ISAE 3410 ASSURANCE ENGAGEMENTS ON GREENHOUSE GAS STATEMENTS
A proposed International Standard on Assurance Engagements issued for comment by the International Auditing and Assurance Standards Board

Comments from ACCA
June 2011
ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

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Executive Summary

ACCA has been actively promoting transparency and best practice in sustainability reporting since 1990. We are very pleased, therefore, to respond to the exposure draft of proposed International Standard on Assurance Engagements 3410 *Assurance Engagements on Greenhouse Gas Statements* issued by the International Auditing and Assurance Standards Board (IAASB). The proposed standard addresses an important aspect of the professional accountant’s work relating to assurance on sustainability and similar reports.

Overall we are satisfied with the way the proposed standard now deals with both limited assurance and reasonable assurance engagements. We believe that it reflects current good practice, although we nevertheless suggest some changes that would enhance its commercial acceptability.

Our comments reflect the current circumstance that the IAASB is updating several pronouncements relevant to assurance and we called for consistency between them and between related standards that may also feature in hybrid engagements. We renew our calls for work on the fundamental principles of assurance as we feel that difficulties in several of the exposure drafts could have been averted had there been a proper theoretical underpinning for standard-setting. In this particular response, for example, we analyse the difficulties introduced by a statement that the user perspective on ‘materiality’ is not affected by the level of assurance on greenhouse gas statements.
General Comments

ACCA has been involved with the unfolding debate on sustainability since 1990. We actively promote transparency and best practice in areas such as reporting and disclosure, and assurance. Our initiatives have included the ACCA Awards for Sustainability Reporting, research projects and collaboration with the Global Reporting Initiative and other sustainability-related organisations.

We are very pleased, therefore, to have the opportunity to respond to the exposure draft of proposed International Standard on Assurance Engagements 3410 Assurance Engagements on Greenhouse Gas Statements (proposed ISAE 3410) issued for comment by the International Auditing and Assurance Standards Board (IAASB) of the International Federation of Accountants.

We have made earlier contributions of information and opinions relevant to this IAASB project. In February 2010 we provided our views on a consultation paper, and in both 2010 and 2011 we were instrumental in bringing together round tables to allow members of the relevant IAASB Task Force to discuss the project with those carrying out GHG assurance work and with other experts,

RELATED CONSULTATIONS
It has not been possible to incorporate in this response comments that may have been made had a related exposure draft been available earlier.

An exposure draft (with a comment period ending on 1 September 2011) has recently been issued of a proposed revised ISAE 3000 Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000), which acts as the ‘umbrella standard’ for the ISAE series. We recognise that the nature and extent of coverage of matters in ISAE 3000 will necessarily affect that in proposed ISAE 3410 and indeed, the ISAE 3000 exposure draft already proposes some consequential amendments.
In a separate recent response concerning proposed International Standard on Review Engagements 2400 (Revised) Engagements to Review Historical Financial Statements we suggested that it should be finalised only after consideration of comments on the exposure draft of ISAE 3000. We make the same suggestion for proposed ISAE 3410, else there is a risk that it will have to be changed (if only by consequential amendments) shortly after its issue.

COMMERCIAL VIABILITY AND EXTENT OF ADOPTION OF ISAE 3410
Many assurance engagements on greenhouse gas (GHG) statements will be commissioned voluntarily. It is in the public interest that high-quality global standards are widely used in such engagements and it is important, therefore, that the IAASB ensures that proposed ISAE 3410 facilitates presentation of a good business case for its use.

We are pleased to note that, following the earlier consultation, proposed ISAE 3410 now deals with both reasonable and limited assurance engagements. This will allow it to satisfy the varied demands of the market.

Other standards and guidance are already in use for GHG assurance and the IAASB should, as part of its implementation phase, explain how proposed ISAE 3410 may be used in conjunction with, or as a replacement for, such pronouncements. This is particularly important as ISAE 3410 may be used on GHG statements in the context of a wider sustainability report assured under ISAE 3000.

Engagements on GHG statements may be, or include as part of a hybrid engagement, compilations or agreed-upon procedures. In the context of financial statements, the IAASB has a project to revise the compilations and review engagement standards. In our comments on that, and indeed in a separate response to the Consultation Paper Proposed IAASB Strategy and Work Program for 2012–2014, we called for acceleration of the project to revise the standard for agreed-upon procedures. Were that not to be accelerated, we commented however that it would be important to ensure that the standards for non-audit engagements were logically and practically fitted for use one with another. Such considerations should also be taken into account in relation to proposed ISAE 3410.
PIECEMEAL UPDATING WITHOUT A THEORETICAL BASE
We regret that the IAASB has continued to undertake piecemeal updating of its standards that deal with assurance and related services.

Underlying the issue of piecemeal updating has been the continued absence of an agreed set of fundamental principles for assurance. As a result of this, it has been difficult for the individual standards to achieve a consistent and logical approach and it has also made it less easy for those responding to consultations to suggest improvements.

In the remainder of this response, we identify issues that can only satisfactorily be resolved by making use of a well-developed conceptual framework for assurance. We expect to develop our thinking on this and include related comments in our forthcoming response to proposed ISAE 3000. We caution that as ISAE 3410 is concerned with a subject matter that is specialist in nature, there may be relatively few respondents and such as there are may underrepresent constituencies, such as small and medium-sized entities. Thus, extreme caution should be exercised in drawing general conclusions from respondents’ answers to those questions having wider implications.
MATERIALITY – AN EXAMPLE OF THE LACK OF A THEORETICAL BASE

While the guidance provided on materiality is useful in practice, without a theoretical basis, the practitioner is less sure of the correct interpretation. The proposed standard (and indeed ISAE 3000) in effect defers to the applicable criteria as providing a frame of reference for the determination of materiality but, in the absence of that, provides guidance on the characteristics of materiality.

Paragraph A51 of proposed ISAE 3410 specifically states that decisions regarding materiality are not affected by the level of assurance; that is, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement. This assertion is not supported by argument. The statement could, therefore, be:

- A plain fact intended as a representation of the real world,
- Part of the definition of the term ‘materiality’ (as a concept that is independent of the level of assurance), however, materiality is not defined in the proposed standard (except with regard to the term, performance materiality), or
- An instruction to the practitioner that their judgement concerning materiality must disregard whether the engagement is reasonable or limited assurance

There are similar directive statements, such as materiality is affected by the practitioner's perception of the common information needs of intended users as a group (paragraph A49).

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1 Proposed ISAE 3000 states that this is ‘because materiality is based on the information needs of intended users’ (paragraph A84). This is not, however, a complete argument.
Proposed ISAE 3410’s assertion that the level of assurance would not affect the view of intended users concerning materiality is open to challenge if it is intended as a plain fact. It might be thought that, as materiality is primarily related to the GHG statement itself, the level of assurance on that would not affect the common information needs of intended users as a group. However, this does not stand up to scrutiny. In practice, common information needs of intended users cannot be related to materiality in isolation. The propensity of information to be such as would meet user needs is affected by many factors. One of these may be analysed as materiality, another might be analysed as risk of misstatement, and it is only in combination that these two concepts can be observed by users. If the user is presented, for example, with a single figure representing an entity’s GHG emissions in a particular period, and the user is intending to make some decision based on that, then the decision will be influenced by the degree of confidence in the figure and the confidence interval. Neither of these is separately discernible.

Thus, in discussing materiality, proposed ISAE 3410 must necessarily also discuss risk. From a user's perspective, risk is fundamentally affected by whether a statement is presented without assurance or with assurance; in the same way that the user's perception of the statement will be affected by users' degree of trust in the faithful reporting of any particular entity. We do not believe, therefore, that decoupling materiality and the level of assurance represents the real world.

We have attempted, to a limited extent, a literature survey to establish whether there is empirical evidence to support or disprove the proposed standards’ position. Although the normative principles that influence the determination of audit materiality have been well served by academics, we have not been able to locate any study that is directly relevant. The literature survey did reveal that many working definitions of materiality involve the level of impact on the judgement of a reasonable person in circumstances where that person would be presented with audited information (statutory financial statements), not the financial statements prior to any assurance, or after just review. We suggest therefore, that the IAASB might wish to commission research on the specific matter if it believes that the statement is made as a representation of fact.
Naturally, if the statement is merely intended to address how professional judgement should be exercised in relation to the concept of materiality then there is no need for such research. However, a well-considered theoretical base for the positions taken would ensure consistency and supportability for the approach adopted, which otherwise could be regarded as encroaching too much into the methodology of individual firms.

Proposed ISAE 3410’s approach to materiality also suffers from two main practical deficiencies. There is no mention of the role of management in determining materiality in relation to the GHG statement, nor is there a discussion of stakeholder engagement, which is often highly important in the materiality decisions of management (albeit that the concept of materiality in, for example, a sustainability report may be wider than discussed in proposed ISAE 3410).

In later sections of this response, we answer the specific questions posed in the exposure draft and comment on other significant matters.

Should the IAASB have any questions about our response, or require further information, please contact in the first instance: David York, Head of Auditing Practice, at david.york@accaglobal.com
Matters on which Specific Questions are Asked

As explained in the exposure draft, proposed ISAE 3410 has been written in the context of extant ISAE 3000. At this time we do not comment extensively, therefore, on the balance between the two pronouncements.

Question 1

Do respondents believe proposed ISAE 3410 achieves an appropriate balance between improving the consistency and quality of GHG assurance engagements and the potential cost of such engagements as a result of work effort required by the standard?

Overall, for a reasonable assurance engagement, proposed ISAE 3410 strikes the right balance between brevity and the inclusion of requirements and guidance necessary to achieve appropriate quality and consistency.

As proposed ISAE 3410 provides specific guidance on smaller engagements or more straightforward engagements (eg paragraph A44) and on very small entities or immature information systems (eg paragraphs A60 and A92) it is apparent that it is not written on a think small first basis.

Consequently, it is likely that the cost of applying proposed ISAE 3410 will fall disproportionally on smaller engagements. This makes it important that practitioners involved in such engagements are not obliged to apply the standard always when providing assurance on GHG statement subject matter. We suggest that a similar mechanism be adopted to that in proposed International Standard on Related Services (ISRS) 4410 Compilation Engagements, whereby the intention to report under the standard determines its applicability.

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2 The proposed standard makes no distinction between public reporting and private reporting, but a different approach for the latter may be called for to meet client needs.
Question 2

Do respondents agree with the general approach taken in proposed ISAE 3410 to limited assurance engagements on GHG statements, as outlined above? In particular:

(a) Do respondents agree that for such engagements a risk assessment is necessary in order to obtain a meaningful level of assurance; and

(b) In responding to the assessed risks, do respondents agree that the standard should direct the practitioner to design and perform further procedures whose nature, timing and extent are responsive to the assessed risks having regard to the level of assurance?

An alternative may be to specify only certain types of procedures (such as inquiry and analytical procedures) as the primary means of obtaining evidence.

We agree with the general approach to limited assurance engagements. The limited assurance engagement must at least provide a level of assurance that is sufficient for the intended users. As well as an assessment of this threshold, the practitioner must necessarily assess whether the work done satisfies the actual needs of users (which may exceed the minimum); although it may not be possible for that need to be articulated other than by reference to the nature of the work done (for example the number of site visits). We agree with the approach in the proposed standard whereby the practitioner is not required to do this.
Question 3
If the general approach to limited assurance engagements on GHG statements is adopted in the final ISAE, do respondents agree with the specific differences between limited assurance and reasonable assurance engagements on GHG statements noted in the proposed ISAE?

Because of the wide range of engagement subject matters and levels of limited assurance, it is almost inevitable that proposed ISAE 3410 will not be ideal in all particular circumstances. Having said that, the proposed structural differences between the types of requirements for reasonable and limited assurance engagements seem generally to be a fair reflection of current practice.

As we have explained in our general remarks, we do not feel that there is sufficient justification for the similarity between limited assurance and reasonable assurance engagements in the determination of materiality.

In the absence of a theoretical underpinning, we also find it difficult to conclude that the preconditions for an engagement should be identical, irrespective of the level of assurance.

Question 4
Do respondents agree with the use of the columnar format with the letter "L" (limited assurance) or “R” (reasonable assurance) after the paragraph number to differentiate requirements that apply to only one or the other type of engagement? Do respondents believe more guidance needs to be included in the ISAE to assist readers in understanding the differences between limited assurance and reasonable assurance engagements on GHG statements and, if so, what should be included in that guidance?

We find the columnar format helpful. We suggest that guidance on the differences between limited assurance and reasonable assurance would be better provided in ISAE 3000.
Question 5
Do respondents agree with the requirements and guidance in the proposed ISAE for a limited assurance engagement regarding the summary of procedures in the practitioner’s report? In particular, will the proposed ISAE lead to reporting procedures with an appropriate amount of detail to effectively convey to users the level of assurance obtained by the practitioner?

We agree with the requirements and guidance in proposed ISAE 3410 concerning the summary of procedures. In the absence such information, users would have considerable difficulty judging whether the engagement met their assurance needs. This assessment is not quite the same as forming a view on the level of assurance obtained by the practitioner, as it is concerned with sufficiency rather than quantum.

Question 6
Do respondents agree with the requirements and guidance in the proposed ISAE for a limited assurance engagement describing the trigger point at which additional procedures are required? Do respondents agree with the related requirements concerning the practitioner’s response when there are matters that cause the practitioner to believe the financial statements (SIC) may be materially misstated?

The wording in paragraph 47L ‘. . . that causes the practitioner to believe the GHG statement may be materially misstated,’ is open to different threshold interpretations and may not result in a consistent approach by practitioners. Subject to this, an appropriate trigger point is identified.

Question 7
Do respondents agree with proposed requirements and application material dealing with the performance of procedures on location at an entity’s facilities?

Yes, a requirement ‘to consider’ gives this important aspect of a GHG engagement sufficient emphasis. As an aside, proposed ISAE 3410 defines ‘significant facility’ and, therefore, should also define ‘facility’.
Question 8

*With respect to uncertainties associated with emissions:*

(a) Do respondents believe the proposed ISAE explains clearly the differences between scientific uncertainty and estimation uncertainty?

(b) Do respondents agree that the assurance report should include a statement identifying the uncertainties relevant to emissions? If so, do respondents agree with the example wording of that statement, and its placement in the illustrative reports included in Appendix 2 to the proposed ISAE?

We find the explanations about the difference between scientific and estimation uncertainty to be adequate.

We do not agree with the inclusion in the assurance report of a statement identifying the uncertainties. In the illustrations this is done adjacent to the responsibilities of the entity and this reinforces our view that the need for such a statement should be determined by the relevant criteria and the place for it to be presented, if at all, is in the GHG statement itself.

Question 9

*Do respondents agree with the form and content of the illustrative assurance reports included in Appendix 2 to the proposed ISAE?*

We approve of including in the reports, information for users such as the quality control and ethical constraints under which practitioners operate and the necessary multi-disciplinary nature of teams. The report has to explain the competencies of the assurer as there are no statutory mechanisms on which users can rely to assess the suitability of the practitioner for the particular engagement.

In addition to the matter referred to in our answer to question 8 and our concerns about the inclusion of negative wording, we do not agree with the requirement for a limited assurance engagement to set out differences between that and a reasonable assurance engagement. In many circumstances, a reasonable assurance engagement will not be a feasible alternative and users will have no understanding of such an engagement. It is better to report what has been done than what has not been done.
User perspectives
The IAASB invites comments relating to the perspectives of:
  • Preparers, users and assurers of GHG statements of SMEs, including regulators
  • Developing nations
  • Translators

The views we express above have taken the SME perspectives fully into account. All the above perspectives would be best served by plain language and concise drafting.

Effective Date
The proposed effective date (12–15 months after approval of the final standard but with earlier application permitted) would appear to be reasonable but it is important to consider whether revisions to ISAE 3000 should share the same commencement date. In addition, as we suggest elsewhere in this response, the voluntary market is best served by making the intention to report under the standard one of the conditions necessary for it to apply. In other words it remains essentially a voluntary standard.
Comments on Specific Paragraphs

In this section of the response we comments on matters that do not relate to the questions posed in the exposure draft.

**Paragraph 1**
Wording regarding ‘increasing attention’ is too time sensitive to form part of a standard.

**Paragraph 3**
It is too simplistic to require application of ISAE 3410 as in some cases it would be more cost effective (and the client’s preference) to report overall in accordance with ISAE 3000.

**Paragraphs 5 and 6**
The reference to the *International Framework for Assurance Engagements* is not necessary as such matters ought to be dealt with in ISAE 3000.

**Paragraph 6**
Paragraph 6 could be removed.

**Paragraphs 9 and 10**
These paragraphs deal with matters that would be best dealt with only in ISAE 3000. However we have become less convinced that the model of an umbrella standard (ISAE 3000) and other ISAEs dealing with a specific subject matter is the most efficient for users. This is particularly the case for those wishing to use the standards directly rather than replying on an in house methodology created from them. It may be worth exploring a format in which ISAE 3000 is overlain by the more specific material to produce a combined standard for assurance engagements to report on an entity's GHG statement.
Paragraph 12
We do not believe that the subject matter necessitates the analysis of misstatement into fraud and error. The implication of that analysis is that reasonable assurance must recognise that fraud is more difficult to detect because of its nature. That may not apply to the same extent for fraud related to the emission of GHG or to limited assurance (see our earlier remarks about the lack of a theoretical basis).

The objectives become intertwined with the form of reporting and we have explained in a recent response to the IAASB concerning review engagements the reasons why this is unnecessary and why negative reporting should not be the preferred approach.

Paragraph 13
Some definitions do not seem to extend the plain language meaning while others (eg fraud) have no specific GHG aspects to justify inclusion. Such matters ought to be considered as the IAASB addresses wider issues in relation to definitions and the use of the Glossary of Terms. (Elsewhere in this response we have commented on the word ‘facility’.)

Paragraph 24
We agree with the approach in paragraph 24 which requires an understanding to be developed but does not specify the sufficiency thereof, which remains a matter, therefore, of professional judgement.

Paragraph 29
While we agree that procedures on location are important, this requirement is overly complicated. It implicitly requires the practitioner to determine what constitutes a significant facility. This is a difficult and unnecessary step when the requirement could simply eliminate the word significant.
**Paragraph 35**
Paragraph 35 requires for both limited and reasonable assurance that the practitioner shall obtain more persuasive evidence the higher the practitioner's assessment of risk.

This is the recognised approach for a reasonable assurance engagement, but we question whether it can be applied in the same way to a limited assurance engagement. In a reasonable assurance engagement the practitioner seeks to reduce the residual risk to an acceptably low level. This is a precise target that, to a large extent, determines the work carried out. The practitioner carries out more procedures to confirm the absence of material misstatement until the weight of evidence is sufficient to achieve that. In a limited assurance engagement, the practitioner may decide not to obtain more persuasive evidence if the degree of evidence is considered to be sufficient, ie above the minimum necessary. This may result in a similar amount of work on two different aspects of the statement even if for one there is a higher assessment of risk. The difficulties we have with this paragraph may be a matter of drafting rather than of principle but we do not think it gives the right impression for the limited assurance engagement at present.

**Paragraphs 44 and 45 (and others)**
Where the requirements are identical for both limited and reasonable assurance engagements, there should be some display or typographical signalling of this to assist readers who wish to compare the two engagements.

**Paragraph 52**
In this paragraph and elsewhere, there is reference to a conclusion rather than an opinion. In relation to financial statement review, a distinction was made between an audit, for which an opinion is appropriate, and a review, where a conclusion is expressed. In our recent response concerning the proposed review standard we expressed a preference for the word opinion to be used throughout. We would suggest that, especially as ISAE 3410 deals with both limited and reasonable assurance, it would also be appropriate for it to use the word opinion to refer to the judgemental aspects of the practitioner's report.
**Paragraph 56(e)**
This paragraph refers to ‘clearly trivial and inconsequential’ where as paragraph 48 refers only to ‘clearly trivial’ – such inconsistency may need resolving.

**Paragraph 58(a)**
Reference is made to the integrity of the entity. The normal form of construction would be to refer to the integrity of the management.

**Paragraphs 66 and 67**
These paragraphs deal with assembly of the final engagement file and while such matters have recently been included in International Standards on Auditing we note that no such requirements were included in the recent proposed standard on review engagements. There are no special features that would make a GHG assurance engagement different to other engagements under ISAE 3000 and so we suggest that this matter be reserved for consideration until the finalisation of ISAE 3000. We suggest that the need for requirements relating to the assembly of a final file might only be necessary in respect of public interest entities where the GHG statement is itself of public interest.

**Paragraph A17**
The listing of general GHG competencies introduces questions of standardisation between IAASB pronouncements. As a minimum, it should be considered whether ISAE 3000 should set out parameters for inclusion of assurance and subject matter competencies.