

Assurance on a GHG Statement — Issues and IAASB Task Force Proposals

NOTE: This document uses the following terms:

Consultation paper = “Assurance on a Greenhouse Gas Statement” issued by the IAASB in October 2009.

Working Draft (WD) = the draft ISAE attached to the consultation paper.

Revised draft = the draft ISAE under discussion at this meeting.

Limited Assurance

1. As discussed at the March meeting, there was a strong demand from respondents for the ISAE to address limited assurance as well as reasonable assurance GHG engagements. On the basis of that response and in consideration of the timetable for this project and other projects that may have a bearing on it, in particular the revision of ISAE 3000,¹ the IAASB agreed that the 1st read exposure draft to be presented at this meeting should cover both reasonable assurance and limited assurance GHG engagements.
2. The issues with respect to limited assurance broadly fall into 2 categories: the work effort required, and the form of reporting. The Task Force considers the negative form of reporting to be appropriate for limited assurance GHG engagements, and has spent relatively little time on adapting this aspect of the WD for limited assurance engagements. The Task Force has, on the other hand, discussed at some length how the revised draft should distinguish between the work effort for a limited assurance engagement and that for a reasonable assurance engagement.
3. The Task Force reviewed the IAASB’s authoritative literature on the topic, viz, the Assurance Framework² and ISAE 3000, and confirmed that considerable leeway is allowed for a subject matter-specific ISAE to tailor its approach to limited assurance in virtually any way needed to suit the particular subject matter. Essentially, the approach in the Assurance Framework and ISAE 3000 is that “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,” with the resulting level of assurance being anywhere from just above “clearly more than inconsequential,” all the way up to just below reasonable assurance.³ The procedures to be applied to obtain this assurance “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.”⁴

¹ ISAE 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information.”

² International Framework for Assurance Engagements.

³ Assurance Framework, paragraphs 48 and 53, and ISAE 3000, paragraph 37.

⁴ ISAE 3000, paragraph 37.

4. While the Task Force would need to be cognizant of any likely change in this approach as a result of recent developments, in particular the revision of ISAE 3000, liaison with the ISAE 3000 Task Force reveals that no significant change in this area is expected. Further, the Task Force has benefitted from liaising with the ISRE 2400 Task Force, and while that liaison has assisted with the thinking process behind the approach adopted in the revised draft, the Task Force is aware the approach it is advocating for limited assurance GHG engagements is different from that being advocated for limited assurance financial statement engagements. The Task Force is satisfied that this is consistent with ISAE 3000 and the Assurance Framework, which make no attempt to impose a one size fits all approach (e.g., primarily inquiries and analytical procedures) on limited assurance for all subject matters.
5. The Task Force is also satisfied that the level of assurance resulting from the outlined work effort at which the revised draft is pitched is well within the range of “clearly more than inconsequential,” and less than “reasonable assurance,” and is therefore within the bounds set by ISAE 3000 and the Assurance Framework.
6. The Task Force considered different approaches, such as the following, that could be used, alone or in combination, as the basis for establishing a limited assurance work effort:
 - Differentiating the work effort for “significant risks” relative to other risks of material misstatement.
 - Taking a “risk informed” approach.
 - Advocating a work effort based primarily on inquiries and analytical procedures.
 - Requiring consideration of the design and implementation of internal control, but not necessarily operating effectiveness.
 - Focusing procedures at a level higher than the assertion level.
 - Not requiring that obtaining an understanding of the entity include all three of: inquiries, analytical procedures, and observation and inspection (as is required for reasonable assurance).
 - Allowing tests of the operating effectiveness of controls, when performed, to be primarily through inquiries.
 - Making the extent of procedures, rather than their nature (or timing) the primary distinction.
 - Differentiating between “substantive” analytical procedures performed in a reasonable assurance engagement, and analytical procedures performed in a limited assurance engagement.
7. The Task Force looked to identify how limited assurance GHG engagements are actually conducted in practice today, and in doing so considered the following in particular: feedback from respondents to the consultation paper,⁵ feedback from the ACCA

⁵ The consultation paper asked respondents for their preliminary views on how limited assurance on a GHG statement should be differentiated from a reasonable assurance engagement. 11 respondents supported the idea

Greenhouse Gas Assurance Roundtable (which included participants from business, government and regulators as well as practitioners),⁶ and the direct experience of the specialist members of the Task Force from Canada, Japan and the UK. The following emerged about how limited assurance GHG engagements are done in practice:

- Risk assessment procedures are essentially the same as for a reasonable assurance GHG engagement; and
- For further evidence-gathering procedures: the extent is less; analytical procedures are less rigorous; and, depending on the engagement circumstances, more emphasis may be placed on, for example, inquiry, relative to other procedures.

These findings are consistent with the subsequent review of a selection of limited assurance GHG reports published by the Big Four over the past two years.⁷

8. The approach to limited assurance in the revised draft reflects these findings and is summarized in paragraph A2, upon which the Task Force invites the IAASB's comments:

“Because the desired level of assurance is lower for a limited assurance engagement, the procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement.⁸ For assurance engagements on a GHG statement, the primary differences between the evidence-gathering procedures for a reasonable assurance and a limited assurance engagement are:

- (a) *The extent of further evidence-gathering procedures:* The extent of further evidence-gathering procedures performed in a limited assurance engagement is less than in a reasonable assurance engagement. This involves reducing the number of items to be examined, for example, reduced sample sizes. It may also involve performing fewer procedures (for example, omitting a confirmation procedure that would be used in a reasonable assurance engagement), or performing fewer elements of a selected procedure (for example, using only one of the methods identified in paragraph 48 with respect to an estimate in circumstances when the practitioner would use more than one for a reasonable assurance engagement). The requirements of this ISAE that differentiate between reasonable assurance and limited assurance engagements on the basis of the extent of evidence-gathering procedures are paragraph 39(c), regarding evidence-gathering procedures responsive to the assessed risks of material misstatement at the assertion level, and paragraphs 49 and 50 regarding sampling.

of evidence-gathering procedures based on a risk assessment (AICPA; ICAS; IRBA; ACCA; PwC; BDO; RAAP; CGA; ICAEW; JICPA; and CIPFA). Comments with respect to other evidence-gathering procedures for limited assurance, while more varied and difficult to summarize here in a meaningful way.

⁶ Roundtable hosted by ACCA in London on 29 January 2009. Chaired by Jon Grant, with other IAASB attendees including Diana Hillier and, by video link, the Task Force chairs and staff.

⁷ Twelve reports were reviewed covering 6 countries: Australia, Brazil, Canada, Finland, New Zealand and Switzerland; and 6 industries: Energy, Materials, Retail, Insurance, Construction and Utilities.

⁸ International Framework for Assurance Engagements, paragraph 53, and ISAE 3000, paragraph 37.

- (b) *The nature of analytical procedures:* In a reasonable assurance engagement, analytical procedures performed in response to assessed risks are ordinarily more rigorous than in a limited assurance engagement because the level of assurance sought by the practitioner is higher. In particular, they involve the development of expectations of recorded quantities or ratios designed with sufficient precision to identify material misstatements (see paragraph 44(c)), and the investigation of differences involves obtaining evidence in addition to inquiring of the entity (see paragraph 45).

While the practitioner is likely to consider similar types of relationships amongst information in a limited assurance engagement as in reasonable assurance engagement, the practitioner will not necessarily develop expectations of recorded quantities or ratios prior to doing so. Analytical procedures in a limited assurance engagement are ordinarily designed to be more directional in nature rather than to identify misstatements with the level of precision expected in a reasonable assurance engagement. Further, when significant fluctuations or relationships that are inconsistent with other relevant information are identified, appropriate evidence is ordinarily obtained by making inquiries of the entity and considering responses received in the light of known engagement circumstances, rather than by obtaining additional evidence.

In addition, when undertaking analytical procedures in a limited assurance engagement the practitioner may, for example:

- Use data that is more highly aggregated, for example, data at a regional level rather than at site level, or monthly data rather than weekly data. (See paragraph 44(a))
- Use data that has not been subjected to separate evidence-gathering procedures to test its reliability to the same extent as it would be for a reasonable assurance engagement. (See paragraph 44(b))
- Where an expectation of a recorded quantity or ratios is developed, determine a higher difference from expected quantities and ratios that is acceptable without further investigation. (See paragraph 44(c))

- (c) The emphasis placed on various procedures as a source of evidence may also differ depending on the engagement circumstances. For example, the practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on inquiries of the entity's personnel, analytical procedures, and the work of internal audit, and relatively less emphasis on tests of internal control and obtaining evidence from external sources than would be the case for a reasonable assurance engagement."

9. It is acknowledged that point (a) of the above guidance is not explicit with respect to the extent to which evidence-gathering procedures should be reduced. It is contended that this will always be a matter of professional judgment in the circumstances, and that it would be inappropriate to try to prescribe the extent of procedures for either a reasonable assurance

or a limited assurance GHG engagement, just as it is in the case of financial statement audits and reviews where no attempt to do this is made in the ISAs or ISREs.

10. It is worth noting that the word “substantive” is not used in the revised draft. The word “substantive” is not mentioned in the ISREs, nor is it used in the Assurance Framework or ISAE 3000 with respect to limited assurance. The definition of “substantive procedures” in ISA 330 is “An audit procedure designed to detect material misstatements at the assertion level ...” As well as using the word “audit”, this definition focuses on detecting material misstatements. In a limited assurance engagement, it is doubtful one could say that procedures are “designed to detect material misstatements” – if they were, the practitioner should have a reasonable expectation of finding a material misstatement if one exists, which brings the practitioner into the realm of reasonable assurance. Therefore, rather than redefining the term “substantive procedures,” the revised draft has deleted the word substantive altogether so that the text can apply to both reasonable assurance and limited assurance engagements and not be confused with the definition of substantive procedures in the ISAs. The effect of this is perhaps most clear in paragraph 8, where it can be seen that another term for this bundle of procedures is necessary. The term used in the revised draft (sparingly, because simply deleting “substantive” or using other wording often suffices, e.g. paragraphs 42, 43, 48(b), A73), is “other evidence-gathering procedures.”

Matters for IAASB’s Consideration

- Does the IAASB agree with the description in paragraph A2, which summarizes the distinction between reasonable assurance and limited assurance engagements on GHG Statements?
- Is the distinction between reasonable assurance and limited assurance adequately dealt with in the draft, or is there a need to modify existing requirements/application material or add further requirements/application material?
- Does the IAASB agree with not using the word “substantive?”

Relationship with other Standards, and Regulatory and other Guidance

11. A question has been raised about how the ISAE will relate to other standards, such as ISO 14064-3,⁹ guidance issued by regulators, and other guidance, such as that issued by voluntary emissions trading schemes.
12. The Task Force is quite familiar with technical aspects of such standards and guidance, e.g. one Task Force member was integrally involved with the drafting of ISO 14064-3,¹⁰ several are assisting regulators to develop guidance, and one has received a government grant to conduct research on the topic. However, liaison with other standard-setters,

⁹ ISO 14064-3 “Greenhouse gases – Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions.”

¹⁰ Interestingly, a recent survey in the UK indicates that ISO 14064-3 was used in only 2 companies out of the 75 companies in the FTSE 350 that have their sustainability/carbon statements assured. www.carbonsmart.co.uk/?q=Assurancebenchmarking

regulators and others who issue relevant guidance has not been undertaken at the institutional level.

13. As noted at the March meeting, the vast majority of responses to the consultation paper were received from accounting bodies, auditing standard setters and accounting firms. A number of members commented that further efforts need to be made to communicate and engage with a broader range of stakeholders. The Task Force is currently liaising with the IFAC Communications Department with a view to developing a Communications and Engagement Plan for this project. It is expected that the Plan will include liaison with other standard-setters, regulators, and others who issue guidance on assurance for GHGs. A draft Plan will be considered at the Task Force's July meeting.

Estimates and Uncertainty

14. An area that the Task Force spent considerable time on when developing the WD was estimates and uncertainty. The main reason for this is the difficulty in articulating the relationship between these two concepts in the context of GHG reporting, and their relationship to the criteria used to prepare a GHG statement.
15. The issue of estimates and uncertainty in the context of a GHG statement has elements that are similar to the consideration of estimates in a financial statement audit, but there is one significant and pervasive difference, i.e. the existence of unavoidable scientific uncertainty affecting reported emissions. Therefore, while the Task Force was able to draw upon the requirements and guidance in ISA 540,¹¹ that material needed to be considered in terms of the effect scientific uncertainty has on reported emissions, and also tailored to the specific methods by which GHGs are quantified (for example, the use of: average emissions factors for an industry or region etc applied to activity data such as fuel consumption; entity-specific methods, models and assumptions; and direct monitoring of emissions using periodic sampling of concentration and flow rates).
16. The consultation paper asked whether the way this was addressed in the WD was appropriate. While respondents who commented on this issues were mainly supportive, given the prominent role of uncertainty in relation to quantifying emissions, the Task Force reviewed very closely how the WD articulated the relationship between estimates, uncertainty and criteria, deciding that: additional clarity was needed; and the explanation should be more readily reconcilable to the categories of uncertainty used in the scientific literature as it relates to GHG quantification.
17. This review has led to a revised approach that more clearly distinguishes between scientific uncertainty, over which the entity has no control (but the impact of which can be reduced by the specification of suitable criteria and the fact that the objective of the auditor is to obtain the desired level of assurance about whether the GHG statement is free from material misstatement in the context of those criteria), and estimation uncertainty, which is almost always within the entity's control (at a cost). This revised approach is encapsulated in the description of uncertainty at paragraphs A17-A22 of the revised draft, which replaces

¹¹ ISA 540, "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures."

the discussion in paragraphs A52 and A53 of the WD. The requirements with respect to estimates and uncertainty have not changed substantially.

Matter for IAASB's Consideration

- Does the IAASB agree with the revised discussion of uncertainty, in particular the split between scientific uncertainty and estimation uncertainty, at paragraphs A17-A22?

Materiality

18. The consultation paper sought specific feedback on the requirements and guidance in the WD with respect to materiality
19. The WD related materiality to intended users' "economic" decision (WD.36, WD.A39 and WD.A41). The consultation paper asked whether it is appropriate for materiality with respect to a GHG statement to be limited in this way, or whether there are other forms of decision made by various users that should be taken into account.
20. One respondent agreed with restricting decisions to economic decisions on the basis that "almost any decision can be described as an economic decision." This is consistent with the discussion at the IAASB that initially led to restricting the WD to economic decisions, i.e. all decisions based on a GHG statement are likely to ultimately affect the flow of resources and could, therefore, be classed as economic.
21. The clear majority of respondents who made a substantive comment on this issue, however, indicated that broader decisions should be explicitly acknowledged.¹² The type of other decisions most commonly mentioned was regulatory decisions. Others mentioned included policy decisions of government, environmental/sustainability decisions, operational decisions, and social decisions.
22. These responses prompted the Task Force to include in the revised draft a discussion of intended users and their information needs, and to remove the limitation of decisions to economic ones. Paragraph A48 of the revised draft now discusses the information needs of:
 - Management and those charged with governance of the entity.
 - Regulators and policy makers in the case of a regulatory disclosure regime.
 - Market participants in the case of an emissions trading scheme.
 - Investors and other stakeholders such as suppliers, customers, employees, and the broader community in the case of voluntary disclosures
23. That guidance also reiterates the practical point currently noted in the Assurance Framework that "...intended users may be limited to major stakeholders with significant and common interests."
24. Other changes with respect to materiality include:

¹² AUASB; ICAS; ICAP; IRBA; AASB; CICA; FEE; PSB; IdW; RAAP; KPMG; CGA; ICAEW; JICPA; IMCP and CIPFA.

- Moving to the application material (paragraph A50, second dot point) what was a conditional requirement (old paragraph 36, now paragraph 21) to determine a lesser materiality level for particular types of emissions or disclosures when appropriate because in practice it is rarely applicable.
- Adding further explanation to the factors that affect the practitioner's determination of materiality (paragraph A50).

Matter for IAASB's Consideration

- Does the IAASB agree with removing the limitation that economic decisions are the only type of decision made by users that a practitioner should consider when determining materiality?

Regulatory and Voluntary Reporting

25. The WD included four requirements that were conditional on the engagement being conducted in a voluntary reporting environment.¹³
26. Of the 21 respondents who commented on this, 19 supported removing the distinction between voluntary reporting and regulatory reporting in these requirements.¹⁴
27. The Task Force has removed the distinction in the revised draft, but in doing so has been cognizant of the fact, as pointed out by some respondents, that in many cases it will make little sense to seek to ensure specific disclosures are made by the entity in a regulatory environment if the GHG statement is only available to the regulator who determines which disclosures are necessary for their purposes.

Matter for IAASB's Consideration

- Is the IAASB satisfied that it is appropriate for the requirements of the ISAE to not distinguish between a regulatory disclosure and a voluntary disclosure situation?

New Requirements and Guidance

28. While most respondents generally agreed with the content of the WD, a number asked for further guidance on particular matters, and some requests were made for additional requirements. In response to these requests, or in response to gaps the Task Force noted itself, the following material, in addition to material mentioned elsewhere in this Paper, has been added to the revised draft:

¹³ Paragraphs 15(b)(i), 15(b)(ii), 15(c), and 106(d).

¹⁴ AUASB; AICPA; Deloitte, ICAP; ICAS; IRBA; ACCA; AASB; FEE; PwC; BDO; PSB; IdW; RAAP; KPMG; GTI; CGA; ICAEW; and CIPFA.

New Requirements

- *Comparative Information:* The consultation paper noted the importance of “trend information in GHG emissions over time, not only in regulated ‘baseline and credit’ schemes, but also, for example, in benchmarking the success of emissions reduction activities.” The WD included a separate assertion to cater for this (paragraph A56(b)(v)). A number of respondents noted, however, that the WD did not include any requirements or guidance specifically on this matter, or on restatement of prior period information. Restatement can be necessary because of, for example, improved scientific knowledge, significant structural changes in the entity, the availability of more accurate quantification methods, the revision of an estimate, or the discovery of a significant error. Paragraphs 63 and 64, adapted from ISA 710, and A90 have been added to address this.
- *Emphasis of Matter:* The WD included a requirement and application material in relation to other matter paragraphs (OMP), but not emphasis of matter paragraphs (EOM). The vast majority of respondents supported covering EOMs as well as OMPs.¹⁵ This has been done by expanding paragraph 76 and adding paragraphs A106-A111.
- *Fair presentation:* In response to questions in the consultation paper, ten respondents¹⁶ noted their preference for the ISAE to be written primarily for compliance criteria, and thirteen respondents¹⁷ noted that fair presentation criteria are also used in some cases, although it is not always clear that there is a common understanding of what fair presentation with respect to GHG statements means. The Task Force considered how the revised draft might practically incorporate this feedback, and also considered other distinctions that could be made (for example, and general purpose versus special purpose criteria; and established criteria versus developed criteria versus established criteria requiring additional developed criteria to be suitable¹⁸), and concluded that it would unnecessarily complicate the ISAE to add these extra dimensions. The Task Force did, however, acknowledge that some additional requirements and guidance may be necessary when the engagement circumstances indicate that intended users would expect the equivalent of what is known in the ISAs as a fair presentation framework. Therefore, paragraphs 74 and A98 were added.

New Application Material

- *Sustainability reports:* Paragraph 3 was added to recognize the fact that GHG statements can be included as part of a broader sustainability report which is also

¹⁵ AUASB; Deloitte; ICAS; IRBA; ACCA; FEE; PwC; BDO; PSB; IdW; RAAP; KPMG; GTI; CGA; Talal; ICAEW; JICPA; IMCP; and CIPFA.

¹⁶ ICAS; ACCA; AASB; BDO; PSB; KPMG; GGTI; CGA; ICAEW; JICPA; and ICPM.

¹⁷ AUASB; AICPA; Deloitte; ICAS; IRBA; ACCA; CalPERS; AASB; CICA; FEE; PwC; IdW; JICPA.

¹⁸ IdW.

assured by the practitioner. In such cases, the assurance report should cite both this ISAE and ISAE 3000 (or other relevant subject matter-specific ISAE).

- *Criteria and Materiality in a Limited Assurance Engagement:* Paragraphs A26 and A49 were added to note that the suitability of criteria and the determination of materiality, respectively, are not affected by the desired level of assurance (the revised draft differs from ISO 14064-3 on this point with respect to materiality).
- *Planning:* Paragraph A44 was added to highlight the need for caution when liaising with the entity regarding planned procedures (this is potentially another point of difference from ISO 14064-3)
- *Risks at the GHG statement level:* The consultation paper asked respondents to identify from their experience what were commonly the most significant risks at the GHG statement level. From the responses received, the Task Force constructed the list at paragraph A53, which was put in context by adapting relevant paragraphs from ISA 315 (paragraphs A52-A54).
- *Emissions deductions:* Most respondents to the questions about offsets agreed with how they had been treated in the WD,¹⁹ and many suggested including further guidance, at least illustrative wording for the practitioner's report, in the ISAE.²⁰ Paragraphs A103-A105 were added to address this.
- Other application material added includes:
 - *Analytical procedures as risk assessment procedures:* paragraphs A58-A60, adapted from ISA 315.
 - *How the entity assesses the effect of estimation uncertainty:* paragraph A65(g), adapted from ISA 540.
 - *Overall responses:* paragraphs A68-A70, adapted from ISA 330.
 - *Controls at smaller entities:* paragraph A73, adapted from ISA 330.
 - *Subsequent events:* paragraph A89.
 - *Information Not Covered by the Practitioner's Conclusion:* paragraph A101.

Matter for IAASB's Consideration

- Does the IAASB agree with the addition noted above?

New illustrative diagram

29. The Task Force has added as Appendix 1 a diagram it developed last year to assist readers to understand visually how the different types of emissions, emissions deductions,

¹⁹ AUASB; AICPA; Deloitte; ICAS; IRBA; ACCA; FEE; PwC; BDO; PSB; IdW; RAAP; KPMG; GTI; CGA; ICAEW; IMCP; and CIPFA.

²⁰ AUASB; AICPA; Deloitte; IRBA; ACCA; FEE; PwC; PSB; IdW; RAAP; CGA; ICAEW; and IMCP.

reduction and other activities relate to each other. It has also added further discussion of these concepts to the application material at paragraphs A3-A7.

30. Given the growing importance of, and interest in, GHG emissions, it was thought that such a diagram might assist those practitioners who are not currently familiar with GHG reporting to better understand the concepts embedded in the ISAE.

Matter for IAASB's Consideration

- Does the IAASB agree that Appendix 1 to the revised draft is a helpful addition?