

**Assurance on a Greenhouse Gas Statement –
Issues and IAASB Task Force Proposals****A. Suitable Criteria**

- A1. One of the foundations upon which the IAASB's approach to assurance engagements is based is that suitable criteria exist for preparation of the subject matter information by the entity. The assurance framework notes that the characteristics of suitable criteria are relevance, completeness, reliability, neutrality and understandability. ISAE 3000¹ requires the assurer to assess the suitability criteria.
- A2. At the December 2009 meeting, the IAASB agreed that criteria may be considered suitable whether they are set by regulation or are part of a voluntary disclosure regime. While regulatory criteria are suitable for the purposes of the regulator who set them, there needs to be a consideration of whether they are suitable for other users (this point is noted at paragraph A22² of Agenda Item 7-B).
- A3. The approach taken in proposed ISAE 3402³ to assessing the suitability of criteria was to identify in the ISAE the minimum elements that suitable criteria must include. That approach is also used for this draft of ISAE 3410 on greenhouse gas (GHG) statements (see paragraph 17).
- A4. In drafting paragraph 17, the Task Force has been conscious of the fact that while criteria are currently becoming more robust and consistent across jurisdictions as time progresses, they are nonetheless still evolving, and in some cases are at an early stage of evolution. This fact should not be used as an excuse to allow unsuitable criteria to be used, however, it does mean that some flexibility is warranted. For example, the Task Force discussed whether the minimum elements for suitable criteria should reflect the "best practice" of reporting all material Scope 1 and Scope 2 emissions. The Task Force did not include this in the minimum elements because to do so would likely present an impediment to the evolution of GHG reporting, particularly in those jurisdictions where only Scope 1 emissions are required to be reported, or where an entity is voluntarily reporting GHGs and has taken a staged approach whereby it starts by reporting only its major Scope 1 emissions. To cater for this, rather than requiring all material Scope 1 and Scope 2 emissions to be included in the GHG statement, the minimum elements of criteria focus on disclosure, ensuring that "the method used to determine which Scope 1, Scope 2, and Scope 3 emissions have been included in the GHG statement" are disclosed so that users are adequately informed.

¹ International Standard on Assurance Engagements (ISAE) 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information."

² Subsequent references to paragraph numbers are to the draft of proposed ISAE 3410 at Agenda Item 7-B unless otherwise noted.

³ Exposure Draft of proposed ISAE 3402, "Assurance Reports on Controls at a Third Party Service Organization."

B. Levels of Assurance

- B1. As agreed at the December IAASB meeting, ISAE 3410 will deal with both reasonable and limited assurance engagements. Engagements at both levels are currently performed in practice. For example, the European Union Emissions Trading Scheme requires reasonable assurance, whereas Alberta’s Climate Change and Emissions Management scheme has opted for limited assurance at this time. There is also evidence from practice that some entities prefer limited assurance engagements for voluntary GHG disclosures on cost grounds.
- B2. In developing the draft ISAE 3410, the Task Force followed the advice of the IAASB at the December 2008 meeting to focus initially on reasonable assurance engagements, and the draft is primarily written from that perspective. The Task Force then considered what should be different for a limited assurance engagement.
- B3. The Assurance Framework⁴ and ISAE 3000 allow for a great deal of flexibility with respect to procedures for limited assurance engagements. ISAE 3000.37 states:
- ... The nature, timing and extent of procedures for gathering sufficient appropriate evidence in a limited assurance engagement are ... deliberately limited relative to a reasonable assurance engagement. For some subject matters, there may be specific ISAEs to provide guidance on procedures for gathering sufficient appropriate evidence for a limited assurance engagement. In the absence of a specific ISAE, the procedures for gathering sufficient appropriate evidence will vary with the circumstances of the engagement, in particular: the subject matter, and the needs of the intended users and the engaging party, including relevant time and cost constraints. ...
- B4. The Task Force reviewed the major steps in a reasonable assurance engagement as identified at ISAE 3000.35, and considered alternative ways in which these could differ for a limited assurance engagement in the case of assurance on a GHG statement. Its initial conclusions and outstanding issues (in italics) are in the following table:

A reasonable assurance engagement	Initial conclusions and <i>outstanding issues</i> re applicability to a limited assurance engagement on a GHG statement
Obtaining an understanding of the subject matter and other engagement circumstances which, depending on the subject matter, includes	<ul style="list-style-type: none"> • An understanding of the subject matter and other engagement circumstances is necessary. • An understanding of the design and implementation of internal control is necessary. • <i>ISA 315.06⁵ requires, for a financial statement audit, performance of inquiries, analytical procedures, and</i>

⁴ International Framework for Assurance Engagements.

⁵ ISA 315, “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment,” paragraph 16.

<p>obtaining an understanding of internal control.</p>	<p><i>observation and inspection. Is it necessary when obtaining that understanding to perform all these procedures?</i></p> <ul style="list-style-type: none"> • <i>Similarly, when obtaining an understanding of the design and implementation of internal control, would inquiry suffice (ISA 315.13 requires procedures in addition to inquiry)?</i>
<p>Based on that understanding, assessing the risks that the subject matter information may be materially misstated.</p>	<ul style="list-style-type: none"> • The engagement should be risk-based, not procedures driven. • <i>Will risk assessments be sufficiently robust to ensure further procedures properly respond to actual risks if the assurance professional's understanding is based on, e.g., inquiry alone? If further procedures are misdirected, the assurance professional may not obtain a meaningful level of assurance.</i>
<p>Responding to assessed risks, including developing overall responses, and determining the nature, timing and extent of further procedures.</p>	<ul style="list-style-type: none"> • The engagement should be risk-based, not procedures driven. • The assurance professional needs to determine the nature, timing and extent of further procedures to respond to assessed risks.
<p>Performing further procedures clearly linked to the identified risks, using a combination of inspection, observation, confirmation, re-calculation, re-performance, analytical procedures and inquiry. Such further procedures involve substantive procedures, including obtaining corroborating information from sources independent of the entity, and depending on the nature of the subject matter, tests of the operating effectiveness of controls.</p>	<ul style="list-style-type: none"> • The further procedures should be comprised mainly of inquiries and analytical procedures. Therefore: <ul style="list-style-type: none"> ◦ The further procedures need not, and likely will not, include tests of controls. ◦ The further procedures need not, and likely will not, include obtaining corroborating information from sources independent of the entity. • <i>Should ISAE 3410 distinguish between the nature and extent of substantive analytical procedures for a reasonable assurance versus limited assurance engagement? In a financial statement review, analytical procedures may be less robust than those conducted in an audit, e.g. in a review, the auditor is more likely to examine relationships and trends for plausibility, but without having first established prior expectations about what those relationships and trends should be as would be done for an audit.</i> • The reasonable assurance approach in the draft ISAE 3410 requires the assurance professional to determine which risks are significant risks. <i>Should the assurance professional be required to identify significant risks in a limited assurance engagement?</i> <ul style="list-style-type: none"> ◦ If so, what additional procedures should be required for a

	significant risk? E.g., should tests of detail be required?
Evaluating the sufficiency and appropriateness of evidence.	<ul style="list-style-type: none"> It is always necessary to evaluate the sufficiency and appropriateness of evidence.

- B5. If one accepts the Task Force’s initial conclusions, then the above analysis basically boils down to four potential points of difference between a limited assurance and a reasonable assurance engagement on a GHG statement:
- Whether, in a limited assurance engagement, inquiries, analytical procedures, and observation and inspection should be required when obtaining an understanding of the entity?
 - Whether, in a limited assurance engagement, inquiries alone are adequate for obtaining an understanding of the design and implementation of internal control?
 - Whether the nature and extent of substantive analytical procedures should be greater in a reasonable assurance engagement than in a limited assurance engagement? and
 - Whether, in a limited assurance engagement, tests of detail should be required for significant risks?
- B6. Variously answering yes or no to each of these questions, 16 permutations are possible. Largely for the sake of debate at the June meeting, the Task Force has included in paragraphs 34 and A58-A61 its preliminary thinking on this matter, which is that:
- Yes, inquiries, analytical procedures, and observation and inspection are required;
 - Yes, inquiries alone are adequate;
 - No, the nature and extent of substantive analytical procedures should not differ; and
 - No, tests of detail are not required for significant risks.
- B7. Rather than focus on that particular “solution,” the Task Force would prefer the discussion at the June meeting to focus on the above analysis and what, in the IAASB’s view, should be the distinction between limited assurance and reasonable assurance engagements with respect to GHG statements.
- B8. The Task Force is also interested in whether the IAASB has a particular view about how the difference should be presented in ISAE 3410. For example, should ISAE 3410 be written from tone perspective (either reasonable assurance or limited assurance, with consideration of the other being dealt with separately (as has been done in the current draft ISAE 3410), or should both reasonable assurance and limited assurance engagements be dealt with concurrently throughout the draft?

C. Assertion-Based Versus Direct Reporting Engagements

Clarity of Definition

- C1. At the December 2008 meeting, the Task Force was asked to clarify whether “an engagement

in which the emitter prepares and takes responsibility for the emissions inventory, but does not include with that inventory an explicit assertion to the effect that it is fairly presented in accordance with the criteria, should be considered an assertion-based engagement or a direct reporting engagement.”

- C2. The explanation of assertion-based and direct reporting engagements in the Assurance Framework is:⁶

In some assurance engagements, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users. These engagements are called “assertion-based engagements.” In other assurance engagements, the practitioner either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report. These engagements are called “direct reporting engagements.

- C3. The Task Force considers that if the entity prepares and takes responsibility for the subject matter information, and that subject matter information includes embedded assertions (such as completeness or accuracy), then the engagement is assertion-based rather than direct reporting, regardless of whether there is an explicit assertion about fair presentation.
- C4. The Task Force acknowledges, however, that the distinction between the two types of engagements should be made clearer and recommends that this be addressed in the ISAE 3000 project. In particular, that project should clarify that the statement in the explanation of an assertion-based engagement that “the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users” includes circumstances where the responsible party accepts responsibility for subject matter information that has relevant assertions embedded in it.

Preference for Assertion-Based Engagements

- C5. At the December 2008 meeting, the IAASB expressed a preference for assertion-based engagements, but asked the Task Force to consider further whether direct reporting engagements should also be covered.
- C6. The Task Force agrees with the IAASB’s preference for assertion-based engagements, but acknowledges that direct reporting engagements may be required by law or regulation and should not, therefore, be disallowed. The Task Force recommends, however, that certain limitations be placed on when a direct reporting engagement should be accepted. Those limitations are identified in paragraph 13.

⁶ International Framework for Assurance Engagements, paragraph 10.

D. Materiality

- D1. The draft ISAE 3410 contains a definition of materiality at paragraph 12(i), which is discussed at paragraphs A29-A34 of the draft.

Materiality or Significance?

- D2. In developing the draft ISAE 3410, the Task Force discussed the concern expressed at the December 2008 meeting that use of the word materiality, which has a well understood meaning in accounting, may lead to confusion or misunderstanding when used in a different context, and that perhaps a word like “significance” may be better.
- D3. The Task Force recommends that the word “materiality” be used in the ISAE 3410 because, in the case of GHGs, the meaning of materiality closely parallels its meaning in accounting. This is illustrated by the following mark-up of the definition included at paragraph 12(i), which shows the similarity in wording with the definition in the International Accounting Standards Board’s “Framework for the Preparation and Presentation of Financial Statements:”

Information is material if its omission or misstatement could influence the ~~economic~~ decisions of intended users taken on the basis of the ~~financial~~-GHG statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement.

Environmental Impact

- D4. Another issue raised at the December 2008 meeting was whether the concept of materiality should, in the case of GHGs, take into account a notion of environmental impact as well as user decision making.
- D5. The Task Force considers that it would not be appropriate for the assurance professional to make judgments about environmental impact, in the same way an auditor does not make judgments about the financial performance of an entity whose financial statement are being audited. Rather, environmental impact is assessed by intended users (applying their own criteria) when making decisions on the basis of the information in the GHG statement.

Intended Users

- D6. The Task Force discussed who the intended users of a GHG statement are likely to be and considered that this is likely to vary depending on the engagement circumstances. As with a financial statement audit, however, the assurance professional should be entitled to make certain assumptions about users. These assumptions, adapted from ISA 320, are included at paragraph A29.⁷

E. Other Matters

- E1. The Task Force would like to bring four other matters to the IAASB’s attention at this stage:

⁷ ISA 320, “Materiality in Planning and Performing an Audit,” paragraph 4.

Emissions deductions

- E2. The concept of “emissions deductions” included in the draft ISAE 3410 was created by the Task Force as a way of dealing with the various instruments and mechanisms reported in different jurisdictions as a deduction from the sum of the entity’s emissions and removals.
- E3. A common deduction in many jurisdictions is a purchased offset, i.e., where the entity has paid another entity to either:
- (a) Enable that other entity to lower its emissions compared to a hypothetical baseline of what its emissions would have been had it not received money from selling offsets and spending that money on, e.g., energy efficiency measures; or
 - (b) Remove emissions from the atmosphere, e.g. by planting and maintaining trees that would otherwise not have been planted/maintained.
- E4. Emissions deductions can also include very jurisdiction-specific items, such as contributions to a technology fund, whereby regulatory reporting rules (the criteria used in preparing the GHG statement) allow the entity to deduct a notional amount of GHGs in proportion to money paid into a fund set up by the regulator and used for R&D on emissions-lowering technology. With such emissions deductions, there is no established link between the contribution and any lowering of emissions that may occur in the future as a result of the contribution.
- E5. Because of the varied nature of such instruments and mechanisms, the Task Force decided to accumulate them under one category (emissions deductions) and require that the assurance report include “either a statement of the assurance professional’s responsibility with respect to them, or a statement that the assurance professional has not performed any assurance procedures with respect to them and that, therefore, no conclusion on them is expressed” (paragraph 32(d)). Example text for inclusion in the assurance report in the case of a purchased offset is included at paragraph A57.

Assertions

- E6. The Task Force considers that it is appropriate for the assurance approach regarding a GHG statement to parallel the financial statement audit requirements with respect to procedures at the assertion level.
- E7. The Task Force has therefore adapted the assertions cited in ISA 315 and included them in the draft at paragraph A38.⁸ It has included the additional presentation and disclosure assertion “Consistency and comparability—changes in quantification methods have been adequately disclosed, and the presentation of historical emissions and removals data takes account of any significant structural changes in the entity” as this has particular importance for GHG disclosures because of the importance of trend information in GHG emissions/removals over time, not only in regulated “baseline and credit” schemes (like Alberta), but also, for example, in benchmarking the success of emissions reduction activities.

⁸ ISA 315, paragraph A111.

*References in the Assurance Report to Qualifications and Training, and ISQC 1*⁹

- E8. At the December 2008 meeting, the IAASB discussed the possibility of disclosing in the assurance report the qualifications and training of those conducting the engagement.
- E9. The Task Force discussed possible wording for disclosing the qualifications and training of those conducting the engagement, such as “the engagement was conducted by a multidisciplinary team with specialist skills, knowledge and experience developed through extensive training and practical application in both assurance and GHG emissions and reductions.” It was ultimately decided not to include such wording in the draft ISAE 3410 because the Task Force thought it unlikely that such generic wording would create a point of difference that would help intended users identify the caliber of team members and the effect of this on the quality of the assurance engagement.
- E10. The Task Force noted, nonetheless, that if an assurance professional wanted to include such a reference, or a more specific references to individual team member’s qualifications and training, they would be entitled to do so, as ISAE 3000 currently provides that “The practitioner may expand the assurance report to include (for example) details of the qualifications and experience of the practitioner and others involved with the engagement ...”¹⁰
- E11. In wording the reference to ISQC 1 in the example report (Appendices 1 and 2 to the draft), the Task Force tried to emphasize the importance of quality control in ensuring the engagement team has people with “appropriate competence and capabilities.”

Scope 3 Emissions

- E12. The Task Force considered whether scope 3 emissions should, in all cases, be excluded from assurance engagements on GHG statements. One significant difficulty with Scope 3 emissions is that they come from such a wide variety of possible sources that, for all but the very simplest of entities, it would be virtually impossible for the assurance professional to be satisfied with respect to the completeness of disclosures. Some entities include their main Scope 3 emissions, but it is very difficult to quantify those that have not been included and therefore assess their materiality. In practice, it is recognized that it is not practical to expect all of an entity’s Scope 3 emissions be included in its GHG statement. This is becoming better understood as GHG reporting becomes more prevalent.
- E13 Other difficulties associated with Scope 3 emissions are explained below using airplane travel as an example:
- (a) Criteria: The criteria for quantifying emissions attributable to an individual’s air travel can be very complex. Many on-line calculators are available that approximate this calculation. They often use the distance travelled as their only input. To be more accurate, however, other factors need to be taken into account; including the type of

⁹ International Standard on Quality Control (ISQC) 1, “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.”

¹⁰ ISAE 3000, paragraph 50.

plane; the type of fuel; how heavy the plane was when loaded; how many passengers were on board in each class; how many legs the trip involved; the cruising altitude etc. It is no surprise, therefore, that approximations based on distance travelled are often used instead of a more accurate calculation; however, the level of measurement uncertainty with such an approximation is high, and the quantification arrived at may be misleading as an approximate measure of actual GHG emissions.

- (b) **Data:** While an entity may keep accurate records of the number of air trips taken by employees, and even the distance travelled on each trip, it is less likely that their information system will record details such as the number of legs on each trip or possible changes to itinerary. Further, many of the factors mentioned in (a) above are simply unknown to the entity. In order to make a reasonably accurate calculation, therefore, the entity would necessarily have to rely on information supplied by others, e.g., travel agents (apparently some travel agents are starting to develop systems to keep this information for the purpose of client reporting), or airlines. This introduces numerous difficulties associated with access to reliable information for the assurance professional's purposes.
- E14 Rather than exclude all Scope 3 emissions, the Task Force decided to include in the application material warnings about the limitations of Scope 3 information and assurance procedures with respect to Scope 3 emissions (paragraphs A25-A27). In doing this, the Task Force was conscious of the fact that it is likely that more entities will include Scope 3 emissions as time goes by, and it would not seem to be in the public interest to disallow assurance on such disclosures in all cases. The Task Force was also mindful of the fact that the assurance report is not aimed at intended users who are unaware of the limitations of information presented in a GHG statement (paragraph A29) and, therefore, as long as suitable disclosures are included in the GHG statement, intended users are not likely to be misled by the inclusion of some Scope 3 emissions, and assurance thereon.

Example Reports

- E15. The draft ISAE 3410 includes two example assurance reports as Appendices.
- E16. While the Task Force would welcome the IAASB's comments on these example reports, primarily they are presented at this stage only to flag the Task Force's intent to include example reports, and to give a broad indication of what those reports may look like. In particular, the Task Force is conscious of the need for it to give further thought to how to treat items that are excluded from the scope of the engagement (as is likely to be the case for some Scope 3 emissions and emissions deductions).