



**International Federation of Accountants**

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## Agenda Item

# 7

**Committee:** IAASB

**Meeting Location:** Lisbon

**Meeting Date:** June 15-18, 2009

### **Assurance on a Greenhouse Gas Statement**

#### **A. Objective of Agenda Item**

- A1. To provide direction on the proposed new ISAE 3410, “Assurance on a Greenhouse Gas Statement.”

#### **B. Task Force**

B1. Members:

- Prof. Roger Simnett, former IAASB member, and chair of the IFAC Sustainability Experts Advisory Panel, Australia (co-chair)
- Caithlin McCabe, IAASB member, Australia (co-chair)
- Dr. Nancy Kamp-Roelands, Ernst & Young, The Netherlands
- Yoichi Mori, JICPA, Japan
- Lynton Richmond, KPMG, UK
- Christine Schuh, PwC, Canada

- B2. The Task Force held its inaugural meeting in March 2009 and met again in April 2009. It has also held one conference call.

- B3. Members of the Project Advisory Panel (PAP) provided e-mail feedback on drafts of agenda papers. Members of the PAP are listed on the IAASB website.

#### **C. Explanatory Material**

- C1. Appendix 1 to this memorandum has been developed to assist the IAASB with some of the underlying GHG-specific concepts relevant to this topic, in particular, the difference between “emissions,” “reductions” and “emissions deductions.”

- C2. Also, at the December 2008 meeting, the IAASB indicated that the Issues Paper discussed at that meeting provided useful background material. That Issues Paper is, therefore, included at Agenda Item 7-D for reference.

## **D. Relationship with ISAE 3000<sup>1</sup>**

### *Requirements in the ISAs*

- D1. In drafting the version of proposed ISAE 3410 to be discussed at this meeting, the Emissions Task Force needed to consider the relationship between ISAE 3410 and ISAE 3000, which is being revised by another Task Force.
- D2. As part of developing the draft of ISAE 3410 presented for discussion at this meeting, the Emissions Task Force considered whether the requirements of a number of the ISAs should be applied to assurance engagements on GHG statements (adapted as appropriate). It concluded that quite a number of requirements in the ISAs should be so applied.
- D3. At the time of drafting, however, it was unclear whether such requirements would be included in ISAE 3000 when it is revised (with some bridging mechanism put in place for the period between when ISAE 3410 is approved and when ISAE 3000 is approved), or whether such requirements would need to be included in ISAE 3410 itself.
- D4. To assist the IAASB in focusing on GHG-specific issues for the purpose of this agenda item, and pending the outcome of the IAASB's initial deliberations on ISAE 3000 in June, the Emissions Task Force has included in the draft ISAE 3410 as little as possible material that could be included in ISAE 3000 and made applicable to:
- (a) All assurance engagements (absolute requirements); or
  - (b) Certain assurance engagements on a conditional basis (conditional requirements). Some requirements could be included in ISAE 3000 on the basis that they must be applied when they are appropriate in the context of the engagement. For example, preliminary analysis shows that some ISA requirements could be adapted to assurance engagements that deal with historical performance information, like GHG data, but not to assurance engagements to report on the effectiveness of internal controls.
- D5. The Emissions Task Force, for the purpose of facilitating discussion at this meeting, has prepared the draft ISAE 3410 on the assumption that ISAE 3000 will contain a number of both absolute and conditional requirements, and that the conditional requirements included in ISAE 3000 are to be applied "when they are appropriate in the context of the engagement."
- D6. These drafting assumptions are incorporated in the draft ISAE 3410 in paragraphs 6 and 7:
- 6. ISAE 3000 includes requirements in relation to such topics as engagement acceptance, planning, evidence, using the work of experts, sampling, and documentation that apply to all assurance engagements, including engagements in accordance with this ISAE. In some cases, this ISAE includes additional requirements in relation to those topics.
  - 7. ISAE 3000 also includes some requirements that are applicable only when they are appropriate in the context of the engagement. Where those

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

requirements are appropriate in the context of assurance on GHG statements, that fact is stated in the requirements section of this ISAE. See, for example, paragraph 18 of this ISAE.

(Paragraph 18 says “ISAE 3000 requires, when appropriate in the context of the engagement, that the assurance professional perform a number of procedures with respect to materiality. Those procedures are appropriate in the context of assurance on a GHG statement.”)

- D7. The Emissions Task Force acknowledges that what requirements will ultimately be in ISAE 3000, whether any are conditional, and if so how that condition will be expressed, is the province of the ISAE 3000 Task Force. Inclusion of paragraphs 6 and 7 in the draft does not, therefore, constitute a recommendation by the Emissions Task Force about this matter; rather, this drafting device has been used for the time being as a way to allow the IAASB to focus on GHG-specific issues in the draft ISAE 3410.

#### *Assurance Professionals*

- D8. Paragraph 1 of the draft ISAE 3410 states that the ISAE “deals with assurance engagements to report on a GHG statement undertaken by assurance professionals, who have specialist skills, knowledge and experience in assurance concepts and processes developed through extensive training and practical application.”
- D9. Paragraph 12(b) includes the following definition of assurance professional: “a professional accountant in public practice who has specialist skills, knowledge and experience in assurance concepts and processes developed through extensive training and practical application.”
- D10. The Emissions Task Force understands that the question of to whom ISAEs should be directed will be discussed as part of the ISAE 3000 agenda item at the June meeting, which may require changes to the way this matter is approached in ISAE 3410.

### **E. Issues**

#### *Extent of Requirements*

- E1. As noted above (paragraph D2) the Emissions Task Force has concluded that quite a number of requirements in the ISAs should be adapted and applied to assurance engagements on GHG statements.
- E2. To assist the IAASB envisage the nature and extent of requirements the Emissions Task Force considers to be appropriate to include in either ISAE 3000 or ISAE 3410 at this time, Agenda Item 7-C includes the requirements of ISA 520,<sup>2</sup> adapted for GHG statements. Analytical procedures are at least as important in an assurance engagement on GHG statements as they are in a financial statement audit because understanding and analyzing chemical and physical relationships between inputs, processes and outputs, and relationships between emissions, removals and other variables, may often result in analytical procedures that are sufficiently robust to identify a material misstatement.

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<sup>2</sup> ISA 520, “Analytical Procedures.”

*Issues Paper*

E3. The Issues Paper at Agenda Item 7-A includes discussion of issues related to:

- Suitable criteria
- Levels of assurance
- Assertion-based versus direct reporting engagements
- Materiality
- Emissions deductions
- Assertions
- Disclosure of qualifications and training
- Scope 3 emissions

**Material Presented**

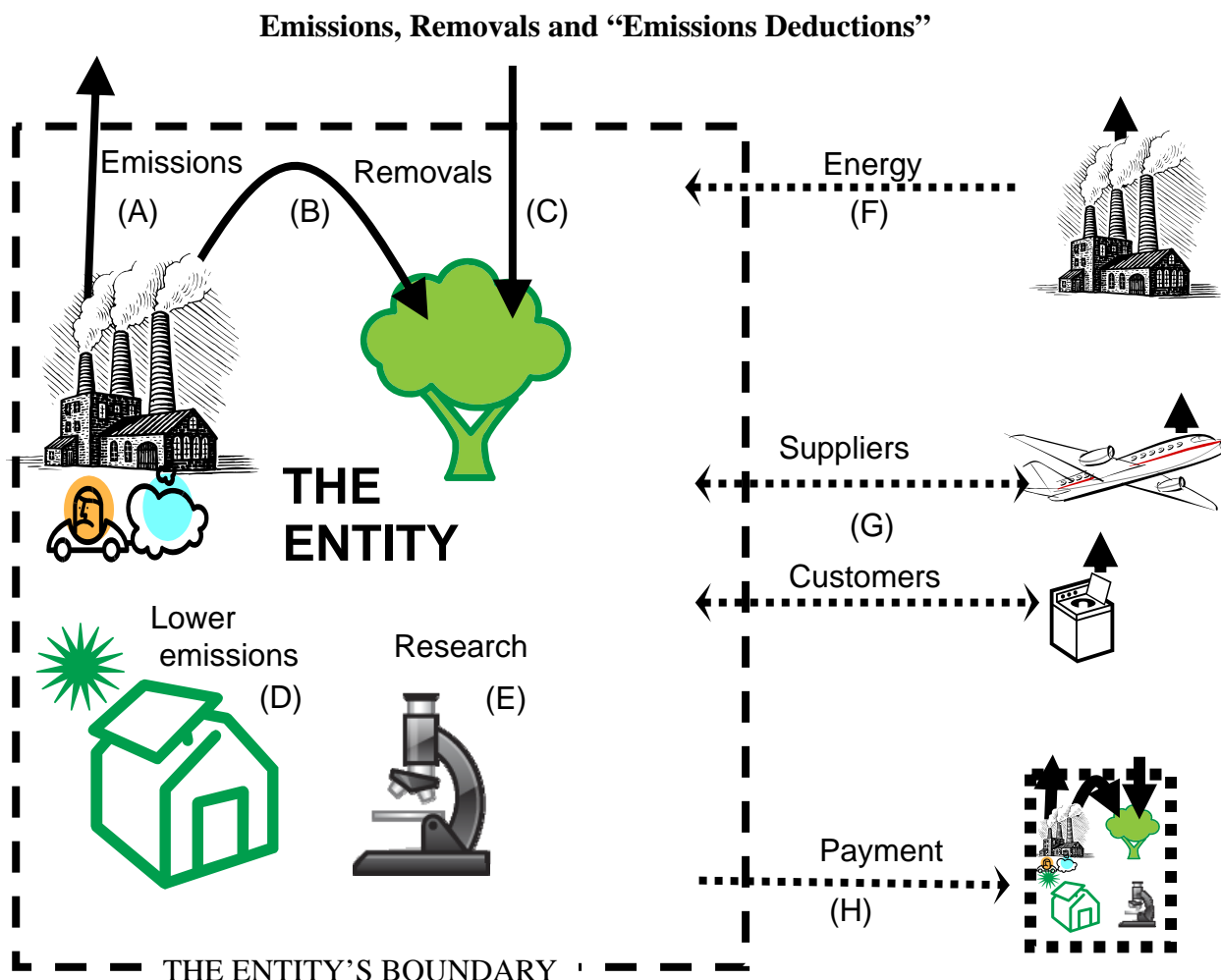
Agenda Item 7-A	Assurance on a Greenhouse Gas Statement - Issues and IAASB Task Force Proposals dated June 2009
Agenda Item 7-B	Assurance on a Greenhouse Gas Statement - Draft ISAE 3410 dated June 2009
Agenda Item 7-C	Assurance on a Greenhouse Gas Statement – Adaptation of ISA 520, “Analytical Procedures,” Requirements for GHG Statements
Agenda Item 7-D	Assurance on a Greenhouse Gas Statement - December 2008 IAASB Issues Paper (for reference purposes only)

**Action Requested**

The IAASB is asked to provide direction to the Task Force on:

- The issues identified in **Agenda Item 7-A**; and
- The initial draft of proposed ISAE 3410 (**Agenda Item 7-B**).

## Appendix 1



- A = **Scope 1 emissions**, i.e., from sources that are owned or controlled by the entity (i.e. they are from inside the entity’s boundary). Includes stationary combustion (from fuel burned in the entity’s machines), mobile combustion (from fuel burned in the entity’s vehicles), process emissions (from physical or chemical processes e.g., cement manufacturing and aluminum smelting), and fugitive emissions (such as equipment leaks from joints and seals).
- B = Emissions that are generated within the entity’s boundary but captured and stored within that boundary rather than released into the atmosphere. They are accounted for on a gross basis, i.e., as both a Scope 1 emission, and a removal.
- C = **Removals**: GHGs that the entity has removed from the atmosphere, which the entity can store in biological sinks (e.g., trees) or geological sinks (e.g., underground).
- D = Actions the entity takes to lower its emissions, e.g., installing solar panels. The entity might discuss such actions in the explanatory notes to the GHG statement, but they are not disclosed separately in the entity’s GHG statement and only show up to the extent that the

entity's reported emissions are lower than they would otherwise be. Actions might reduce Scope 1 emissions (e.g., using more fuel efficient vehicles), Scope 2 emissions (e.g., installing solar panels to reduces the quantity of purchased electricity), or Scope 3 emissions (e.g., reducing business travel or selling products that require less energy to use).

- E = The entity might conduct research aimed at reducing its own or other people's emissions in future. The entity might discuss this in the explanatory notes to the GHG statement, but it does not otherwise show up in the entity's GHG statement unless the regulatory scheme that the entity is a part of allows the entity to deduct some notional quantity of emissions in proportion to its spending on R&D – if so, that would be an “emissions deduction” (see H below)
- F = **Scope 2 emissions**, i.e., emissions associated with energy, including electricity, heating/cooling, and steam, that is transferred to and consumed by the entity. These are indirect emissions because they are a consequence of the activities of the entity, but the emissions occur at sources that are owned or controlled by another entity (i.e., the emissions associated with, e.g., electricity the entity purchases, occur at the power station, which is outside the entity's boundary).
- G = **Scope 3 emissions**, i.e., all indirect emissions other than Scope 2 emissions. It includes, e.g., employee business travel; outsourced activities; consumption of fossil fuel or electricity required to use the entity's products; extraction and production of materials purchased as inputs to the entity's processes; and transportation of purchased fuels.
- H = **Purchased offsets**, i.e., where the entity pays another entity to remove emissions from the atmosphere, or to undertake measures that lower that other entity's emissions. A purchased offset is a common form of “**emission deduction**,” i.e., any item included in the entity's GHG statement that reduces the total of reported emissions but which is not a removal; it can include a variety of instruments or mechanisms. Which emission deductions are allowed is determined by the criteria and, other than purchased offsets, are often peculiar to the particular regulatory scheme to which the entity belongs, such as performance credits, allowances, and contributions to a technology fund. They often involve payments to other entities, and may involve an actual reduction of emissions outside the entity's boundary, or may be only a notional reduction (like contributions to a technology fund).