

**Assurance Engagements on Greenhouse Gas (GHG) Statements—
Issues and IAASB Task Force Proposals****A. Reasonable Assurance and Limited Assurance GHG Engagements**

1. At its September 2010 meeting, the IAASB indicated a strong preference to keep both limited assurance and reasonable assurance engagements together in the one document given the time invested to achieve that goal which, if the text is presented well, is most likely to suit users' needs. The Task Force was asked, therefore, to consult the communications specialists at IFAC and consider alternative ways to present the draft to ensure the differences between the two types of engagement are easily discernable. The IFAC specialists were consulted and a number of methods of distinguishing text that applies only to one type of engagement or the other were considered, for example, the use of shaded paragraphs, boxed paragraphs, italicized text, appendixes, and separate numbering sequences.
2. The draft to be discussed at this meeting has the requirements that apply only to limited assurance engagements or to reasonable assurance engagements presented in a columnar format, with the letter "L" (limited assurance) or "R" (reasonable assurance) behind the paragraph number (see, for example, paragraphs 22L and 22R of **Agenda Item 4-B**).¹ The Task Force believes this is a clear way of presenting the text so it can be read with a view to either:
 - Applying it in only a limited assurance engagement or a reasonable assurance engagements since the paragraphs are correctly sequenced for both; or
 - Comparing the differences between limited assurance engagements and reasonable assurance engagements since the requirements that apply differently are presented side-by-side.
3. The Task Force notes that the underlying text in the marked version of the draft at **Agenda Item 4-B** is the version that was presented to the IAASB on the final day of the September meeting, which incorporates changes made during the course of that meeting. One of those changes was to delete an appendix that gathered together, side-by-side, not only the requirements that apply differently to reasonable assurance engagements and limited assurance engagements, but also the objectives and other elements of the draft (such as paragraph A87 which some members found helpful in describing the primary differences between further procedures for a reasonable assurance engagement and those for a limited assurance engagement). The IAASB may choose to reinstate that appendix.

¹ All paragraph references are to Agenda Item 4-B, unless otherwise noted.

Matters for IAASB Consideration

1. Does the IAASB agree with presenting requirements that apply only to limited assurance engagements or to reasonable assurance engagements in a columnar format, with the letter “L” or “R” behind the paragraph number?
2. Does the IAASB wish to add an appendix that gathers together, side-by-side, not only the requirements that apply differently to reasonable assurance engagements and limited assurance engagements, but also the objectives and other elements of the draft, such as paragraph A87?

B. Obtaining an Understanding and Identifying and Assessing Risks

4. At its September 2010 meeting, the IAASB asked the Task Force to revise the draft to more clearly differentiate limited assurance engagements from reasonable assurance engagements with respect to:
 - (a) Identifying and assessing risks through obtaining an understanding of the entity and its environment; and
 - (b) Further procedures.
5. The Task Force revised the draft during the course of the meeting. When the revised draft was discussed on the last day of the meeting, the Board was relatively comfortable with how the Task Force had differentiated the two levels of assurance with respect to further procedures, but was less comfortable with how limited assurance was treated in the paragraphs that relate to identifying and assessing risks through obtaining an understanding of the entity and its environment.
6. Since the September meeting, the Task Force has simplified the section on identifying and assessing risks through obtaining an understanding of the entity and its environment. In particular, the draft presented on the final day of the September meeting had, at old paragraph 24, requirements in relation to obtaining an understanding and, in old paragraph 34, requirements in relation to identifying and assessing risks. The Task Force has removed old paragraph 34 which has now been subsumed into paragraphs 22L and 22R. This is consistent with the ISA 315² approach of identifying and assessing risks *through* understanding the entity and its environment, and makes the flow of draft easier to follow.
7. The following issues were also raised with respect to these paragraphs:
 - (a) *Can a practitioner performing a limited assurance engagement assess risks “for material types of emission and disclosure” (as required by paragraph 22L) without slipping into a reasonable assurance-style assessment at the assertion level?*

² ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

In some cases, it may be appropriate for the practitioner in a limited assurance engagement to drill down to the assertion level, but that will not always be the case. The purpose of assessing risks in both a limited assurance and reasonable assurance engagement is to “design and perform procedures that are responsive to assessed risks” (paragraphs 22L and 22R). This is required, however, in the context of the rest of paragraph 22, and in the context of the rest of the ISAE. Read in context, it is clear that the risk assessment for a reasonable assurance engagement must be more detailed than for a limited assurance engagement. Although practitioners in a limited assurance engagement will inevitably have some notion of assertions in the back of their mind, as this is consistent with their required expertise in assurance, it is clear (albeit perhaps difficult, and unnecessary, to articulate precisely in a single requirement) that the level of detail at which the ISAE expects this to be done is less for a limited assurance engagement than for a reasonable assurance engagement.

- (b) *If, in a limited assurance engagement, an identified risk is assessed to the same extent as in a reasonable assurance engagement, can the practitioner do less in response to that risk than the practitioner would in a reasonable assurance engagement?*

The draft does not require the practitioner to identify and assess risks in a limited assurance engagement to the same extent as in a reasonable assurance engagement. Paragraph 22L requires the practitioner in a limited assurance engagement to identify and assess risks “for material types of emission and disclosure ... sufficient to design and perform procedures that are responsive to assessed risks and allow the practitioner to (form a negative conclusion).” This is distinguished from a reasonable assurance engagement in two ways. In a reasonable assurance engagement, the practitioner is required by paragraph 22R to identify and assess risks (i) at the assertion level, and (ii) sufficient to obtain a reasonable level of assurance.

Nonetheless, if for whatever reason a practitioner did have the same level of understanding of a particular risk in a limited assurance engagement as in a reasonable assurance engagement, that of itself would not be a reason for the practitioner to respond with a level of work effort akin to a reasonable assurance engagement. This is illustrated in an interim review where the auditor, with an audit-level knowledge, is still able to distinguish the work effort necessary to achieve the objectives of the interim review from the work effort necessary for an audit.

Matter for IAASB Consideration

3. Does the IAASB agree with the Task Force’s approach to identifying and assessing risks through obtaining an understanding of the entity and its environment?

C. Exposure and Outreach

8. It was noted at the March 2010 IAASB meeting that there were very few respondents to the consultation paper from outside the accounting profession. While it was acknowledged that the roundtables held at the beginning of the project had involved a broad cross-section of participants, and that the experts on the Task Force and the Project Advisory Panel had provided some continuing links to that community, the Task Force was encouraged to undertake outreach activities during the exposure period of the proposed ISAE to ensure that stakeholders from outside the accounting profession have ample opportunity to contribute to the final standard. The Task Force was specifically encouraged to liaise with representatives of the relevant International Organization for Standardization (ISO) Technical Committee (TC 207) who had responded to the consultation paper. The Task Force has initiated liaison with TC 207, and has commenced other outreach activities, in particular a presentation arranged for the United Nations Conference on Trade and Development (UNCTAD) and a presentation at the World Congress of Accountants. An oral update on these activities will be presented at the Board meeting.

9. The Task Force recommends that the exposure draft of proposed ISAE 3410 be exposed for 150 days, which will allow time to communicate and engage with a range of stakeholders such as those mentioned below.

Regulators/ legislators	<ul style="list-style-type: none"> • Information needs may relate to monitoring compliance with a disclosure and trading regimes, and a broad range of government policy decisions related to climate change mitigation and adaptation, usually based on aggregated information. • Ensure ISAE 3410 meets their needs • Does the ED provide benefit > costs from their point of view?
Standard setters	<ul style="list-style-type: none"> • ISO, Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), etc. • Identify common interests • Identify technical similarities and differences between standards and the reasons therefor • Explore convergence possibilities?
Preparers	<ul style="list-style-type: none"> • Management and those charged with governance use information about emissions for strategic and operational decisions, such as choosing between alternative technologies and investment and divestment decisions (perhaps in response to or in anticipation of a regulatory disclosure regime or entering an emissions trading scheme) • Does the ED provide benefit > costs from their point of view?

Accountant practitioners	<ul style="list-style-type: none"> • Technical input, for example, are requirements clear, and how do they differ from current practice • Does the ED provide benefit > costs from their point of view?
Non-accountant practitioners	<ul style="list-style-type: none"> • Technical input • Is the position on ISQC 1³ and the <i>Code of Ethics for Professional Accountants</i> realistic/optimal? • Does the ED provide benefit > costs from their point of view?
Others	<ul style="list-style-type: none"> • Market participants in the case of an emissions trading scheme, whose information needs may relate to decisions to trade negotiable instruments (such as permits, credits or allowances) created by the scheme • Investors and other stakeholders such as suppliers, customers, employees, and the broader community. Their information needs may relate to decisions to buy or sell equity in an entity; lend to, trade with, or be employed by the entity; or make representations to the entity or others, for example, politicians

Matters for IAASB Consideration

4. Does the IAASB agree with an extended exposure period of 150 days?
5. Does the IAASB have any guidance for the Task Force and staff with respect to outreach (for example, are members aware of particular stakeholders with whom we should liaise, conferences we should seek to speak at; journals we should supply articles to; innovative forms of engagement)?

D. Effective Date

10. It is suggested that a period of 12-15 months be allowed for adoption and implementation of the ISAE at the national level, once it is approved as a final standard. This takes account of a minimum period for national due process and translation, as applicable, and the likely immediate use of the standard where there is no equivalent national standard. Early application of the ISAE would be permitted. This anticipated period for adoption and implementation would be signaled in the explanatory memorandum and respondents' input sought.

³ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

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

11. 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, September 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.