

Assurance on a Greenhouse Gas (GHG) Statement—Issues and IAASB Task Force Proposals

A. Work Effort for a Limited Assurance GHG Engagement

1. The Task Force has made a number of clarifications and refinements to the draft in response to points made during the IAASB's discussion of this matter at its June 2010 meeting, including:
 - Clarifying the distinction between the objectives for a reasonable assurance GHG engagement and a limited assurance GHG engagement (paragraph 12);¹
 - Recognizing that fewer sites are likely to be visited in a limited assurance engagement than in a reasonable assurance engagement (paragraph A76). Site visits are discussed further in Section E of this paper;
 - Refining the requirements and guidance in relation to analytical procedures, for example, including limited assurance in the requirement to form an expectation (paragraph A5(b));
 - Clarifying what is expected when the practitioner becomes aware of a matter that leads the practitioner to question whether a material amendment should be made to the GHG statement (paragraph 53). This matter is also discussed further in Section B of this paper; and
 - Adding an illustrative sample of a practitioner's limited assurance report.
2. Appendix 1 of the draft, which is referred to in paragraph 8 of the Introduction, provides a helpful summary of the key similarities and differences between reasonable assurance and limited assurance GHG engagements, which references the reader back to relevant paragraphs of the draft.

Matters for IAASB Consideration

1. Does the IAASB agree with the above noted proposed changes to the draft with respect to the work effort for a limited assurance GHG engagement?
2. Does the IAASB agree with the similarities and differences summarized in Appendix 1 to the draft? The Board is also asked for its views on whether the table in Appendix 1 is a useful addition, and whether it is correctly placed as an appendix.

B. Determining Whether Additional Procedures Are Necessary

3. At the June 2010 IAASB meeting, the project to revise ISRE 2400² was discussed after the GHG project. As part of the ISRE 2400 discussion, the IAASB considered a

¹ All paragraph references are to Agenda Item 3-B, unless otherwise noted.

² International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*

paragraph about determining whether additional procedures are necessary in an engagement to review financial statements if the practitioner becomes aware of a matter that leads the practitioner to question whether a material amendment should be made to the financial statements.

4. The Task Force recognizes that the procedures to be performed in an assurance engagement depend on the subject matter, and therefore what is in ISRE 2400 with respect to financial statement reviews is not necessarily appropriate for limited assurance engagements on a GHG statement. However, the Task Force adapted the draft ISRE 2400 paragraph about determining whether additional procedures are necessary because it considers such a paragraph to be relevant to a limited assurance GHG engagement.
5. Further, as the draft ISAE on GHGs covers both reasonable assurance and limited assurance engagements, the Task Force considered whether that paragraph should also apply to reasonable assurance engagements, and concluded that it should. The result is paragraph 53.
6. An alternative to paragraph 53 the IAASB may like to consider is using a very simple formulation such as the following which is marked up from paragraph 37 of ISAE 3000³ “For both reasonable assurance and limited assurance GHG engagements, if the practitioner becomes aware of a matter that leads the practitioner to question whether a material modification should be made to the ~~subject matter information~~ GHG statement, the practitioner pursues the matter by performing other procedures sufficient to enable the practitioner to report.”

Matters for IAASB Consideration

3. Does the IAASB agree with the content of paragraph 53 as it relates to:
 - (a) Limited assurance GHG engagements?
 - (b) Reasonable assurance GHG engagements?
4. Does the IAASB agree with how paragraph 53 relates to paragraph 54 (which deals with the accumulation of identified misstatements)?

C. Sample Reports

7. The draft ISAE discussed at the June 2010 IAASB meeting included a sample report for a reasonable assurance engagement. The IAASB asked the Task Force to consider whether a sample limited assurance report should also be developed and whether the sample reasonable assurance report, which was in a relatively standardized format with only a very brief summary of procedures performed, should include further details of those procedures.

³ International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

8. Appendix 3 of the revised draft includes 2 sample reports: one for a reasonable assurance GHG engagement and one for a limited assurance GHG engagement.
9. The sample limited assurance report includes a provision for the procedures performed to be described in more detail than in the sample report for a reasonable assurance GHG engagement.
10. The rationale for this, as noted in Appendix 1 of the draft, is that “in an reasonable assurance engagement on a GHG statement, describing in any level of detail the specific procedures performed would not assist users to understand that, in all cases where an unmodified report is issued, sufficient appropriate evidence has been obtained to enable the practitioner to express a conclusion in the positive form. In a limited assurance engagement on a GHG statement, however, the assurance that the practitioner obtains varies with each engagement depending on the procedures performed. It is important therefore to summarize those procedures in the report in sufficient detail for users to understand the assurance obtained in the particular engagement.”
11. This is consistent with ISAE 3000 which states: “Because in a limited assurance engagement an appreciation of the nature, timing, and extent of evidence-gathering procedures performed is essential to understanding the assurance conveyed by a conclusion expressed in the negative form, the summary of the work performed ... is ordinarily more detailed than for a reasonable assurance engagement and identifies the limitations on the nature, timing, and extent of evidence-gathering procedures. It may be appropriate to indicate procedures that were not performed that would ordinarily be performed in a reasonable assurance engagement.”

Matter for IAASB Consideration

5. Does the IAASB agree with the sample practitioner’s reports for:
 - (a) Limited assurance GHG engagements?
 - (b) Reasonable assurance GHG engagements?

D. Timing of Exposure and Relationship with Other Projects

12. The Task Force has maintained liaison with the ISAE 3000 project, which is expected to be voted on for exposure at the December 2010 IAASB meeting. The Task Force has been careful, however, to ensure that the draft of proposed ISAE 3410 can be read in the context of the current ISAE 3000. The Task Force has paid attention to developments with respect to ISRE 2400 too, but realizes those development do not necessarily transpose to a limited assurance GHG engagement as they are subject matter-specific.
13. The Task Force is conscious of the fact that, ideally, the exposure of proposed ISAE 3410 would be simultaneous with the exposure of proposed revised ISAE 3000. The Task Force is also aware, however, of a number of reasons why proposed ISAE 3410 should be released as soon as practicable after the September IAASB meeting, rather than waiting until December:

- The Task Force believes it is at a point of diminishing returns in reworking the draft without the benefit of extensive input from practitioners and others as would be obtained through exposure.
 - Responses to the Consultation Paper⁴ noted the urgency that should attach to this project.
 - October 2010 will be 12 months since the Consultation Paper was issued. Respondents and others would likely have a reasonable expectation that it is in the public interest an exposure draft would be issued within 12 months.
 - Many jurisdictions are continuing to develop emissions trading schemes or carbon tax regimes that would benefit from this standard.
14. The Task Force recommends that proposed ISAE 3410 be approved in September if the IAASB is satisfied that it is ready for exposure at this meeting. The difference in timing between this project and ISAE 3000 can be explained in the Explanatory Memorandum as it was when the Consultation Paper was issued, as respondents seemed to have no difficulty in coping with it then. The Task Force also recommends that the exposure draft be on issue for an extended period until the end of February 2011, which will allow two months of overlap with the expected ISAE 3000 exposure period; and time to communicate and engage with a range of stakeholders from both inside and outside the profession. The summary of responses to the exposure draft would be presented to the IAASB as soon as practicable in 2011.

Matter for IAASB Consideration

6. Does the IAASB agree that proposed ISAE 3410 should be issued as soon as practicable after the September 2010 meeting if the IAASB is satisfied that it is ready for exposure at this meeting, and that the exposure draft be on issue for an extended period until the end of February 2011?

E. Site Visits

15. At the June IAASB meeting, the IAASB asked the Task Force to further consider how the draft deals with performing procedures on location at the entity’s facilities given the importance of “site visits” when Scope 1 (direct) emissions are included in the GHG statement.
16. The Task Force has added a new requirement to “determine whether it is necessary in the circumstances of the engagement to perform procedures on location at significant facilities” (paragraph 30). This requirement is supported by:
- A new definition of “significant facility” in paragraph 13(q) and paragraphs A12–A13, which draw on concepts embedded in ISA 600;⁵

⁴ Consultation Paper, *Assurance on a Greenhouse Gas Statement*, issued October 2009

- A new section specifically about performing procedures on location at the entity’s facilities, including guidance on the purpose of site visits, when site visits might be conducted, alternatives to site visits and obtaining adequate coverage of total emissions (paragraphs A76–A79); and
 - A new section about observation and inspection generally (paragraphs A70–A72).
17. The Task Force did debate whether to include more detailed requirements about site visits, for example, requiring procedures to be performed at all significant facilities for a reasonable assurance engagement, and at all significant facilities in the first period of an engagement for a limited assurance engagement; requiring facility-level analytical procedures if a significant facility is not visited and/or a documentation requirement regarding how sufficient appropriate evidence was obtained if a significant facility was not visited. However, the Task Force concluded that such requirements would be too granular and unnecessarily restrictive given the very wide range of actual situations covered by the ISAE.

Matter for IAASB Consideration

7. Does the IAASB agree with how the draft deals with performing procedures on location at the entity’s facilities?

F. Consideration by IAASB of Significant Matters Identified by Task Force

18. In the Task Force’s view, the significant matters the Task Force has identified as a result of its deliberations since the beginning of this project, and the Task Force’s considerations thereon, have all been reflected in the issues papers presented at the IAASB meetings in December 2009, March 2010, June 2010, and this meeting. In the Task Force’s view, there are no significant matters discussed within the Task Force on this project that have not been brought to the IAASB’s attention.

⁵ International Standard on Auditing (ISA) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*