

June 2012

Basis for Conclusions **ASAE 3410 *Assurance*** ***Engagements on Greenhouse*** ***Gas Statements***

Prepared by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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Basis for Conclusions ASAE 3410 Assurance Engagements on Greenhouse Gas Statements

This Basis for Conclusions ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements* has been prepared by the Auditing and Assurance Standards Board (AUASB).

This Basis for Conclusions:

1. is not an AUASB Guidance Statement that provides guidance to assist auditors and assurance practitioners to fulfil the objectives of the audit or assurance engagement; and
2. does not form part of ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements* which has been approved by the AUASB in June 2012.

Disclaimer:

Basis for Conclusions ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements* has been developed by the Auditing and Assurance Standards Board and relates to, but does not form part of, ASAE 3410. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

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BASIS FOR CONCLUSIONS

ASAE 3410 Assurance Engagements on Greenhouse Gas Statements

This Basis for Conclusions is issued by the Auditing and Assurance Standards Board (AUASB). It relates to, but does not form part of, *ASAE 3410 Assurance Engagements on Greenhouse Gas Statements*, and is not a substitute for reading the Standard.

Background

1. The AUASB has issued a new Standard on Assurance Engagements, *ASAE 3410 Assurance Engagements on Greenhouse Gas Statements* (ASAE 3410), which is operative for reporting periods commencing on or after 1 July 2012, with early adoption permitted, as appropriate. ASAE 3410 conforms with International Standard on Assurance Engagements, *ISAE 3410 Assurance Engagements on Greenhouse Gas Statements* (ISAE 3410), which is a new Standard issued by the International Auditing and Assurance Standards Board (IAASB) on 6 June 2012.
2. The AUASB conducted a roundtable discussion in March 2011 with a wide range of Australian stakeholders, in order to elicit views and concerns regarding the proposed ISAE 3410 during its exposure period. The AUASB also invited written comments. This roundtable and written submissions received helped to inform the AUASB in preparing a submission to the IAASB on the exposure draft, dated 10 June 2011.
3. The AUASB issued its own exposure draft of the proposed ASAE 3410 (ED 01/12) in May 2012, with a comment deadline of 8 June 2012, providing a 30-day exposure period. In drafting ED 01/12, the AUASB sought to limit changes to ISAE 3410 to a minimum so that conformity with ISAE 3410 could be clearly demonstrated when applying ASAE 3410. In doing so, the AUASB committed to developing a Guidance Statement to apply ASAE 3410 to engagements under Australian legislation and regulations. Submissions were received from the professional accounting bodies and accounting firms. The AUASB considered all submissions received and in response made a number of minor changes to the proposed Standard. ASAE 3410 was subsequently approved for issue on 21 June 2012.

Scope

4. ASAE 3410 applies to assurance engagements to report on an entity's greenhouse gas (GHG) statement or part of a GHG statement, other than where the GHG statement is a relatively minor part of the information subject to assurance. ASAE 3410 is applicable to voluntary engagements and engagements required to be conducted under the National Greenhouse and Energy Reporting Scheme (NGERS), to the extent that those engagements provide reasonable or limited assurance reports on GHGs, but not solely on energy consumption or production. Whilst ASAE 3410 is applicable to entities, the definition of entity is broad enough to cover registered corporations, controlling corporations or facilities which are captured by NGERS, liable entities under the *Clean Energy Act 2011* and applicants under the assistance schemes.
5. This standard does not apply to verification engagements under NGERS as these are agreed-upon procedures engagements which provide no assurance. The applicable standard for these verification engagements is Standard on Related Services Engagements ASRS 4400 *Agreed-upon Procedures Engagements to Report Factual Findings*.

Major Issues raised by Respondents on Exposure

6. The following summarises the major issues raised by respondents to Exposure Draft ED 01/12 of ASAE 3410 *Assurance Engagements on Greenhouse Gas Statements* (ED 01/12) issued on 9 May 2012 and how the AUASB has addressed them.

Questions Raised on Exposure

7. The AUASB raised four questions on exposure which did not highlight any significant concerns. Overall, respondents were satisfied that:
 - Australian laws and regulations would be addressed by developing a Guidance Statement rather than including Australian specific paragraphs in the standard so that compliance with the international standard ISAE 3410 could be clearly demonstrated.
 - Laws and regulations differ from the approach in the standard, however these can be explained through the proposed Guidance Statement.

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- Compliance with the requirements of ASAE 3410 would give rise to benefits but no significant additional costs for assurance practitioners and the business community.
- There were no additional significant public interest matters arising from the issuance of the new standard.

Effective date

8. The effective date for ASAE 3410 of reporting periods commencing 1 July 2012, allowed only a short period between the standard being issued and it taking effect. One respondent submitted that the new standard should be given an effective date of periods commencing 1 July 2013 as it was unreasonable to have an effective date so soon after the standard is issued. The AUASB considered, however, that as pre-submission assurance reports are only required for the first time under the Clean Energy Scheme (CES) for periods commencing 1 July 2012, assurance practitioners will not have yet developed their assurance approach for this type of engagement as it will differ from the post-submission engagements requested by the Regulator to date. It is preferable that the standard be in place prior to the commencement of the CES, so that adjustments to the assurance approach are not necessary to address the standard in the future.
9. In addition, the AUASB considered that the assurance approach in ASAE 3410 is sufficiently consistent with the existing requirements for assurance engagements under NGERS that assurance practitioners should not have great difficulty in meeting the new requirements. This is supported by the fact that no significant costs are anticipated by any of the respondents in implementing the proposed standard. To a large extent the standard provides assistance to assurance practitioners by clarifying the approach.
10. One respondent suggested that the standard should not be issued until such time as the proposed Guidance Statement, which is planned to address the application of ASAE 3410 to the conduct of engagements under NGERS, is ready to be issued, so that the two pronouncements could be issued simultaneously. However the AUASB did not agree with this suggestion as it would have caused an unnecessarily long delay in issuing the standard.
11. The AUASB considered that the priority should be to have the new standard in place prior to the commencement of the CES, which brings into effect a carbon pricing mechanism from 1 July 2012.

Limited Assurance Engagements

12. One respondent considered that the approach to risk assessment for limited assurance engagements need not be on a different basis than that for reasonable assurance engagements. The AUASB considered that the manner in which the risk assessment may be approached could be clarified further in the proposed Guidance Statement and did not preclude the assurance practitioner going to the level of assertions in conducting their risk assessment for a limited assurance engagement.
13. Two respondents also considered that it was unnecessary for an engagement specific list of procedures conducted to be included in limited assurance reports, as it may lead to confusion in the marketplace. It is the illustrative limited assurance report, rather than the requirements of the standard, which suggests a greater level of detail on procedures in a limited assurance report compared with a reasonable assurance report. The AUASB agrees that excessive detail on procedures may need to be avoided and considers that this can be clarified in the proposed Guidance Statement.

Clarification Sought

14. Respondents requested further clarification and guidance on the following matters:
 - (a) Quantitative materiality, including guidance on percentages to apply in determining materiality in planning;
 - (b) When performance materiality may be the same as materiality at the statement level, for example when one element of a NGER report only is to be assured;
 - (c) When a special purpose framework is being used and a restriction of distribution paragraph, provided for in paragraph 76(g)(iii), is appropriate in the assurance practitioner's report;
 - (d) Uncertainty inherent in the NGERS measurement methodologies and related calculations under the *Online System for Comprehensive Activity Reporting (OSCAR)*;
 - (e) How the definition of a GHG statement in ASAE 3410 relates to the NGERS reporting requirements.

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- (f) The extent to which assurance is provided on disclosures of the measurement methods used in determining GHG emissions and energy consumption and production for NGERS reports;
- (g) Procedures to apply in evaluating the design of controls in a reasonable assurance engagement when obtaining an understanding of the entity and its environment;
- (h) Ensuring that the assurance report does not contain excessive duplication where separate sections are included to cover separate subject matters.

The AUASB considered that this clarification could be provided appropriately in the proposed Guidance Statement rather than requiring amendments to ASAE 3410.

Amendments to final ASAE 3410

- 15. Another respondent noted that modifications are not adequately dealt with in the standard. As the types of modifications and when they can be used is addressed in ASAE 3000, a footnote which references the relevant paragraphs of ASAE 3000 was added to ASAE 3410.

Conclusion

Approval by the AUASB

- 16. The AUASB voted to approve and issue ASAE 3410 on 21 June 2012, with 13 votes in favour and none against. ASAE 3410 was subsequently issued on 28 June 2012.

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