



Committee: IAASB Consultative Advisory Group

Meeting Location: Washington

Meeting Date: September 9–11, 2009

Assurance on a Greenhouse Gas (GHG) Statement— Key Issues and Report Back

Objective of Agenda Item

1. The Objectives of this Agenda Item are:
 - (a) To obtain the Representatives' views on a number of key issues relating to this project, and
 - (b) To provide a report back on proposals of Representatives on the Issues Paper discussed at the March 9-10, 2009 CAG meeting.

Background

2. As noted at the March 2009 CAG meeting:
 - This project was approved by the IAASB in December 2007.
 - Four international roundtables, attended by range of stakeholders, were held in 2008.
 - The IAASB considered an Issues Paper at its December 2008 meeting.
 - A Project Advisory Panel has been set up to advise the Task Force.
 - The project deals with assurance over the quantification and reporting of an entity's greenhouse gases, not the financial statement audit implications of emissions trading.
3. Since the March 2009 CAG meeting:
 - The IAASB considered a first read draft proposed ISAE 3410¹ at its June 2009 meeting, and asked the Task Force to aim for approval at the September 2009 meeting of a revised draft to be issued as an exposure draft.
 - A revised draft has been prepared and will be considered by the IAASB at its September 2009 meeting. ***See Agenda Item 2 of the September 2009 IAASB meeting material.***

Matters for CAG Consideration

4. The Task Force welcomes Representatives' comments on any matters arising from their

¹ Proposed International Standard on Assurance Engagements (ISAE) 3410, "Assurance on a Greenhouse Gas Statement."

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consideration of Agenda Item 2 of the September 2009 IAASB meeting material.

5. The Task Force is particularly interested to obtain Representatives' feedback on the questions set out below. Further information about the first three of these issues is included in **Agenda Item 2-A of the September 2009 IAASB meeting material**.

Extent of Adapted ISA Requirements

- 1) Following a discussion as part of the ISAE 3000² agenda item at the June IAASB meeting regarding the extent of ISA requirements that should be “imported” into either ISAE 3000 or subject matter-specific ISAEs, the Task Force has reviewed in detail all ISA requirements and included a number, adapted as it thinks appropriate, in the draft proposed ISAE.
- 2) In deciding which requirements to include in the draft, the Task Force has been mindful of the fact that the engagement partner is required to have “specialist skills, knowledge and experience in assurance concepts and processes developed through extensive training and practical application,” and should therefore be very familiar with the underlying assurance concepts and principles. Because of this, and in the interests of (relative) brevity, the Task Force did not feel it was necessary to include some of the very detailed requirements of the ISAs. The Task Force was also conscious, however, that the ISAE must be, and be seen to be, rigorous.
- 3) These competing considerations led to many judgments being made by the Task Force. A number of comments received on this matter from IAASB members and technical advisors following distribution of an interim draft indicates that some believe there are too many requirements.
- 4) Do Representatives agree that the requirements imported into the draft from the ISAs is at the right level?

Refer to Section C (paragraphs 8-14) of Agenda Item 2-A of the September 2009 IAASB meeting material.

Competency, Quality Assurance, and Ethical Requirements

- 5) The draft includes a section dealing with “Competency, Quality Assurance, and Ethical Requirements” (paragraphs 12 and 13 of Agenda Item 2-B of the September 2009 IAASB meeting material). As well as requiring the assurance professional to comply with relevant ethical requirements, it requires the engagement partner to (in brief):
 - (a) *Be an assurance specialist;*
 - (b) *Be a professional accountant or otherwise meet suitable competency, ethical and firm-level quality control requirements;*
 - (c) *Understand GHG quantification and reporting;*

² ISAE 3000, “Assurance Engagements Other than Audits or Reviews of Historical Financial Information.”

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- (d) *Evaluate whether the engagement team will be sufficiently involved in the work of experts and the work done by others on components; and*
- (e) *Be satisfied that collectively those involved with the engagement have the appropriate competence and capabilities.*

This section and its related application material also attempts to reflect the IAASB's discussion at the June 2009 IAASB meeting where it stressed the importance of the team and of experts in a GHG engagement.

- 6) Do Representatives agree with the content of the section on “Competency, Quality Assurance, and Ethical Requirements” (*paragraphs 12-13 in Agenda Item 2-B of the September 2009 IAASB meeting material*)?

Refer to Section D (paragraphs 15-23) of Agenda Item 2-A of the September 2009 IAASB meeting material.

Communication

- 7) A vital part of any assurance engagement is the assurance report, which is usually a one-way communication from the assurance professional to intended users. Because of its one-way nature, it is important that the assurance report be as clear as possible, recognizing of course that some complexity is inevitable when the subject matter of the engagement is itself complex.
- 8) Agenda Item 2-B has two example assurance reports in its Appendix. The first example report is relatively straightforward; the second is more complex as it has illustrative paragraphs on Scope 3 emissions, offsets and a contribution to a technology fund.
- 9) Features of these reports that Representatives may choose to comment on include how the following are described:
- Restrictions on scope;
 - The assurance professional's independence, quality control and expertise;
 - The relative responsibilities of the entity and the assurance professional; and
 - Uncertainties in the quantification and reporting of emissions.
- 10) Do Representatives have any suggestions for improvements to the example assurance reports appended to the draft?

See the Appendixes to the draft at Agenda Item 2-B of the September 2009 IAASB meeting material.

External Consultation

- 11) The Task Force is of the view that, although the draft appears to be developing well and will no doubt be further improved after discussion at the IAASB's September meeting, additional input is needed on key issues from a broad range of external parties before proceeding to

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exposure draft stage.

- 12) A range of alternative consultation methods are available, including: an additional roundtable(s); a conference call(s) with invited participants; a webcast, either with invited participants or open-invitation; expanding the Project Advisory Panel (currently 13 members); or issuing an Invitation to Comment (or similar consultation document).
- 13) The Task Force considers that issuing an Invitation to Comment would be the most appropriate method for the project at this stage. To be most effective, the Task Force believes the Invitation to Comment should refer to, or have attached to it, a copy of the post-September 2009 working draft of ISAE 3410. This would provide a tangible focus for stakeholders to consider how issues discussed in the Invitation to Comment might be addressed in the context of a draft ISAE. The document would, of course, make quite clear the status of the working draft, and that the IAASB intends to follow with an ED in due course.
- 14) Do Representatives agree it is appropriate to further consult on developments in this project in advance of issuing an ED? If so, is issuing an Invitation to Comment the best way to proceed? If so: (a) should it have a copy of the post-September 2009 draft of ISAE 3410 attached to it; (b) what are the key issues on which to consult; and (c) under whose authority should it be issued – the IAASB, IFAC, or the Task Force?

Refer to Section B (paragraphs 2-7) of Agenda Item 2-A of the September 2009 IAASB meeting material.

Report Back on March 9-10, 2009 CAG Proposals

6. Below is an extract from the draft minutes of the March 2009 CAG meeting³ and an indication of how the IAASB Task Force or the IAASB responded to the Representatives' comments.

Representatives' Comments	Task Force/IAASB Response
INTRODUCTION	
<ul style="list-style-type: none"> Mr. Gutterman asked about the extent of judgment involved in auditing an emissions inventory, for example, if very rigid rules are used to calculate emissions then judgment required may be minimal. Prof. Simnett responded that financial statement auditing skills are directly relevant for many of the judgments that are required, for example, determining the boundaries of the reporting 	<p>Point taken into account.</p> <p>The Task Force has spent considerable time discussing the best way to approach the linked concepts of estimation and uncertainty in the draft. <i>Refer to paragraph 24(d) of Agenda Item 2-A of the September 2009 IAASB meeting material.</i></p>

³ The minutes will be approved at the September 2009 IAASB CAG meeting.

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<p>entity. Other judgments, for example, evaluating alternative measurement methods, will be affected by the criteria applied, some of which will be more fixed than others, particularly with respect to regulated schemes. Mr. Gutterman noted the relevance to this ISAE of the principles of ISA 540.⁴</p> <ul style="list-style-type: none"> Mr. Johnson noted the importance of completeness of the emissions inventory and asked how the assurer would test for understatement. Prof. Simnett noted that the risk assessment and response processes incorporated in ISA 315⁵ and ISA 330⁶ are applicable to emissions assurance. For example, while understatement will often be the dominant risk, in some cases it may be overstatement (e.g., where an inventory is being used to establish a basis upon which permits will subsequently be issued). Mr. Cassel asked whether it is management or those charged with governance who are responsible for the emissions inventory. Prof. Simnett responded that, similar to financial reporting, either may be responsible depending on the jurisdiction. 	<p>Point accepted.</p> <p>Adapted requirements of ISA 540 have been included in the draft ISAE. Refer to paragraphs 53(c) and 72-73 of Agenda Item 2-B of the September 2009 IAASB meeting material.</p> <p>Point accepted.</p> <p>Completeness has been included as an assertion with respect to both quantification, and presentation and disclosure. Refer to paragraphs A53(a)(ii) and A53(b)(ii) of Agenda Item 2-B of the September 2009 IAASB meeting material.</p> <p>Point taken into account.</p> <p>The draft includes a requirement for the assurance professional to determine the appropriate person(s) within the entity's management or governance structure with whom to interact on a matter; which could be a member of management or those charged with governance. Refer to paragraph 15 of Agenda Item 2-B of the September 2009 IAASB meeting material.</p>

⁴ ISA 540 (Revised and Redrafted), "Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures."

⁵ ISA 315 (Redrafted), "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment."

⁶ ISA 330 (Redrafted), "The Auditor's Responses to Assessed Risks."

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<ul style="list-style-type: none"> Mr. Cassel inquired whether the auditors who perform emissions engagements are generalists or specialists. Prof. Simnett noted that the engagement partner may be either a generalist or a specialist, but it is particularly important that a multidisciplinary team be involved to ensure sufficient appropriate evidence is obtained. Mr. Damant noted that this is similar to, for example, use of an actuary in a financial statement audit of an insurance company. Ms Sucher noted the importance of narrative disclosures to explain how different line items had been quantified, and asked about reporting in jurisdictions that may not require as rigorous disclosure as other jurisdictions. Prof. Simnett agreed that given the variety of methods that can be used to quantify emissions, narrative disclosures are important to prevent the emissions inventory from being misleading. He noted that the disclosures in the example included with the agenda papers may not be adequate in this regard. He also noted that ISAE 3000 includes a requirement to express a modified opinion when unsuitable criteria are likely to mislead intended users, and that the ISAE on emissions will include guidance on assessing the suitability of criteria and on the uncertainty associated with quantification of emissions. 	<p>Point taken into account.</p> <p>Competency and related matters are discussed in the Issues Paper for the September 2009 meeting. Refer to Section D (paragraphs 15-23) of Agenda Item 2-A of the September 2009 IAASB meeting material.</p> <p>Point accepted.</p> <p>A better example of a GHG statement than the one included in previous agenda papers is Typico plc, the PwC illustrative example of a complete Greenhouse Gas Emissions Report that accompanies the Climate Disclosure Standards Board's (CDSB) draft reporting framework. Refer to Appendix 2 of the draft available via http://www.cdsb-global.org.</p> <p>The draft includes guidance on:</p> <ul style="list-style-type: none"> Assessing the suitability of criteria Refer to paragraph 16(c) of Agenda Item 2-B of the September 2009 IAASB meeting material; and The uncertainty associated with quantification of emissions Refer to paragraphs A24-A28 of Agenda Item 2-B of the September 2009 IAASB meeting material.
LIMITED ASSURANCE	
<ul style="list-style-type: none"> Ms. Sucher noted her view that reasonable assurance should be the focus for the ISAE, but that limited assurance should not be ruled out. She observed that limited assurance could be used as a “top up” between reasonable assurance engagements, similar to interim 	<p>Point accepted.</p> <p>In the interests of expediting progress to the exposure draft stage, the IAASB has split the project into two parts. The first will consider reasonable assurance engagements only and will be exposed separately.</p>

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<p>financial reporting in some jurisdictions. Ms. McCabe agreed that limited assurance could be used in this way, in which case the auditor would have detailed audit-based knowledge of the entity analogous to an ISAE 2410⁷ engagement.</p> <ul style="list-style-type: none"> Ms. Blomme agreed with Ms. Sucher that both reasonable assurance and limited assurance engagements should be allowed for in the ISAE, particularly with respect to Scope 3 disclosures, because time and cost constraints may prohibit reasonable assurance in all cases. Ms. Sucher asked about how the development of this ISAE will link with the proposed revision of ISAE 3000. Ms. McCabe noted that this is an important question that the IAASB would discuss at its upcoming March meeting. Mr. Morris inquired whether assurers other than professional accountants, for example, engineers, were reporting on a reasonable assurance or limited assurance basis. Ms. McCabe responded that both levels of assurance were currently being used by both professional accountants and others. In some cases, assurers who are not professional accountants were referring to ISAE 3000 in their reports, but it was not always clear whether they had equivalent training, assurance experience, etc. While professional accountants are not likely to be subject matter experts with respect to emissions, they have a solid grounding in the assurance process, as well as systems of quality control, and ethical 	<p>Feedback on that exposure draft, along with the further development of the ISRE 2400⁸ project and the ISAE 3000 project, will assist the IAASB in developing the second part of the project which will deal with limited assurance engagements.</p> <p>Point accepted – see above</p> <p>Point taken into account.</p> <p>Linkage with ISAE 3000 project in terms of the extent of requirements is discussed in the Issues Paper for the September 2009 meeting. Refer to Section C (paragraphs 8-14) of Agenda Item 2-A of the September 2009 IAASB meeting material.</p> <p>Point taken into account.</p> <p>This matter is discussed in the Issues Paper for the September 2009 meeting. Refer to Section D (paragraphs 15-23), in particular paragraph 17, of Agenda Item 2-A of the September 2009 IAASB meeting material.</p>

⁷ ISRE 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity."

⁸ ISRE 2400, "Engagements to Review Financial Statements."

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requirements that others will not always have. It may therefore be questionable whether assurance by others, at either the reasonable or limited level, offers the same credibility as that by a professional accountant working with a multidisciplinary team.	
OTHER MATTERS	
<ul style="list-style-type: none"> Ms. Blomme noted that criteria set by a regulator may be suitable for the regulator, but not for other users. Mr. Gutterman noted the importance of the principles in ISA 620 (Revised and Redrafted)⁹ to this ISAE, and also indicated that the ISAE should be clear whether it applies to, for example, actuaries who are part of the assurance team. Ms. Sucher noted the EU ETS is well advanced and that the UK last year issued guidance on verification. Prof. Simnett agreed with Ms. Sucher, and noted other jurisdictions are issuing guidance that will also be helpful to the Task Force. 	<p>Point accepted.</p> <p>This is now noted in the draft. Refer to paragraph A26 of Agenda Item 2-B of the September 2009 IAASB meeting material</p> <p>Point accepted.</p> <p>The draft includes a number of ISA 620 requirements adapted for GHG engagements. Applicability to non-accountants is discussed in the Issues Paper for the September 2009 meeting. Refer to Section D (paragraphs 15-23) of Agenda Item 2-A, and paragraph 98-102 of Agenda Item 2-B of the September 2009 IAASB meeting material</p> <p>Point accepted.</p> <p>Task Force members have reviewed the EU directive, the UK guidance and similar material emerging from other countries, e.g., draft Australian regulations currently on exposure Refer to http://tinyurl.com/nnmocj.</p>

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

Agenda Item 2-A of the September 2009
IAASB Meeting – Assurance on a GHG
Statement – Issues and IAASB Task Force
Proposals Dated September 2009

<http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4976>

⁹ ISA 620 (Revised and Redrafted), “Using the Work of an Auditor’s Expert.”

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Agenda Item 2-B of the September 2009
IAASB Meeting – Assurance on a GHG
Statement – Draft Pronouncement Dated
September 2009

[http://www.ifac.org/IAASB/Meeting-
FileDL.php?FID=4977](http://www.ifac.org/IAASB/Meeting-FileDL.php?FID=4977)