

Consultation Paper

October 2009

Comments requested by February 19, 2010

**Assurance on a Greenhouse Gas
Statement**



**International Federation
of Accountants**

REQUEST FOR COMMENTS

The International Auditing and Assurance Standards Board (IAASB) develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance.

The IAASB approved this Consultation Paper, "Assurance on a Greenhouse Gas Statement," for publication in October 2009. The responses to this Consultation Paper will be considered by the IAASB in its project to develop an International Standard on Assurance Engagements on the same topic.

Respondents are asked to submit their comments **electronically** through the IFAC website (www.ifac.org), using the "Submit a Comment" link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this new feature. All comments will be considered a matter of public record and will ultimately be posted on the IFAC website. Although IFAC prefers that comments be submitted electronically, e-mail may continue to be sent to edcomments@ifac.org. Comments can also be faxed to the attention of the IAASB Technical Director at +1 (212) 856-9420, or mailed to:

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International Federation of Accountants
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Comments should be submitted by **February 19, 2010**.

Copies of this consultation paper may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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ASSURANCE ON A GREENHOUSE GAS STATEMENT
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“Achieving and tracking greenhouse gas emissions reduction is vital to measuring convergence towards the objectives of an effective climate treaty. As businesses we can set an example by contributing to a unified, coherent and reliable measurement, reporting and verification discipline leading to mandatory reporting. Accounting for the emissions we are responsible for will provide the basis for emissions reduction beyond what may be required by regulation and allow our performance to be properly judged and rewarded by investors and the public.”

– *World Business Summit on Climate Change*¹

Introduction

1. The purpose of this Consultation Paper is to seek views from practitioners and other stakeholders in relation to the IAASB’s project to develop an International Standard on Assurance Engagements (ISAE) on “Assurance on a Greenhouse Gas (GHG) Statement.”
2. Throughout the Consultation Paper, reference is made to the current working draft of an ISAE (the working draft, or WD). The working draft, which is attached to this Consultation Paper as an Appendix, is not an exposure draft. It was developed by the IAASB’s GHG Task Force, and has not been voted on or otherwise approved by the IAASB.
3. The IAASB develops standards through a transparent and iterative due process² whereby it discusses successive working drafts prepared by a Task Force, and provides guidance and direction that is considered by the Task Force in preparing the next working draft for discussion by the IAASB. The current working draft reflects the Task Force’s consideration of the IAASB’s discussion at its September 2009 meeting. It is attached to, and referenced in, this Consultation Paper for illustrative purposes only. The working draft will continue to be modified in light of comments received on this Consultation Paper, and will be considered for issue by the IAASB as an exposure draft in 2010.
4. In commenting on this Consultation Paper, respondents are asked to comment not only on technical aspects of the issues raised, but also on their public interest impact, in particular their effect on the costs (for example, additional work effort required) and benefits (for example, improvements in consistency and quality) of GHG assurance engagements.

Background

5. With the increasing attention given to the link between GHGs and climate change, many entities are quantifying their GHG emissions for internal management purposes, and an increasing number are also preparing a GHG statement:
 - (a) As part of a regulatory disclosure regime;
 - (b) As part of an emissions trading scheme; or

¹ This call for “Effective measurement, reporting and verification of emissions” is the second of six points in the “Copenhagen Call” issued by global business leaders at the close of the World Business Summit on Climate Change in May 2009. The “Copenhagen Call” is available at <http://www.copenhagenclimatecouncil.com>.

² http://www.ifac.org/Downloads/PIAC_Due_Process.pdf.

- (c) To inform investors and others on a voluntary basis. Voluntary disclosures may be, for example, published as a standalone document; included as part of a broader sustainability report or in an entity's annual report; or made to support inclusion in a "carbon register."
6. With this in mind, the IAASB approved the project proposal on this topic at its December 2007 meeting.
 7. During 2008, a Project Advisory Panel (PAP)³ was set up and four roundtables were held in Oceania (Sydney and Melbourne), North America (Toronto), and Europe (Brussels).
 8. Each roundtable had approximately 25-30 participants. Participants were from a diverse range of stakeholder groups, including: accounting firms and accounting bodies; government regulators and policymakers; reporting companies; public sector auditors; non-accounting assurers and standard setters; institutional investors; non-governmental organizations; academics; and legal professionals.
 9. The Oceania roundtables were principally open, exploratory discussions to consider whether an ISAE should be developed and, if so, to identify key issues and seek initial direction. The North American roundtable debated key issues identified at the Oceania roundtables, using a "straw man" skeleton ISAE to focus discussions. The European roundtable provided feedback on an Issues Paper prepared on the basis of input received at the previous roundtables.
 10. The Issues Paper was subsequently discussed at the IAASB's December 2008 meeting and the IAASB agreed that developing an ISAE would be consistent with its public interest mandate.⁴ In early 2009, therefore, the IAASB GHG Task Force⁵ was set up. That Task Force developed a preliminary working draft of an ISAE, which the IAASB considered at its June 2009 meeting. At its following meeting in September 2009, the IAASB considered a further working draft and also discussed a draft of this Consultation Paper. The IAASB believes that seeking feedback at this stage, that is, prior to finalizing an exposure draft, will assist it in developing an ISAE with appropriate requirements and guidance to enhance the quality of GHG quantification and reporting worldwide.
 11. As stated in paragraph 3 above, the IAASB's intention is to modify the working draft in light of comments received, and then issue the revised document as an exposure draft in 2010.

Developing an Assurance Standard for GHG Engagements

12. The development of a credible assurance standard for GHG engagements combines two fields of knowledge. On the one hand is knowledge of the subject matter, that is, the GHG

³ Members of the PAP are noted in the project history available at: <http://www.ifac.org/IAASB/ProjectHistory.php?ProjID=0081>.

⁴ IAASB agenda papers, minutes, and recordings of meetings are available at: <http://www.ifac.org/IAASB/Meetings.php>.

⁵ Members of the Task Force are noted in the project history available at: <http://www.ifac.org/IAASB/ProjectHistory.php?ProjID=0081>.

quantification and reporting process. On the other hand is knowledge of the assurance process. In developing the working draft, the Task Force drew upon experts in both these fields.

13. Knowledge of the GHG quantification and reporting process has come from Task Force and PAP members who have extensive skills, knowledge and experience with GHG quantification and reporting, as well as the broad feedback received at the roundtables referred to above, supplemented by desk research and informal consultations undertaken by Task Force members and staff.
14. Knowledge of the assurance process has come from the IAASB's accumulated knowledge as articulated in the International Framework for Assurance Engagements (the Assurance Framework)⁶ and ISAE 3000,⁷ which are the foundations for the working draft; and the International Standards on Auditing (ISAs), some elements of which may fruitfully be adapted to GHG engagements (see the section below on "Number and Nature of Requirements, and Cost and Benefit Considerations"). This accumulated knowledge has been coupled with the expert assurance knowledge of IAASB members, Task Force members, PAP members and staff involved in the development process.

Key Issues upon which Comments Are Invited

The Engagement Partner and the Team

Skills, Knowledge and Experience of the Engagement Partner

15. Paragraphs 12(a) and (b) of the working draft require that the engagement partner:
 - (a) Be a professional accountant in public practice, or the public sector equivalent, who has specialist skills, knowledge and experience in assurance concepts and processes developed through extensive training and practical application; and
 - (b) Have sufficient skills, knowledge and experience of GHG quantification and reporting to accept responsibility for the assurance opinion.
16. ISAEs are written in the context of a range of measures taken to ensure the quality of assurance engagements undertaken by professional accountants in public practice, such as those taken by IFAC member bodies in accordance with IFAC's Member Body Compliance Program and Statements of Membership Obligations. Such measures include competency requirements, quality control policies and procedures implemented across the firm, and a comprehensive code of ethics, including detailed independence requirements (see WD, paragraph A5, for further detail).
17. One area of specialization within professional accounting is assurance, which includes, but is broader than, financial statement auditing. Competence in assurance requires specialist skills,

⁶ The Assurance Framework is available at:
http://web.ifac.org/download/International_Framework_for_Assurance_Engagements.pdf.

⁷ ISAE 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information," available at: http://web.ifac.org/download/2008_Auditing_Handbook_A270_ISAE_3000.pdf.

knowledge and experience in assurance concepts and processes developed through extensive training and practical application. In many jurisdictions, regulators develop rules for registration (for example, registration as a financial statement auditor) that, along with IES 8,⁸ may provide useful benchmarks for assessing a practitioner's specialist skills, knowledge and experience in assurance concepts and processes in a particular jurisdiction (see WD, paragraph A6, for further detail).

18. The IFAC *Code of Ethics for Professional Accountants* (IFAC Code) requires professional accountants in public practice to agree to provide only those services that they are competent to perform.⁹ The engagement partner will therefore need to have sufficient skills, knowledge and experience of GHG quantification and reporting to accept responsibility for the assurance opinion (see WD, paragraphs A7-A8, for further detail).

Questions

1. Would the requirements of paragraphs 12(a) and (b) of the working draft preclude any *competent* group that accepts the authority of the IAASB to set standards that apply to that group from adopting the standard? If so, which group would be precluded? Please provide suggestions of how the ISAE should deal with this.
2. Is the ISAE an appropriate place to provide benchmarks or further guidance regarding the skills, knowledge and experience an engagement partner should possess with respect to:
 - (a) Assurance concepts and processes; or
 - (b) GHG quantification and reporting?If so, please provide examples of suitable benchmarks or guidance.

Multidisciplinary Teams

19. Paragraph 12(c) of the working draft requires the engagement partner to be satisfied that the engagement team and any practitioner's external experts collectively have the appropriate competence and capabilities to:
- (a) Perform the engagement in accordance with professional standards and applicable legal and regulatory requirements; and
 - (b) Enable an assurance report to be issued that is appropriate in the circumstances.
20. Most complex engagements will be undertaken by a "multidisciplinary team" comprising experts in, for example, engineering or environmental science, as well as professional accountants who are assurance specialists. Certain requirements in the working draft have given prominence to the integration of such experts into various stages of the engagement, for example, requiring key experts to be involved in planning and in discussions regarding the susceptibility of the entity's GHG statement to material misstatement whether due to

⁸ International Education Standard (IES) 8, "Competence Requirements for Audit Professionals."

⁹ IFAC Code, paragraph 210.6.

fraud or error, and the application of the applicable criteria to the entity's facts and circumstances (WD, paragraphs 32 and 42).

21. Internal experts, that is, those employed by the practitioner's firm or network firm, are required to be independent. External experts, on the other hand, are excluded from the definition of "engagement team" under ISQC 1,¹⁰ and are not subject to the detailed independence requirements of the IFAC Code, which has been written for application to accountants and accounting firms only.¹¹ Paragraph 84 of the working draft nonetheless requires that the practitioner evaluate the objectivity of external experts, and guidance on this matter is included at paragraphs A78-A79 of the working draft.

Questions

3. Given that engagements, in particular complex engagements, are ordinarily undertaken by a multidisciplinary team, does the working draft adequately reflect how multidisciplinary teams should operate? For example, does the working draft adequately address the collective competence and capabilities of the team? What further improvements could be made?
4. Is there a need for additional guidance regarding the measure of objectivity that should be applied with respect to external experts?
5. Should external experts be required to be independent? If so:
 - (a) In what circumstances should an external expert be required to be independent?
 - (b) What measure of independence should be applied (for example, which elements of the IFAC Code, which has been written for application to accountants and accounting firms only, should be applied to external experts)?
 - (c) What would be the effect on practice (for example, the availability of experts) and the relevant cost and benefit considerations of requiring external experts to be independent?

Number and Nature of Requirements, and Cost and Benefit Considerations

22. As one consideration when identifying appropriate requirements for the working draft, the Task Force reviewed the requirements of relevant ISAs to identify which, if any, should be adapted and included in the ISAE. In doing so, the Task Force was conscious of the fact that those applying the ISAE will be assurance specialists (see the previous section on "Skills, Knowledge and Experience of the Engagement Partner"), and therefore the volume of material to be adapted can be limited because the practitioner will already have a sound background knowledge of the ISAs.
23. A project to revise ISAE 3000 has recently commenced. When the revision of ISAE 3000 is complete, a number of the requirements in the working draft may be better placed in ISAE 3000 because they apply to all subject matters (for example, requirements regarding

¹⁰ International Standard on Quality Control (ISQC) 1, "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements."

¹¹ See Section 291, "Independence – Other Assurance Engagements," of the IFAC Code.

documentation) and would therefore be deleted from this ISAE. For the purpose of this consultation, however, respondents are asked to consider the suitability of the requirements in the working draft regardless of whether they will eventually be included in this ISAE or in ISAE 3000.

24. Ultimately, the number and nature of requirements will be determined by the IAASB's judgment about the importance of individual requirements. In exercising this judgment, the IAASB will need to be mindful that users of the ISAE will be assurance professionals, often working with a multidisciplinary team, and balance the competing needs of (a) keeping the total number of requirements at a practicable level, and (b) ensuring the ISAE has sufficient and appropriate requirements to promote consistent, high-quality assurance engagements.

Questions

6. What would be the likely impact on the cost of a reasonable assurance GHG engagement if the ISAE included requirements of a similar number and nature as the working draft? Is this cost likely to be proportionate to the benefit to be derived?
7. In your judgment, are there any requirements that:
- (a) Have not been included in the working draft that should have been? If so, why?
 - (b) Have been included in the working draft that should not have been? If so, why?

Relationship with Regulatory Requirements

25. Paragraph 3 of the IAASB Preface¹² states that the "The IAASB's pronouncements govern ... assurance ... engagements that are conducted in accordance with International Standards. They do not override the local laws or regulations that govern ... assurance engagements on other information in a particular country required to be followed in accordance with that country's national standards. In the event that local laws or regulations differ from, or conflict with, the IAASB's Standards on a particular subject, an engagement conducted in accordance with local laws or regulations will not automatically comply with the IAASB's Standards. A professional accountant should not represent compliance with the IAASB's Standards unless the professional accountant has complied fully with all of those relevant to the engagement."
26. In many cases, assurance engagements on a GHG statement will be performed pursuant to local laws or regulations. The working draft recognizes this at, for example, paragraphs 20 and 113 (report wording), 31 (compliance), A6 (skills, knowledge and experience), A23 and A25 (criteria), and A45 (materiality).

Questions

8. Are there any additional matters the IAASB should take into account with respect to engagements conducted in accordance with local laws or regulations?

¹² "Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services."

9. Should any aspects of the requirements written to apply only to voluntary reporting (see WD, paragraphs 15(b)(i)-(ii), 15(c), and 106(d)) also apply in other circumstances?

The Assurance Process

Analytical Procedures

27. The fixed nature of physical or chemical relationships between particular emissions and other measurable phenomena, for example, the relationship between fuel consumption and carbon dioxide and nitrous oxide emissions, can allow for the design of powerful analytical procedures, both as risk assessment and substantive procedures.
28. Similarly, a reasonably predictable relationship may exist between emissions and financial information, for example, the relationship between Scope 2 emissions from electricity and the general ledger balance for electricity purchases.
29. Analytical procedures may be particularly effective when disaggregated data is readily available, or when the practitioner has reason to consider the data to be used is reliable, such as when it is extracted from a well-controlled source. In some cases, data to be used may be captured by the financial reporting information system, or may be entered in another information system in parallel with the entry of related financial data, and some common input controls applied. For example, the quantity of fuel purchased as recorded on suppliers' invoices may be input under the same conditions that relevant invoices are entered into an accounts payable system.

Question

10. Does the working draft appropriately reflect the specific characteristics of analytical procedures used in practice on GHG engagements? In particular, are paragraphs 59-60 appropriate, for example, with respect to the reliability of data on which analytical procedures are based?

Internal Control

30. The approach to internal control adopted in the working draft reflects what has commonly become known as the COSO model.¹³ Paragraph 46 of the working draft includes the five elements of: the control environment; the entity's risk assessment procedures; the information system; control activities; and monitoring, and is consistent with the approach adopted in ISA 315 with respect to financial reporting.¹⁴ While detailed assurance procedures tend to focus on the information system and control activities, each of the five interrelated elements plays

¹³ "Internal Control – Integrated Framework," The Committee of Sponsoring Organizations (COSO) of the Treadway Commission, 1992. Internal control under the COSO model is a process designed to provide reasonable assurance regarding the achievement of objectives related to the effectiveness and efficiency of operations, and compliance with applicable laws and regulations, as well as the reliability of financial reporting.

¹⁴ ISA 315, "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment," paragraphs 14-24.

an important role in providing reasonable assurance that the information included in a GHG statement is presented without material misstatement due to fraud or error.

31. As noted in paragraph A55 of the working draft, “The practitioner’s judgment about whether particular control activities are relevant to the engagement may be affected by the level of sophistication, documentation and formality of the entity’s information system, including the related business processes, relevant to reporting emissions. As reporting of emissions evolves, it can be expected that so too will the level of sophistication, documentation and formality of information systems and related control activities relevant to the quantification and reporting of emissions.”

Question

11. Is the approach to internal control adopted in paragraphs 45-46 of the working draft appropriate? If not, please provide details and suggestions for elaboration or modification of the working draft.

Assertions

32. In representing that its GHG statement is in accordance with applicable criteria, an entity implicitly or explicitly makes assertions regarding the quantification, presentation and disclosure of emissions. Assertions provide the practitioner with a framework that can be used when identifying the risks of material misstatement and gathering engagement evidence in response to identified risks.
33. The working draft requires the practitioner to use assertions at various stages of the engagement. For example, the practitioner is required to perform risk assessment procedures and identify and assess the risks of material misstatement at the assertion level (WD, paragraphs 39 and 47). The working draft provides guidance regarding categories of assertions that may be used by the practitioner to consider the different types of potential misstatements that may occur (WD, paragraph A49).
34. These assertions are different from those for financial statement audits,¹⁵ primarily in that they:
- (a) Do not include the assertions about account balances at period end, which are not relevant to GHG engagements since the GHGs reported are those emitted throughout a period (making a GHG statement akin to a statement of operations in accounting terms) rather than a stock of GHGs at the end of the period (akin to a balance sheet in accounting terms); and
 - (b) Include an additional presentation and disclosure assertion, “consistency and comparability,” as this is considered to be particularly significant for GHG disclosures because of the importance of trend information in GHG emissions over time, not only in regulated “baseline and credit” schemes, but also, for example, in benchmarking the success of emissions reduction activities.

¹⁵ ISA 315, paragraph A111.

Questions

12. Is it appropriate to require practitioners to perform risk assessment procedures at the assertion level for GHG engagements? If not, why not? If so, do the assertions identified in paragraph A49 of the working draft provide an appropriate basis for the identification and assessment of the risks of material misstatement in a GHG statement?
13. As well as referring to the risks of material misstatement at the assertion level, paragraphs 39 and 47 of the working draft refer to risks at the GHG statement level. In your experience, what are commonly the most significant risks at the GHG statement level?

Materiality

35. Obtaining assurance about whether subject matter information is free from material misstatement is at the heart of all assurance engagements.
36. While there are similarities between financial statements and GHG statements, there are also differences that need to be considered before aspects of the materiality concept as it applies to financial statement audits can be adopted for GHG engagements. For example, the following differences will have implications for materiality:
 - (a) Although there may be some similarity to the conversion of foreign currencies, there is no direct financial statement equivalent of the need to aggregate emissions of different gases by using their global warming potential to convert them to carbon dioxide equivalent units; and
 - (b) Although a GHG statement might include a figure for net emissions, there is no direct GHG statement equivalent of a profit or a loss, nor is there a GHG statement equivalent of a balance sheet.
37. The working draft includes a number of requirements with respect to materiality (see WD, paragraphs 36-38 and 74-80), and guidance on applying those requirements in the specific context of a GHG engagement (see WD, paragraphs A39-A47 and A72).

Question

14. Do the requirements and guidance in the working draft with respect to materiality need modification or elaboration? If so, please provide details. For example:
 - (a) The requirements and guidance refer to materiality in terms of intended users' "economic" decisions. Is it appropriate for materiality with respect to a GHG statement to be limited to economic decisions, or are there other forms of decision made by various users that should be taken into account? If so, how can those decisions best be categorized? Please provide examples.
 - (b) In light of the fact that GHG statements often deal with different types of emissions, is the determination of materiality in the aggregate and for particular types of emissions in the way set out in paragraph 36 of the working draft appropriate?

- (c) Does paragraph A39 of the working draft provide the practitioner with an appropriate frame of reference when the applicable criteria do not discuss the concept of materiality? If not, which elements of paragraph A39 are inappropriate, and why; or which other elements should be added, and why?
- (d) Are the assumptions about intended users stated in paragraph A41 of the working draft appropriate? If not, which assumptions are inappropriate, and why; or which other assumptions should be added, and why?
- (e) When the engagement covers many but not all of the component elements of a GHG statement, should materiality be based on the total emissions or on assured emissions only (WD, paragraph A44)?
- (f) Is the guidance regarding quantitative and qualitative factors in paragraphs A42-A46 of the working draft appropriate? If not, which aspects of that guidance are inappropriate, and why; or which other aspects should be added, and why?

Estimates and Uncertainty

38. Nearly all quantifications of GHG emissions involve some degree of uncertainty because it is virtually impossible in any circumstances to precisely count each molecule of GHG emitted by an entity. To the extent the uncertainty relates to existing gaps in available scientific knowledge, it is unavoidable and permeates all quantifications of GHG emissions. However, quantifications are made within the context of the applicable criteria, and criteria differ in how they treat estimation or measurement uncertainty. Some criteria stipulate rigid models, methods, emissions factors, etc., that must be applied in all circumstances when calculating emissions from a particular source. For example, the applicable criteria may require Scope 2 emissions from electricity to be calculated by multiplying kilowatt hours recorded on suppliers' invoices by a prescribed emission factor. Quantification in accordance with such criteria effectively eliminates estimation uncertainty for the purpose of reporting in accordance with those criteria. This can be contrasted with quantification in accordance with criteria that allow, or require, for example:
- The use of models, methods or emissions factors that involve significant assumptions based on an entity's individual circumstances. While using entity-specific assumptions can result in more accurate quantification than using, for example, average emission factors for an industry, it is nonetheless prone to a greater degree of estimation uncertainty;
 - Direct measurement using periodic sampling; or
 - Estimation of surrogate activity data using extrapolation.

Questions

15. Is the manner in which the working draft has treated assurance with respect to estimates, for example, paragraphs 43(c), 62-63, 89(d), 106(d), and A52-A53 appropriate? If not, please provide details and suggestions for modification or elaboration of the working draft.

16. Should the role of disclosures in the GHG statement with respect to estimates be further emphasized in the working draft, particularly the disclosure of any uncertainty related to particular estimates, the factors that affect that uncertainty, and how those factors have been dealt with?

Fraud

39. The objectives of the practitioner as stated in paragraph 9 of the working draft include obtaining reasonable assurance about whether the GHG statement is free from material misstatement “whether due to fraud or error.” Paragraph 30 of the working draft includes specific requirements with respect to fraud. Fraud is defined at paragraph 10(i) of the working draft as “an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.” This is the same definition as in ISA 240.¹⁶
40. Incentives for intentional misstatement of the GHG statement may arise if, for example, those who are directly involved with, or have the opportunity to influence, the emissions reporting process have a significant portion of their compensation contingent upon achieving aggressive GHG targets. Other incentives to either understate or overstate emissions may result from the entity’s climate change strategy, if any, and associated economic, regulatory, physical and reputational risks.

Question

17. Are the definition of fraud, the requirements of paragraph 30 of the working draft, and the discussion of fraud throughout the application material sufficient and appropriate? If not, please provide details and suggestions for modification or elaboration of the working draft.

Reporting

The Assurance Report

41. A vital part of any assurance engagement is the assurance report, which is usually a one-way communication from the practitioner 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.
42. The working draft includes an example assurance report in its Appendix. It is for a relatively straightforward engagement when the entity’s GHG statement is prepared on a voluntary basis and contains no Scope 3 emissions or emissions deductions.

¹⁶ ISA 240, “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements,” paragraph 11(a).

Questions

18. Is the example report of a suitable length, and structured and worded appropriately, to meet the needs of users with respect to, for example:
 - Restrictions on scope?
 - The practitioner's independence, quality control and expertise?
 - The relative responsibilities of the entity and the practitioner?
 - The wording of the practitioner's opinion?
 - Uncertainties in the quantification and reporting of emissions?
19. Should the ISAE include requirements with respect to Emphasis of Matter paragraphs and Other Matter paragraphs adapted from ISA 706,¹⁷ or are these concepts not particularly relevant to GHG engagements? If so, what are the circumstances in which it would be appropriate to include an Emphasis of Matter paragraph or an Other Matter paragraph in an assurance report on a GHG statement?
20. Should a distinction be made between long-form GHG assurance reports that are provided to certain groups of users (for example, regulators in some schemes) and short-form reports that are made publicly available? How would this impact on the content of the report?
21. The working draft actively discourages including recommendations in the assurance report (see WD, paragraph A89). Are there circumstances in which it is appropriate to include recommendations in the assurance report? If so, please provide details.

Fair Presentation versus Compliance Frameworks

43. The existence of suitable criteria is a necessary element of any assurance engagement. The criteria for a financial statement audit are embodied in the applicable financial reporting framework.
44. The ISAs distinguish between different types of criteria (frameworks) for the purpose of establishing which requirements apply to any particular engagement. The different types of criteria identified in the ISAs are (a) fair presentation versus compliance criteria, and (b) general purpose versus special purpose criteria.
45. Compliance criteria, as the name implies, require compliance with the requirements of the criteria. Fair presentation criteria,¹⁸ on the other hand, acknowledge that, in order to achieve

¹⁷ Paragraph 5 of ISA 706, "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report," defines an Emphasis of Matter paragraph as "a paragraph included in the auditor's report that refers to a matter appropriately presented or disclosed in the financial statements that, in the auditor's judgment, is of such importance that it is fundamental to users' understanding of the financial statements." It defines an Other Matter paragraph as "a paragraph included in the auditor's report that refers to a matter other than those presented or disclosed in the financial statements that, in the auditor's judgment, is relevant to users' understanding of the audit, the auditor's responsibilities or the auditor's report."

¹⁸ The term "fair presentation" is not restricted to financial statements only in IAASB pronouncements. For example, ISAE 3402, "Assurance Reports on Controls at a Service Organization," which was recently approved by the

“fair presentation,” it may be necessary to: (i) provide disclosures beyond those specifically required by the criteria, or (ii) depart from the criteria in extremely rare circumstances. The wording used throughout the working draft, including in the objectives of the practitioner (WD, paragraph 9) is that the GHG statement is “prepared in accordance with the applicable criteria,” which indicates that compliance criteria are expected rather than fair presentation criteria.

46. Special purpose criteria are designed to meet the information needs of specific users only. For example, criteria embodied in laws or regulations may have been designed to meet the specific information needs of a particular regulatory emissions reduction scheme and may not be suitable for preparing a GHG statement for general distribution. General purpose criteria, on the other hand, are designed to meet the common information needs of a wide range of users.

Questions

22. Is it appropriate for the ISAE to be written primarily for compliance criteria? Is there a common understanding of what fair presentation with respect to GHG statements means (for example, in what circumstances might adherence to regulatory criteria not yield fair presentation)? Are the criteria used in jurisdictions with which you are familiar compliance criteria or fair presentation criteria? Please provide examples of such criteria.
23. Should the ISAE provide requirements and guidance for cases where special purpose criteria are used? If so, how would it differ from the working draft? Are criteria in jurisdictions with which you are familiar special purpose or general purpose criteria? Please provide examples of such criteria.

Emissions Deductions

47. The term “emissions deductions” has been used in the working draft as a way of dealing with the various instruments and mechanisms reported in different jurisdictions as a deduction from the entity’s gross emissions and removals (see WD, paragraph 10(d)).
48. A common deduction in many jurisdictions is a purchased offset, that is, where the entity has paid another entity to either:
- (a) Enable that other entity to lower its emissions compared to a hypothetical baseline of what its emissions would have been had it not received money from selling offsets and spending that money on, for example, energy efficiency measures; or
 - (b) Remove emissions from the atmosphere, for example, by planting and maintaining trees that would otherwise not have been planted/maintained.
49. Even though the concept of offsets is reasonably well-understood in general terms, the availability of relevant and reliable information in relation to the many different offsets in the marketplace varies greatly and, therefore, so does the evidence available to practitioners to

IAASB, uses “fair presentation” in the context of descriptions of internal control.

support entities' claimed deductions with respect to such offsets.

50. Emissions deductions can also include jurisdiction-specific items, such as credits and allowances for which there is not necessarily any established link between the contribution and any lowering of emissions that may occur as a result of the contribution.
51. Because of the varied nature of deductions and the often limited assurance procedures that can be applied thereto, if the GHG statement includes emissions deductions, paragraph 111(d) of the working draft requires identification of those emissions deductions in the assurance report, and either a statement of the practitioner's responsibility with respect to them, or a statement that the practitioner has not performed any assurance procedures with respect to them and that, therefore, no opinion on them is expressed.
52. A statement that the practitioner has not performed any assurance procedures with respect to emissions deductions could be worded as follows when the emissions deductions are comprised of offsets: "The GHG statement includes a deduction from ABC's emissions for the year of yyy tonnes of CO_{2-e} relating to offsets. We have performed assurance procedures as to whether these offsets were acquired during the year, and whether the description of them in the GHG statement is a reasonable summary of the relevant contracts and related documentation. We have not, however, performed any assurance procedures regarding the external providers of these offsets, and express no opinion about whether the offsets have resulted, or will result, in a reduction of yyy tonnes of CO_{2-e}."

Questions

24. Is the manner in which the working draft has dealt with deductions appropriate? If not, please provide details and suggestions for modification or elaboration of the working draft.
25. Some purchased offset are accompanied by an assurance report. How, if at all, should this be reflected in the content of the ISAE; for example, to what extent and in what circumstances, if at all, would the practitioner who assures the GHG statement be able to rely on assured offsets and provide an opinion on the net of emissions less offsets?
26. Where the GHG statement contains emissions deductions, is the treatment required by paragraph 111(d) of the working draft appropriate? If so, where in the assurance report should the required wording be situated? Would wording along the lines of that in paragraph 52 above be appropriate?

Scope 3 Emissions

53. Indirect emissions are emissions that are a consequence of the activities of one entity but that occur at sources owned or controlled by another entity. Indirect emissions can be categorized as what are known as Scope 2 emissions, which are those associated with energy that is transferred to and consumed by the entity. All other indirect emissions are Scope 3 emissions. Scope 3 emissions may include emissions associated with, for example: employee business travel; outsourced activities; consumption of fossil fuel or electricity required to use the entity's products; extraction and production of materials purchased as inputs to the entity's processes; and transportation of purchased fuels.

54. As discussed in paragraphs A29-A31 of the working draft, assurance with respect to Scope 3 emissions can be very problematic. For example, Scope 3 emissions can come from such a wide variety of possible sources that, for all but the very simplest of entities, it would be virtually impossible for the practitioner to be satisfied with respect to the completeness of disclosures. Some entities include their main Scope 3 emissions in their GHG statement, but it is very difficult to quantify those that have not been included and therefore assess their materiality. In practice, it is recognized that it is not practical to expect all of an entity's Scope 3 emissions to be included in its GHG statement. This is becoming better understood as GHG reporting becomes more prevalent.
55. Rather than exclude all Scope 3 emissions because of such difficulties, paragraphs A29-A31 of the working draft include cautionary language about the limitations of Scope 3 information and of assurance procedures with respect to that information. In developing this material, an important consideration has been the fact that it is likely more and more entities will include Scope 3 emissions in their GHG statements as time goes by, and it does not seem to be in the public interest to disallow assurance on such disclosures in all cases. Another important consideration has been the fact that the assurance report is not aimed at intended users who are unaware of the limitations of information presented in a GHG statement and, therefore, as long as suitable disclosures are included in the GHG statement, intended users are not likely to be misled by the inclusion of some Scope 3 emissions, and assurance thereon.
56. Paragraph 111(k) of the working draft requires the assurance report to include a statement of the uncertainties in quantifying emissions relevant to the entity. That statement could include wording along the following lines when the GHG statement includes Scope 3 emissions: "While ABC reports certain Scope 3 emissions, it is not practicable for all such emissions to be included. The full extent of Scope 3 emissions for nearly any entity would be impossible to quantify as it includes all sources both up and down the supply chain."

Questions

27. Is it appropriate for the ISAE to include cautionary language with respect to Scope 3 emissions (such as that in paragraphs A29-A31 of the working draft)? If not, please provide details and suggestions for modification or elaboration of the working draft.
28. What additions, if any, to the assurance report may be required when the GHG statement contains Scope 3 emissions? Would wording along the lines of that in paragraph 56 above be appropriate to include in the statement of uncertainties required by paragraph 111(k) of the working draft? If so, should such wording be included regardless of whether or not disclosed Scope 3 emissions are covered by the assurance engagement?

Types of Assurance Engagements

Direct Reporting Engagements

57. The Assurance Framework states that an assurance engagement may be either an "assertion-

based” engagement or a “direct reporting” engagement.¹⁹ The working draft is written to deal only with assertion-based engagements as evidence available to the Task Force at this time indicates that this is the most common form of engagement (see WD, paragraph 4).

Question

29. Are you aware of jurisdictions in which direct reporting engagements are common in practice, or are required by law or regulation? If so:
- (a) Please provide details, including example reports where available.
 - (b) Are restrictions placed on the work allowed to be done by the practitioner with respect to quantifying the entity’s emissions; or obligations placed on the entity with respect to, for example, having a reasonable basis for representations made to the practitioner?

Level of Assurance

58. The working draft deals only with reasonable assurance engagements (see WD, paragraph 3). In developing the working draft, the Task Force originally included requirements with respect to limited assurance engagements because limited assurance engagements are allowed for by law or regulation in some jurisdictions and appear to also be in demand with respect to voluntary reporting.
59. However, after discussion at the June 2009 IAASB meeting of this project and the projects to revise ISAE 3000 and ISRE 2400,²⁰ it became evident that extensive discussion over a number of meetings would be required to fully consider how the ISAE should differentiate a limited assurance engagement from a reasonable assurance engagement. The IAASB therefore agreed that, in the interest of expediting progress to the exposure draft stage, this project should deal first with reasonable assurance engagements. Feedback on that exposure draft, along with the further development of other relevant IAASB projects, in particular the projects to revise ISRE 2400 and ISAE 3000, will assist the IAASB in deciding how to extend the project to deal with limited assurance engagements.
60. It would be helpful at this stage if respondents to this Consultation Paper were to offer any preliminary views they may have regarding the distinction between limited assurance and reasonable assurance engagements with respect to a GHG statement.

¹⁹ Paragraph 10 of the Assurance Framework states: “In some assurance engagements, the evaluation or measurement of the subject matter is performed by the responsible party, and the subject matter information is in the form of an assertion by the responsible party that is made available to the intended users. These engagements are called ‘assertion-based engagements.’ In other assurance engagements, the practitioner either directly performs the evaluation or measurement of the subject matter, or obtains a representation from the responsible party that has performed the evaluation or measurement that is not available to the intended users. The subject matter information is provided to the intended users in the assurance report. These engagements are called ‘direct reporting engagements.’”

²⁰ International Standard on Review Engagements (ISRE), 2400 “Engagements to Review Financial Statements.”

Question

30. How should a limited assurance engagement on a GHG statement be differentiated from a reasonable assurance engagement, for example:²¹
- (a) How should the practitioner determine the procedures to be performed?
 - (b) What is the role of risk assessment in a limited assurance engagement?
 - (c) To what extent, if any, should the practitioner consider the effectiveness of control?
 - (d) Should evidence be primarily obtained through inquiry and analytical review?
 - (e) Which procedures that ordinarily are performed in a reasonable assurance engagement would you not expect to be performed in a limited assurance engagement?

Guide for Respondents

61. The IAASB invites comments on any aspect of this Consultation Paper, in addition to responses to the specific questions set forth for consideration. While respondents should not feel obliged to answer all the questions posed in the Consultation Paper, it will assist IAASB staff's collation of views if those questions are used to structure responses on the topic. Also, it is helpful if respondents provide reasoning to support their views in a level of detail that will assist the IAASB's consideration of the issues in developing an exposure draft of the ISAE.
62. As noted in the Introduction, respondents are asked to comment not only on technical aspect of the issues raised, but also on their public interest impact, in particular their effect on the costs (for example, additional work effort required) and benefits (for example, improvements in consistency and quality) of GHG assurance engagements.
63. While comments may also refer to specific paragraphs in the working draft and make suggestions for proposed wording in the ISAE, the IAASB emphasizes that the working draft is not an exposure draft, and that references to the working draft are for illustrative purposes only.

Respondents are asked to submit their comments **electronically** through the IFAC website (www.ifac.org), using the "Submit a Comment" link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this new feature. All comments will be considered a matter of public record and will ultimately be posted on the IFAC website. Although IFAC prefers that comments be submitted electronically, e-mail may continue to be sent to edcomments@ifac.org. Comments can also be faxed to the attention of the IAASB Technical Director at +1 (212) 856-9420, or mailed to 545 Fifth Avenue, 14th Floor, New York, NY 10017, USA. They should be received by **February 19, 2010**.

²¹ The issues identified in Agenda Item 6-A of the September 2009 IAASB meeting regarding the revision of ISRE 2400, while not identical, are indicative of the issues that need to be considered with respect to limited assurance GHG engagements. See <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0168&ViewCat=1138>.