

IAASB Technical Director
545 5th Av. 14th Floor NY 10017

ISAE 3000

Assurance Engagement Other Than Audits or Reviews of Historical Financial Information

Due: September 1, 2011

ISAE 3402 Assurance Reports on Controls at a Service Organization

Exposure Draft of Proposed ISAE 3410 Assurance Engagement on Greenhouse Gas Statements

Comments By: Dr. Joseph S. Maresca CPA, CISA

Colleagues,

I thank you for the opportunity to critique the above reporting requirements.

Member critique or analysis is highlighted in *dark italics*. Details follow:

Background and Critique

The concept of limited assurance is intended to reduce engagement risk to acceptable levels while providing meaningful information to users . The accountant may make a statement which indicates that nothing has come to the attention of the accountant that would cause a material mis-statement. pp. 5

A "Direct Engagement" applies assurance skills to get competent evidence on material mis-statements. The value of direct engagements is independence. pp. 8

The engagement partner is deemed to have sufficient competence in specialist knowledge and competence in specialist knowledge and competence in assurance skills to accept responsibility for the assurance conclusions. pp. 10

There should be a reference to hiring an expert in the art to which the complex assurance pertains when such assurance deals with matter substantially outside of accounting and its allied areas. i.e. oil and gas, nuclear, chemical composition, engineering and other highly specialized areas.

The international framework for assurance engagements is set forth on pp. 78-118.

Specific Comments Are Requested On:

Question 1

Consistency increases in a quality assurance engagement while continuing to be flexible.

I concur. This is true as long as the relevant control points are identified and analyzed by the accountant and pertinent experts are engaged in the art to which the engagement pertains.

Question 2

(a) Is reasonable assurance and limited assurance explained well enough? Generally, yes.

(b) Are the requirements appropriate to both in (a) Generally, yes.

(c) Should the requirements for limited assurance require an understanding of internal control over the subject matter when relevant to the engagement?

Yes. The system (or elements thereof) of internal control may evolve over time in ways that the accountant may need to monitor. i.e. new systems for oil and gas operations, nuclear power plant disaster recovery and contingency planning etc.

Question 3

- (a) Assurance based is changed to attestation engagement and direct reporting is changed to direct engagement.
(b) Is the direct engagement and attest engagement explained sufficiently ?
(c) Are the objectives appropriate ? pp. 13 I concur.

Question 4

- (a) On assurance reporting, is the summary of work performed as a basis for a conclusion appropriate ? I concur.
(b) As to limited assurance, state that the practitioner proceedings are more limited than a reasonable assurance engagement and do not enable practitioners to opine on all significant matters as in a reasonable assurance engagement. I concur.
(c) Are there any further requirements on the details of a limited assurance engagement? pp. 14
There may be further details depending upon the complexity of the engagement art. i.e. energy, telecommunications, chemical compositions etc.

Comment on the scalability of requirements for small and mid-size firms or SMPs. pp. 14
Scalability of the requirements should be covered in the detailed analysis of internal accounting control and the determination of materiality thresholds.

Are the standards practicable for developing nations?

The standards may be more difficult to apply in developing nations because the systems are in an evolutionary stage of deployment and development. Legal codes vary and contract venues may be dis-similar.

Assurance Engagements Other Than Audits or Review of Historical Information. pp. 16

- (a) The objective is to obtain reasonable assurance or limited assurance that the subject matter is free from a material mis-statement. I concur.
(b) Conclude that there is reasonable assurance on a rational basis. I concur.
(c) Communicate the assurance to users. pp. 18-19 I concur.

8A Reasonable assurance decreases engagement risk to acceptable low levels as a basis for the practitioner's conclusion. pp. 19 I concur.

8B Limited insurance in practice may reduce engagement risk to an acceptable level but risk may increase in reasonable assurance engagements. I concur.

Although risk may increase in reasonable assurance engagements, the accountant can do other things like review prior year workpapers, interview management, engage experts and perform operational audit tasks as necessary. An example of an operational audit task would be reviewing trouble management logs in an oil and gas drilling operation. The IT auditors can review system logs for oil and gas platforms for signs of trouble escalation items for oil and gas applications systems. The IT auditors can review the Disaster Recovery Plan and Contingency Plans for oil and gas system operations and nuclear power plant operations.

- P. 20 (a) An attestation engagement is an assurance engagement where a party other than the practitioner measures or evaluates the subject matter against criteria.
(b) Direct engagement involves a practitioner measurement against criteria and the practitioner presents subject matter accompanying the assurance report. pp. 20
On pp. 36, independence is referenced for the practitioner with regard to the subject matter. I concur.

The engagement risk is that the practitioner expresses an inappropriate conclusion. pp. 20

Engagement risk may be reduced by hiring experts in the art of the subject matter to be reviewed.

- P. 21 (i) Evidence is referenced. ***There are 3 types of evidence in the English Common Law i.e. documentary , testamentary and real evidence like a physical object . Documentary evidence refers to documents like Letters of Credit. Testamentary evidence refers***

to the taking and/or review of statements like those obtained by a knowledge engineer in an artificial intelligence "Advice Giving" system or process. Real evidence is the precious metal itself when it is extracted from the ground by a mining company. The oil in an oil tank is another example of real evidence. The subject matter of an inventory count is another example of real evidence being accounted for by management and the accountant.

A reduction in engagement risk may be accomplished by the following:

- o selective tests
- o internal control analysis
- o persuasive rather than conclusive evidence
- o professional judgment I concur.

Threats to the engagement include:

- (a) self interest
- (b) self review
- (c) advocacy pp. 42

These threats may be mitigated by the existence of an up-to-date corporate charter and mission statement, formal job descriptions, an independent Audit Committee of the Board of Directors and other organizational enhancements reviewed by the accountant in analyzing the organization. An independent internal audit function can aid in enhancing controls to reduce the above threats.

P. 59 Par. 103 references consistent evidence from different sources. I concur.

Exposure Draft on Proposed Greenhouse Gas Statements Critique

Sustainability disclosure is the act of communicating performance relating to financial, environmental, social and governance activities. Sustainability disclosure can involve regulatory reporting - such as disclosure of environmental liabilities or mandatory greenhouse gas (GHG) reporting - as well as voluntary disclosures, such as corporate responsibility reports. Effective sustainability disclosure meets diverse stakeholder expectations by aggregating information and disseminating it consistently and credibly across all communication channels.

Enterprises are aware that they can enhance their name, improve stockholder credibility and boost operational efficiencies through meaningful sustainability disclosure.

*The hallmark of success is aimed at achieving "development that meets the needs of the present without compromising the ability of future generations to meet their own needs."
(source: United Nations Report of the World Commission on Environment and Development)*

Environmental performance refers to its impact on local habitats and global natural resources. Social performance refers to human and societal impacts, including impacts on employees and the community. Finally, governance refers to the internal oversight, management and accountabilities that drive organizational financial, environmental and social performance.

Biomes vary as to temperature, precipitation level and features. A tropical rain forest has a warm temperature with high precipitation and abundant vegetation. The rate of industrialization without replacement of forestry is a concern ecologically. Savannas are extensive grasslands with seasonal precipitation. The concern is to preserve the grasslands. Marine Aquatic biomes have large amounts of dissolved

minerals like salts and an array of aquatic animal and plant life. There are other biomes; such as, Chapparral, Temperate, Desert, Tundra, Taiga and Freshwater Aquatic.

“Materiality” is the threshold at which a sustainability topic or key performance indicator (KPI) becomes significant enough to include as a sustainability disclosure or metric .

Because the soils and waters of the Arctic are so cold, decomposition happens more slowly than photosynthesis, which is why the Arctic is a net sink for carbon. But as the Arctic warms, permafrost melts, which allows faster decomposition, releasing CO₂. And soils will dry out, increasing the risk of fire.

"Right now, the biggest vulnerability seems to be the potential effect of fire in terms of decreasing the efficiency of the carbon sink and possibly turning it into a source," McGuire said. Another climate risk in the Arctic comes from methane, a greenhouse gas 25 times more potent than carbon dioxide. As permafrost melts, it is likely to create waterlogged conditions, which lead to the formation of methane by anaerobic bacteria. Warming may also cause the release of methane hydrate deposits trapped beneath the ocean floor under high pressure. "One of the questions, particularly on the continental shelves, is whether some thawing could occur that could cause these hydrates to be released. In general, we think it's quite a low probability, but the stocks of methane are enormous."

"The changes that are projected in the thawing of permafrost are all likely to amplify the rates of climate change,"

said Terry Chapin, also of the University of Alaska, Fairbanks, but who did not take part in the study.

"Things could turn out to be much more serious than the present projections would suggest."

"It's very dangerous to put off any decisions about trying to reduce the rates of climate change," he added. "Once these things begin to happen, as a society we lose a bit of our ability to take preventative actions." 1)

Organizationally, the Purchasing Department is the source for minimizing CO₂ emissions during the conduct of routine purchasing decisions. Corporate purchasing standards should require purchasing products, systems and processes to have a minimum CO₂ footprint or impact on the entity. The government can help this process by providing generous tax credits for the purchase of GHG equipment with a marginal environmental footprint.

For instance, the purchase and installation of an Advanced Scrubber should provide a quantifiable deduction of emissions in the guarantee statement by the manufacturer. In addition, advanced scrubbers are protected by patent filings which teach the scientific art resulting in the award of the patent. At least in the USA, the Patent Office (PTO) has mechanical and chemical examination divisions which examine the new use and uniqueness of the claimed inventions- particularly those dealing with advanced scrubber technology.

Industrial Environmental Carbon (IEC) is developing and improving technologies to mitigate carbon dioxide (CO₂) emission from vehicles, electric generators, flue gas towers and ambient polluted air.

IEC (Industrial Environmental Carbon) offers custom-made carbon filtration add-on units for gasoline, diesel and bio-fuel exhaust. The filters improve the quality of engine exhaust by reducing CO₂, particulates, sulfates and nitrates.

Coal, diesel and natural gas systems produce power for electrical grids. These major polluters require add-on units which are specific to CO₂ capture as well as waste mineral harvesting. CO₂ and mineral harvesting make useful products for cost-effective algal production and

our designs accommodate the fact. 2)

Mandatory sustainability disclosures can occur within financial filings such as SEC reporting, Annual Reports and Management Disclosure & Analysis; or non-financial reports such as Health and Safety reports or Emissions reports. Voluntary disclosure often takes the form of corporate responsibility reports and responses to surveys or data requests.

The concept of integrating financial and non-financial reporting, sometimes called “integrated reporting,” continues to gain popularity globally. Relevant benchmarks include but are not limited to :

- (1) Relevance: Disclosure of company activities meets decision-making needs of all stakeholders .**
- (2) Completeness: Disclosure is within materiality guides and provides all relevant audiences with needed data .**
- (3) Consistency: Transparent processes and methodologies produce the same results consistently.**
- (4) Transparency: Facts are ascertainable and backed by an audit trail easy to replicate for quality assurance purposes**
- (5) Accuracy: Audiences have reasonable assurance of the integrity of the reported information .**
- (6) Reliability: Disclosed information has been secured and analyzed in a manner that can be replicated easily .**
- (7) Clarity: Information is understandable and accessible for stakeholders .**
- (8) Balance: Disclosure reflects positive and negative performance .**
- (9) Context: Disclosure reflects the organization’s broader economic, environmental and social missions .**
- (10) Timeliness: Disclosure is timely so that stakeholders can make informed decisions on a timely basis.**

References:

1) The Melting Arctic Could Release Vast CO₂ Stores
<http://news.discovery.com/earth/arctic-carbon-store-warming.html>

2) <http://carboncapturefilters.com/>

