offsets if there is no conclusion on their actual impact on total emissions. This should be covered in guidance.

SCOPE 3 EMISSIONS**Question 27**

Is it appropriate for the ISAE to include cautionary language with respect to Scope 3 emissions (such as that in paragraphs A29-A31 of the working draft)? If not, please provide details and suggestions for modification or elaboration of the working draft.

We agree that cautionary language with respect to Scope 3 emissions is sensible and believe that the treatment in paragraphs A29-A31 of the working draft is appropriate.

Question 28

What additions, if any, to the assurance report may be required when the GHG statement contains Scope 3 emissions? Would wording along the lines of that in paragraph 56 above be appropriate to include in the statement of uncertainties required by paragraph 111(k) of the working draft? If so, should such wording be included regardless of whether or not disclosed Scope 3 emissions are covered by the assurance engagement?

In the main, due to reasons of feasibility and cost, we believe that reasonable assurance on disclosed Scope 3 emissions is not generally possible; moreover, assuring completeness presents often insurmountable problems.

Where the GHG statement purposefully only includes certain Scope 3 emissions, and the choice of emissions is driven by their measurability and assurability, the assurance practitioner may be able to report accordingly. The nature of the Scope 3 emissions disclosed would affect the need for any statement of uncertainties.

So long as the scope of the assurance is appropriately disclosed we do not believe that it is necessary to include a statement of uncertainties concerning Scope 3 emissions if they are clearly outside the area on which assurance is focused. We suggest that it would be for management to indicate in the statement its own view on the accuracy or otherwise of the disclosures of Scope 3 emissions.

TYPES OF ASSURANCE ENGAGEMENTS

Question 29

29. Are you aware of jurisdictions in which direct reporting engagements are common in practice, or are required by law or regulation? If so:

- (a) Please provide details, including example reports where available.
- (b) Are restrictions placed on the work allowed to be done by the practitioner with respect to quantifying the entity's emissions; or obligations placed on the entity with respect to, for example, having a reasonable basis for representations made to the practitioner?

We are unable to comment on the prevalence of direct reporting engagements. We believe, nevertheless, that to achieve greater utility the resulting standard should be capable of adaptation to direct reporting engagements. We would accept, however, that such engagements will ordinarily be those where the users of the statement and assurance report are restricted and there is, therefore, no immediate public interest argument for an IAASB standard.

Question 30

30. How should a limited assurance engagement on a GHG statement be differentiated from a reasonable assurance engagement, for example:

- (a) How should the practitioner determine the procedures to be performed?

The procedures in a limited assurance engagement are primarily determined by the extent to which there is a market need for such engagements. If the market demands only the minimum (but still meaningful) level of assurance the assurance practitioner will restrict procedures to the level prescribed by any related standard. If more assurance is generally demanded, the assurance practitioner will carry out more-extensive procedures to reduce the risk of material misstatement; although the nature timing and extent of such procedures will not need to reach the level appropriate to a reasonable assurance engagement.

(b) *What is the role of risk assessment in a limited assurance engagement?*

The role of risk assessment in a limited assurance engagement should be the same as in a reasonable assurance engagement, but with the significant difference that the degree of precision of risk assessment is necessarily much less. It is not a question of reducing residual risk to a very low but not zero level, rather it is ensuring that the level of risk complements assurance that is meaningful in the circumstances while meeting the cost-effective needs of the market for limited assurance. This means in practice that risk assessment procedures can be very much less than in a financial statement audit. This would, for example, suggest that mandatory investigation and testing of the internal control system was unnecessary (see (c) below)

(c) *To what extent, if any, should the practitioner consider the effectiveness of control?*

We suggest that the effectiveness of control need only be considered to the extent necessary for a very broad assessment of risk. There is no need in a limited assurance engagement for there to be requirements concerning the detailed approach to consideration of controls as is normal in reasonable assurance engagements.

(d) *Should evidence be primarily obtained through inquiry and analytical review?*

While enquiry and analytical review will be proportionately more important in a limited assurance engagement than in a reasonable assurance engagement, we suggest that the demands of the market will determine whether such procedures on their own are sufficient or whether there has to be some degree of substantive evidence obtained from test of details. For example, enquiry at head office will not be perceived as being as relevant as enquiry at those facilities where there are GHG emissions. Similarly, a desk-based analytical review will be seen as of less value than one directly related to inspection visits to sites.

(e) Which procedures that ordinarily are performed in a reasonable assurance engagement would you not expect to be performed in a limited assurance engagement?

The main difference between reasonable and limited assurance engagements is work effort as the overall engagement process is similar. Usually the limitation in work effort is determined by how much (or little) the client is prepared to pay for limited assurance. The working draft provides little information on the amount of evidence required in a reasonable assurance engagement – especially in relation to the amount of substantive testing. It is also hard to understand the interplay between controls and substantive testing.

The limited assurance engagement can be differentiated in standards by its reporting requirement and by the absence of requirements mandating certain types of procedures; for example, the use of analytical procedures at a certain stage of the engagement, and detailed work on controls.

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