

International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*

This summary provides an overview of new ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

Project Objective:

To enhance the quality and consistency of assurance engagements to report on Greenhouse Gas (GHG) Statements, through requirements and guidance addressing the responsibilities and work effort of practitioners undertaking such engagements.

The project was undertaken in the context of the increasing emergence of carbon trading schemes and other global emissions reporting initiatives, and the importance of decisions being made on the basis of the emissions information being reported.

Effective Date:

Assurance reports covering periods ending on or after September 30, 2013

For More Information:

Visit the project history at www.ifac.org/auditing-assurance/projects/assurance-greenhouse-gas-statement

What are GHG emissions, what is a GHG Statement and why is it prepared?

Every business has processes, products or services that emit greenhouse gases (GHG) either directly or indirectly. GHGs include carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O) and fluorinated gases.

A GHG Statement is a quantified statement of an entity's GHG emissions over a particular period.

GHG Statements have a variety of uses, including being used as part of Emissions Trading Schemes (ETS), with the main schemes currently having a worldwide value of more than USD 140 billion.

Meaning of a GHG Statement

ISAE 3410 defines a GHG Statement (sometimes known as an Emissions Inventory) as a statement that sets out the constituent elements and quantification of an entity's GHG emissions for a period. It also includes, where applicable, comparative information and explanatory notes, including a summary of significant quantification and reporting policies. An entity's GHG Statement may also include a categorized listing of removals or emissions deductions. Emissions reported on include:

- Direct emissions (Scope 1 emissions)—emissions from sources that are owned or controlled by the entity.
- Indirect emissions—these arise as a consequence of the activities of the entity, but occur at sources that are owned or controlled by another entity. Indirect emissions include:
 - Scope 2 emissions—emissions associated with energy that is transferred to and consumed by the entity.
 - Scope 3 emissions—all other indirect emissions.

Reasons for preparing a GHG Statement

Reasons for an entity preparing a GHG Statement may vary:

- It may be required under a regulatory disclosure regime, such as the National Greenhouse and Energy Reporting System in Australia.
- It may be required as part of an emissions trading scheme, such as the European Union Greenhouse Gas Trading Scheme.
- The entity may make voluntary emissions disclosures. These may be included as part of a broader sustainability report; they may be published as a stand-alone document; they may be in the form of a response to a questionnaire; or they may be prepared to include in a "carbon register" (e.g., the California Climate Action Registry).

The GHG statement will ordinarily include direct emissions, and may include indirect emissions—the reason for preparation will influence what is included.

Why are assurance engagements on GHG Statements undertaken, and what type of work is performed?

The objective of an engagement under ISAE 3410 is to obtain either limited or reasonable assurance, as applicable, about whether the GHG statement is free from material misstatement, whether due to fraud or error.

GHG statements are assured to enhance the reliability of the emissions information being reported on. As the demand for companies to disclose their emissions information increases, public confidence in assured GHG Statements becomes more significant.

Risk-based approach

An ISAE 3410 engagement adopts a risk-based approach, regardless of whether it is a reasonable or limited assurance engagement. For all engagements performed under ISAE 3410, the practitioner:

- Obtains an understanding of the entity and its environment, including the entity's internal control;
- Identifies and assesses the risk of material misstatement in the GHG Statement;
- Performs procedures to address the identified risks; and
- Reports in accordance with the practitioner's findings.

ISAE 3410 does not mandate the circumstances in which a reasonable or limited assurance engagement is undertaken; this will be determined by law or regulation, or the reason for the engagement.

Relationship with ISAE 3000

ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, is an "umbrella" standard under which certain subject-matter specific assurance standards, including ISAE 3410, operate. An engagement in accordance with ISAE 3410 must also comply with the requirements of ISAE 3000.

What is reported in a GHG assurance engagement?

The practitioner's written report provides:

- For a reasonable assurance engagement, an opinion on whether the GHG statement has been prepared, in all material respects, in accordance with the applicable criteria.
- For a limited assurance engagement, a conclusion on whether anything has come to the practitioner's attention to make the practitioner believe that the GHG Statement has not been prepared, in all material respects, in accordance with the applicable criteria.

For all reports

ISAE 3410 provides illustrative examples of reports for both reasonable and limited assurance engagements. Both types of reports include the following:

- An explanation of both the entity's and the practitioner's responsibilities, including a summary of the practitioner's procedures;
- A statement that the GHG quantification is subject to inherent uncertainty;
- An acknowledgement (if applicable) that the engagement was carried out by a multidisciplinary team; and
- A statement of compliance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* and ISQC 1.¹

Reasonable assurance

The reasonable assurance report is a standardized report. Among other matters, the report describes the procedures that would always be performed in a reasonable assurance engagement.

Limited assurance

In a limited assurance engagement, the level of assurance the practitioner obtains could vary significantly depending on the procedures performed. Accordingly, the limited assurance report requires a summary of the procedures performed in the engagement, and it also allows for the customization of the description of procedures (including a summary of those procedures not performed) to enable users to understand the work done as the basis for the practitioner's conclusion.

Among other matters, the limited assurance report also includes a statement that the procedures performed in a limited assurance engagement are less than those that would have been performed in a reasonable assurance engagement.

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

How is a limited assurance engagement different from a reasonable assurance engagement?

ISAE 3410 presents requirements in a columnar format to distinguish those for a limited assurance engagement from those for a reasonable assurance engagement.

Understanding the entity and its environment

The understanding required as the basis for identifying and assessing risks of material misstatement in a limited assurance engagement would vary in extent from, and be less in extent than for, a reasonable assurance engagement. In particular, for a limited assurance engagement:

- An understanding of all the components of internal control is not required; and
- The practitioner is not required to evaluate the design of controls and determine whether they have been implemented.

Identifying and assessing risks of material misstatement

The nature and extent of procedures to identify and assess the risks of material misstatement may also be different between a limited and reasonable assurance engagement.

Specifically, the identification and assessment of the risks of material misstatement with respect to material types of emissions and disclosures need not be done at the assertion level in a limited assurance engagement.

Overall responses to assessed risks and further procedures

ISAE 3410 includes different requirements for the overall response and further procedures for limited and reasonable assurance engagements. Significant differences include:

- The emphasis placed on the nature of various procedures;
- The extent of further procedures; and
- The nature of analytical procedures.

What are some of the specific issues unique in a GHG assurance engagement?

ISAE 3410 is a topic-specific assurance standard, under the umbrella of ISAE 3000, which provides requirements and guidance specific to engagements on GHG Statements.

Multidisciplinary Teams

Engagements under ISAE 3410 are ordinarily expected to be undertaken by a multidisciplinary team that may include one or more experts.

The engagement team collectively is required to possess the necessary professional competencies to perform the assurance engagement, including:

- Assurance skills; and
- GHG competencies (e.g., understanding laws and regulations related to emissions reporting, GHG quantification and measurement methodologies, etc.).

Where engagements are relatively complex, it is likely that specialist competence will be required, such as:

- Information systems expertise; and
- Scientific and engineering expertise.

Inventory uncertainty

GHGs (or emissions inventories) are, by nature, subject to uncertainty, including:

- Scientific uncertainty—this arises because of incomplete scientific knowledge about the measurement of GHGs; and
- Estimation or measurement uncertainty—this results from the measurement and calculation processes used to quantify emissions within the bounds of existing scientific knowledge.

The fact that the entity's emissions are subject to uncertainty does not mean that the emissions are not an appropriate subject matter, unless the impact of uncertainty on the GHG Statement is very high. Disclosure of the inherent uncertainty is required in the practitioner's report.

Site visits

In some circumstances, but not all, performing procedures on location at a facility (sometimes referred to as a "site visit") may be important in obtaining an understanding of the entity or in responding to assessed risks of material misstatement

The standard provides relevant and practical guidance regarding site visits and whether it is necessary in the circumstances of the engagement to perform procedures at a site.