



Assurance Engagements over GHG Emissions Disclosures

Consultation document



December 2022

Consultation closes 24 March 2023



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PART ONE: **INTRODUCTION**



1.

What are we consulting on?

Assurance practitioners have a critical role to play in enhancing user confidence in GHG information included in the climate statements. The Financial Markets Conduct Act, as amended by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (the FMC Act as amended) requires assurance engagements to be undertaken in relation to the parts of a Climate Reporting Entity's (CRE's) climate statements that relate to greenhouse gas emissions (GHG). The assurance engagement is required to be undertaken in accordance with the XRB's auditing and assurance standards.

We are consulting on the proposed standard that assurance practitioners will need to comply with to undertake these engagements.

Key objectives

Our objective is to develop a standard that contributes to high-quality assurance over GHG emissions disclosures made by CREs. CREs required to obtain assurance over their GHG disclosures include large-listed companies, registered banks, licensed insurers, credit unions, building societies and managers of investment schemes and some Crown financial institutions¹. These are some of New Zealand's most economically significant entities and so ensuring high-quality, independent assurance of the GHG disclosures is vital.

Our approach to development of the proposed standard

We have developed a temporary standard to address the requirements of the FMC Act as amended. This is deliberate. The standard-setting environment is rapidly evolving with international assurance standards for sustainability assurance engagements still in development. The scope of mandatory assurance in New Zealand may extend beyond the GHG disclosures to the full climate statement. In addition, an assurance practitioner licensing and oversight regime may be developed. Ministry of Business, Innovation and Employment (MBIE) and Ministry for the Environment (MfE) are currently consulting on both of these matters. Climate reporting standards issued by the XRB in December 2022 are yet to be applied so the approach to reporting climate information in New Zealand is also developing.

The proposed standard is intended to fill a gap, until we know more about the scope of assurance, any licensing regime and whether the developing international standards will be locally relevant for our regime.

To develop this standard, we have built on existing international standards currently used in New Zealand that we consider will contribute to high quality assurance over GHG emissions disclosures. We have consulted extensively with those undertaking assurance engagements over GHG disclosures in New Zealand to ensure the standard builds on, rather than replicates, existing requirements.

Timeframe for issue of the standard

We intend to issue the standard in June 2023 to allow time for assurance practitioners to prepare for mandatory assurance engagements required by the FMC Act as amended.

We welcome your feedback.

¹Some Crown Financial Institutions are also expected be directed to report by a letter of expectation from the Minister of Finance.



2.

How can you contribute?

Submissions on this consultation can be provided via any of the avenues below:

- On our 'Open for Comment' page at [Assurance Standards open for consultation » XRB](#)
- Asking questions and providing comments at any of our consultation events
- Commenting on our [LinkedIn](#) posts
- Email: assurance@xrb.govt.nz
- Write to: External Reporting Board, PO Box 11250, Manners St Central, Wellington 6142

Timeline



The closing date for submissions is **24 March 2023**. We appreciate detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view. We will consider all comments received.

The consultation paper contains several questions (in Part Three). Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues, that are relevant to you.

We are consulting on the assurance standard that practitioners will need to comply with when engaged to assure GHG disclosures included within climate statements of CREs as required by the Act.

Currently, MBIE and MfE are also jointly consulting on [assurance over climate-related disclosures](#):

- Whether occupational licensing for assurance practitioners should be introduced and, if so, what form that licensing should take.
- If the assurance requirement should be expanded to cover the whole climate statement.



3.

What is required to be assured and by when?

Under the FMC Act as amended, a climate reporting entity's GHG disclosures, prepared in accordance with Aotearoa New Zealand Climate Standards (NZ CS), are required to be subject to an assurance engagement. NZ CS 1 requires "limited assurance" over the GHG emissions disclosures at a minimum but we recognise that some entities may seek a higher level of assurance, referred to as "reasonable assurance". Some may seek limited assurance over some GHG disclosures and reasonable assurance over the rest.

Paragraph 26 of NZ CS 1 requires the following information to be subject to an assurance engagement:

- (a) GHG emissions: gross emissions in metric tonnes of CO₂e classified as scope 1, scope 2, or scope 3;
- (b) Additional requirements for the disclosure of GHG emissions; and
- (c) GHG emissions methods, assumptions and estimation uncertainty.

These disclosures are collectively referred to as the "GHG disclosures".

The Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021 (the Amendment Act) has added assurance-related provisions to the FMC Act by inserting new s461ZH. There are two versions of s461ZH in the Amendment Act. The s461ZH that is currently in force appears in Part 2 of the Amendment Act. It states that there is no requirement for assurance of climate statements. The replacement s461ZH, which will come into force in 2024, appears in Part 3 of the Amendment Act – see Appendix A. Read together with the commencement provision, it states that an assurance engagement will be required in relation to any GHG emissions disclosures in climate statements for accounting periods that end, on or after, 27 October 2024.

It is proposed that the temporary standard be issued by June 2023 to allow assurance practitioners time to read and understand the requirements and ensure that they are able to comply with them in accordance with this timeframe.

Voluntary Assurance

While the FMC Act as amended establishes a narrow scope for the mandatory assurance engagement, we understand that some entities may voluntarily seek assurance over other parts of the climate statement.

Practitioners are not required by the FMC Act as amended to apply XRB standards to the voluntary assurance. ISAE (NZ) 3000 (Revised) is an existing XRB assurance standard that might be helpful for a voluntary assurance engagement over other parts of or the climate statement. In 2021, we published the IAASB's comprehensive [guidance to support application ISAE 3000 \(Revised\)](#) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements along with a navigation tool to help point users to relevant chapters and illustrative examples.



4.

Global context

Many jurisdictions are introducing mandatory climate reporting. Climate reporting is increasingly expected to drive capital allocation decisions so it is important that investors are able to place trust and confidence in the climate information that is provided. To enhance trust and confidence, many jurisdictions are exploring mandatory assurance requirements over this information, with a focus on assurance over GHG emissions disclosures in the first instance.

Globally, questions are emerging as to:

- Who can provide these assurance engagements? Should this be FMA registered audit firms and/or other assurance providers, given the wider range of subject matter competence needed?
- What standards should be used to undertake these engagements? Standards issued by the International Auditing and Assurance Standards Board (IAASB) or other international standards, such as those issued by the International Organization for Standardisation (ISO) or others?
- What quality management and independence requirements should apply?
- What competencies are required to undertake these engagements?

Read more about climate change reporting developments in the US on the [SEC website](#) and climate change reporting and assurance developments in Europe on the [EU website](#).

International standard-setting boards are actively working to develop reporting and assurance standards, including the International Sustainability Standards Board, the IAASB, the ISO and the International Ethics Standards Board for Accountants (IESBA). There are calls for profession agnostic standards that avoid fragmentation of the market and bring the best of the traditional financial statement audit profession and the broader assurance profession together. The ultimate goal is to create standards that allow investors to place trust and confidence on the climate and wider sustainability information being reported.

A [recent report](#) from the International Federation of Accountants (IFAC) shows that there is a range of assurance practitioners currently undertaking this work. Results from their survey indicate that stakeholders may be ambivalent as to who carries out this work. However, the expectations that this work is carried out in accordance with rigorous professional and ethical standards remain.

The IESBA is currently exploring whether the independence standards in the international code of ethics are “fit-for-purpose” for assurance engagements over sustainability reporting. The IESBA also recognises calls for “profession agnostic” standards. Read about the IESBA’s project on the [IESBA website](#).

The IAASB is developing a standalone sustainability assurance standard to drive consistent, high-quality assurance engagements. The IAASB recognises the importance of ensuring the standard is suitable for all assurance practitioners, not just those that are professional accountants. Read about the IAASB project “Assurance on Sustainability/ESG reporting” on the [IAASB website](#).

We are acutely aware of the rapidly changing environment and are closely monitoring international developments. The proposed standard is intended to fill a gap, until new and revised international assurance standards for sustainability information are developed. Once these international standards are developed, we will assess whether they are appropriate for use in meeting the legislative requirements for assurance over the climate-reporting disclosures in New Zealand.



PART TWO: **OVERVIEW OF THE PROPOSED STANDARD**



5. Objectives

The primary objective is to develop a standard that enables users to place trust and confidence in the mandatory GHG disclosures. To do this, we sought to ensure the proposed standard:

- Drives consistent, high-quality assurance engagements over the mandatory GHG disclosures;
- Is appropriate for the current regulatory regime; and
- Enables all competent and independent assurance practitioners to undertake such engagements.

6. Design principles and key decisions

We considered the following “design principles” in developing the exposure draft and made the following key decisions:

Design principle	Implications and Key Decisions
<p>Trust and confidence</p> <p>To develop a standard that enables users to place trust and confidence in the GHG disclosures of climate reporting entities, some of the most significant entities in the New Zealand economy.</p>	<p>To build trust and confidence in the assurance process, the XRB adopts international standards to ensure that there is international alignment and acceptability, while ensuring the standards are relevant locally.</p> <p>Assurance practitioners in New Zealand currently provide assurance over GHG disclosures in accordance with one of two international assurance standards:</p> <ul style="list-style-type: none"> International Standard on Assurance Engagements 3410 <i>Assurance Engagements on Greenhouse Gas Statements</i> (ISAE 3410) issued by the IAASB; or ISO 14064-3:2019 <i>Greenhouse gases — Part 3: Specification with guidance for the verification and validation of greenhouse gas statements</i> (ISO 14064-3) issued by the ISO. <p>We consider these international assurance standards are fit for purpose for undertaking assurance over GHG disclosures.</p> <p>The proposed standard requires practitioners to comply with one of these assurance standards and incorporates additional requirements that are appropriate and relevant for the current New Zealand regulatory regime.</p>



Design principle	Implications and Key Decisions
<p>Temporary nature of the standard</p> <p>Enable assurance practitioners to meet the requirements of the FMC Act as amended while allowing time for climate reporting to mature, assurance requirements to develop, and to allow time for MBIE to consult on potential development of an assurance practitioner licensing and oversight regime and potential increase in the scope of assurance.</p>	<p>The application date of the proposed standard aligns with mandatory assurance required by the FMC Act as amended. The proposed standard also has a proposed end date, which is still to be determined, but we expect to align with, or be flexible around, any potential changes in scope of assurance.</p>
<p>Accountability and clarity</p> <p>It is vital that the scope of the assurance engagement is well-defined and that users are able to clearly identify which disclosures are subject to assurance, what level of assurance is provided, and assess any limitations (such as significant uncertainty, forecasts or assumptions, or data quality issues) to provide context for the assurance engagement.</p>	<p>The exposure draft includes requirements to clearly define the roles and responsibilities of those involved in the assurance engagement. Given different skills and experience are likely to be required to undertake these engagements and multi-disciplinary teams may be required, the exposure draft emphasises the responsibility of the engagement leader in ensuring that all those involved in the engagement meet the required level of independence and competence and collectively enable compliance with the requirements of the standard.</p> <p>The scope of the engagement, level of assurance provided and any limitations are also required to be included in the assurance report to clearly communicate the context of the engagement to users.</p>
<p>Importance of ethics and quality</p> <p>Ensure that the proposed standard includes sufficient requirements to ensure that assurance engagements undertaken in accordance with the standard are high-quality and comply with all relevant ethical considerations.</p>	<p>The proposed standard requires compliance with ethical, independence, competence and quality management requirements that are specific to the mandatory GHG disclosure and assurance regime in a single standard.</p> <p>In addition, it is recognised that professional and accreditation bodies also place ethical and quality management requirements on their members. We consider that these requirements complement the requirements of the proposed standard.</p>
<p>Transparency</p> <p>Encourage transparency about the assurance engagement, by providing practitioners with reporting tools that will enable them to enhance the communicative value of the assurance report, the main output of these engagements.</p>	<p>Communicative tools such as “Key Matter”, “Emphasis of Matter” and “Other Matter” paragraphs have been included in the proposed standard. We consider these reporting tools will help practitioners to communicate useful information about the assurance engagement to readers of the GHG disclosures.</p>

Question for respondents

1. Do you have any comments on the design principles or the key decisions?



7.

Key features of the Exposure Draft

The key features of the exposure draft are summarised as follows:



The FMC Act as amended requires assurance practitioners to comply with applicable assurance standards issued by the XRB. While the XRB has issued a number of standards that might apply, we have also explored what other international standards could usefully inform our approach for this regime.

The exposure draft proposes that assurance practitioners are not required to comply with Professional and Ethical Standard (PES) 1², PES 3³ and PES 4⁴. These standards would otherwise be "applicable assurance standards", which all practitioners would be required to comply with under the Act. In line with our design principles, we have included the relevant ethical, independence, competence and quality management requirements specific to this regime within the proposed standard, to enhance accessibility for all assurance practitioners and to promote consistent high-quality assurance engagements.

In addition, the exposure draft requires compliance with one of two international assurance standards (either ISAE 3410 or ISO 14064-3) given these standards are already being used by assurance practitioners to undertake GHG emissions assurance engagements in New Zealand. Specific requirements have been included to supplement the requirements of these standards, where appropriate. This includes specific requirements in relation to the independence and competence of the assurance practitioner and team, reliance on the work of others and the contents of the assurance report.

We recognise that assurance practitioners may also be required to comply with their own professional or accreditation bodies' requirements and therefore propose that the assurance practitioner state which standards they have applied in the assurance report.

² International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)

³ Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

⁴ Engagement Quality Reviews



8.

Key issues for feedback

The key issues of the exposure draft we would like your feedback on include:

8.1 Compliance with existing GHG assurance standards (such as ISAE or ISO)

Some New Zealand entities already seek assurance over their GHG disclosures for various reasons. Two international assurance standards are currently being used to perform these engagements, ISAE 3410 (which the XRB has also adopted in New Zealand) or ISO 14064-3 (which is part of the ISO suite of standards). These standards have largely informed each other over time and as a result the requirements are very similar. These standards were developed for assurance engagements that are performed over GHG statements (sometimes known as an “emissions inventory”) (i.e. a slightly different purpose), however they are still considered an appropriate basis for meeting the mandatory assurance requirements of this regime.

In developing the exposure draft, we compared the requirements of these two standards to understand any differences and to explore opportunities to leverage existing requirements. We found that these standards are substantively similar although there are some differences, particularly in the terminology used. Appendix B of this consultation document includes a summary of the comparison undertaken. Rather than create an extensive new standard to govern assurance over GHG disclosures and duplicate existing requirements, the exposure draft proposes requiring practitioners to apply either ISAE 3410 or ISO 14064-3. We consulted with assurance practitioner’s undertaking GHG emissions assurance engagements and concluded that the requirements of these standards formed an appropriate base for New Zealand’s temporary assurance standard.

As noted above, the exposure draft “layers” ethical, independence, competence, quality management and assurance reporting requirements on top of the requirements of these standards to ensure that there is a consistent approach in undertaking these engagements.

The exposure draft is narrow in scope as it is limited to GHG disclosures that are required by section 461ZH(1) of the Act to be subject to an assurance engagement.

We welcome feedback on any areas where you consider that further clarification is required to ensure a consistent approach is taken in undertaking these engagements.

Question for respondents

2. Are you aware of any other assurance standards that are currently being used in New Zealand to undertake GHG emissions assurance engagements?



8.2 Ethical requirements, including independence

Independence is critical for ensuring investors and other stakeholders are able to place trust and confidence in the assurance engagement over GHG disclosures. As outlined above, we propose to deactivate the existing XRB standard that includes ethical requirements for assurance practitioners for this limited scope engagement.

We compared the ethical and independence requirements for audits of financial statements to the requirements for other assurance engagements within the existing XRB's independence requirements and with requirements from ISO standards, including ISO 14066⁵. We continue to monitor developing international requirements.

We found that the fundamental ethical principles and the requirement to identify, evaluate and address threats to these fundamental principles, are similar across the standards we compared. We propose a similar approach. The exposure draft proposes that both the assurance organisation and the assurance practitioner comply with the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. We have included Independence as a fundamental principle. The exposure draft requires documentation of conclusions regarding compliance with the fundamental principles.

We propose specific ethical requirements to address specific risk areas identified. These include:

- A prohibition to prevent an assurance organisation or an assurance practitioner from assuring their own work and prevent other services to the assurance client that might possibly create a self-review threat. The “might possibly” requirement is expected to set a high bar and prevent many other services from being sold to the assurance client.
- A prohibition on assuming management responsibilities.
- A prohibition on holding a financial interest in the assurance client.
- A requirement to address familiarity threats that arise due to long association with the assurance client.

Question for respondents

3. Do you consider the proposed ethical requirements are appropriate? If you disagree, please explain why.

⁵ ISO 14066:2011 *Greenhouse gases - Competence requirements for greenhouse gas validation teams and verification teams*



8.3 Quality management

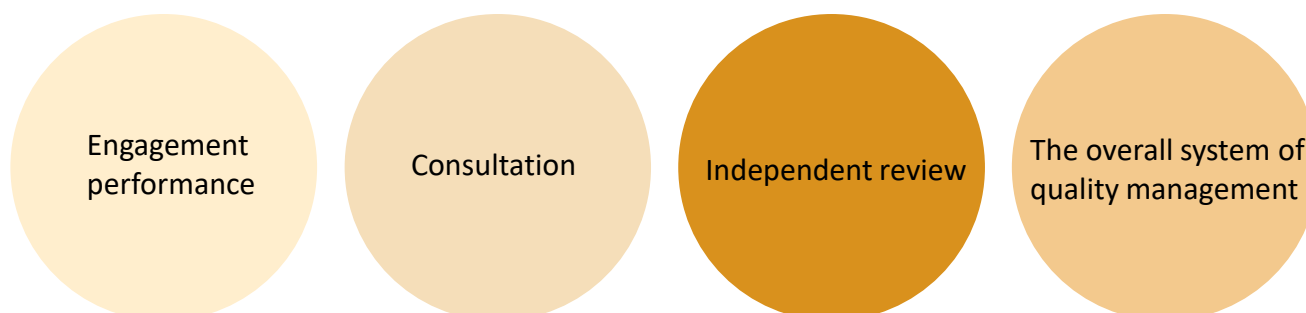
One of the key objectives in developing the exposure draft was to ensure that the standard drives consistent high-quality assurance engagements.

We compared the quality management requirements within the existing XRB's requirements and with requirements from the ISOs.

The majority of the quality management requirements in ISO standards sit in separate standards such as ISO 14065⁶ although the independent reviewer requirements are included in section 8 of ISO 14064-3. High-level quality management requirements are included in ISAE 3410 with additional quality management requirements sitting in separate standards (such as PES 3 and PES 4).

As outlined above, we propose to deactivate the separate existing XRB standards that include quality managements requirements for assurance practitioners for the purpose of these limited scope engagements and include the requirements for this regime all within one standard, to enhance accessibility for all assurance practitioners.

In order to make the proposed standard “standalone”, and to ensure robust quality management processes are in place for each of these engagements, the exposure draft includes specific requirements relating to:



Question for respondents

4. Do you consider the proposed quality management requirements are appropriate? If you disagree, please explain why.

⁶ ISO 14065:2020 *General principles and requirements for bodies validating and verifying environmental information*



8.4 Assurance report

The assurance report is the key output arising from the assurance engagement. As such, the proposed requirements included in the exposure draft focus on providing clear information to users regarding the assurance engagement.

The exposure draft includes a range of reporting tools that the practitioner can use to communicate matters to users, such as:

Key Matters paragraphs: alerting users to matters that were of most significance in undertaking the GHG assurance engagement;

Emphasis of Matter paragraphs: alerting users to a section of the GHG disclosures which the assurance practitioner considers should be highlighted;

Inherent uncertainty paragraphs: alerting users to significant areas of inherent uncertainty impacting on their ability to rely on the GHG disclosures; and

Other Matter paragraphs: alerting users to any other matters, such as the fact that the prior period GHG disclosures were not subject to an assurance engagement.

The purpose of these tools is to enable assurance practitioners to communicate information regarding the engagement to users where appropriate. The exposure draft also includes requirements to:

- State which assurance level/s was applied over which disclosures;
- Disclose which standards have been applied in undertaking the assurance engagement (i.e., this standard, NZ SAE 1, the international GHG emissions assurance standard, such as ISAE (NZ) 3410 or ISO 14064-3 and any professional or accreditation ethical and quality standards);
- Disclose any other relationships held with the climate-reporting entity; and
- Include the name of the assurance practitioner in the assurance report.

The exposure draft also encourages the assurance practitioner to disclose information about materiality considerations and details of the qualifications and experience of the engagement leader and others involved with the engagement if they consider this would be useful to include in the report.



Although assurance engagements undertaken in accordance with the two international assurance standards include the same, or substantively similar, procedures, there will be some differences in the way the assurance opinion or conclusions is expressed in the assurance practitioner’s report. This is due to the different reporting requirements of these standards, in particular the use of the terms “validation” and “verification” in ISO 14064-3. These differences already exist in respect of GHG assurance engagements currently being undertaken in New Zealand. The table below provides illustrative wording outlining how the assurance practitioner’s conclusion may be expressed.

All assurance reports will state whether reasonable or limited assurance was obtained, however assurance engagements undertaken in accordance with ISO 14064-3 may also state whether a validation or verification engagement was undertaken. Verification provides either limited or reasonable assurance based on historical information. Validation provides only limited assurance over the key assumptions, methods and limitations used to prepare projected or forecast information.

Table 1: Illustrative wording for limited assurance conclusions

Subject matter is	ISO 14064-3 illustrative wording	ISAE 3410 illustrative wording
Historical in nature	<p>Based on the procedures we have performed nothing has come to our attention that causes us to believe that the GHG disclosures are not prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards (NZ CSs) and [<i>measurement criteria such as Greenhouse Gas Protocol Corporate Standard</i>].</p> <p>May also state “verified at the limited level of assurance”.</p>	<p>Based on the procedures we have performed nothing has come to our attention that causes us to believe that the GHG disclosures are not prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards (NZ CSs) and [<i>measurement criteria such as Greenhouse Gas Protocol Corporate Standard</i>].</p>
Projected or forecast (e.g. certain categories of scope 3 emissions)	<p>Based on our examination of the evidence, nothing comes to our attention which causes us to believe that the assumptions do not provide a reasonable basis for the forecast. Further, in our opinion, the forecast is properly prepared on the basis of the assumptions and in accordance with [<i>measurement criteria such as Greenhouse Gas Protocol Corporate Standard</i>].</p> <p>Actual results are likely to be different from the forecast since anticipated events frequently do not occur as expected and the variation may be material.</p> <p>May also state “validated”.</p>	<p>Based on the procedures we have performed nothing has come to our attention that causes us to believe that the GHG disclosures are not prepared, in all material respects, in accordance with the Aotearoa New Zealand Climate Standards (NZ CSs) and [<i>measurement criteria such as Greenhouse Gas Protocol Corporate Standard</i>].</p>



Question for respondents

5. Do you consider the proposed requirements in relation to the assurance practitioner's report are appropriate? If you disagree, please explain why.
6. Do you have any concerns regarding the different terminology that may be used to express the assurance conclusion or opinion? If so, do you have any suggestions to address these concerns?
7. Do you support the proposed inclusion of Key Matter, Emphasis of Matter, Inherent Uncertainty and Other Matter paragraphs where appropriate?
8. Are there any other requirements that you consider should be included in relation to the assurance practitioner's report? If so, please specify.

8.5 Competence and reliance on the work of others

In developing the exposure draft, we were conscious that different skills, and a broader mix of skills, may be required to undertake these assurance engagements. As such, we have proposed including specific requirements in relation to the assurance practitioners' competence and the reliance placed on the work of others.

Question for respondents


9. Do you consider the requirements in relation to the assurance practitioners' competence are appropriate? If not, what else do you consider should be included in relation to this?
10. Do you consider the requirements in relation to reliance on the work of others are appropriate? If not, what do you consider should be included in relation to this?

8.6 Other comments

We have outlined the key areas where we seek your feedback but welcome feedback on any other aspects addressed in the exposure draft or if you consider there are aspects that we have missed.

Question for respondents

11. Do you have any other comments on the proposed standard? If so, please specify.



PART THREE: **CONSULTATION** **QUESTIONS**



Consultation Questions

Respondents are asked to consider the following specific questions and to respond to the XRB by 24 March 2023:

Design principles and key decisions

Question 1. Do you have any comments on the design principles or key decisions?

Compliance with existing GHG assurance standards (such as ISAE or ISO)

Question 2. Are you aware of any other assurance standards that are currently being used in New Zealand to undertake GHG emissions assurance engagements?

Ethical requirements, including independence

Question 3. Do you consider the proposed ethical requirements are appropriate? If you disagree, please explain why.

Quality management

Question 4. Do you consider the proposed quality management requirements are appropriate? If you disagree, please explain why.

Assurance Practitioner's Report

Question 5. Do you consider the proposed requirements in relation to the assurance practitioner's report are appropriate? If you disagree, please explain why.

Question 6. Do you have any concerns regarding the different terminology that may be used to express the assurance conclusion or opinion? If so, do you have any suggestions to address these concerns?

Question 7. Do you support the proposed inclusion of Key Matter, Emphasis of Matter, Inherent Uncertainty and Other Matter paragraphs where appropriate?

Question 8. Are there any other requirements that you consider should be included in relation to the assurance practitioner's report? If so, please specify.

Competence and reliance on work of others

Question 9. Do you consider the requirements in relation to the assurance practitioners' competence are appropriate? If not, what do you consider should be included in relation to this?

Question 10. Do you consider the requirements in relation to reliance on the work of others is appropriate? If not, what do you consider should be included in relation to this?

Other comments

Question 11. Do you have any other comments on the proposed standard? If so, please specify.



APPENDIX:



Appendix A: Extracts from the Financial Markets Conduct Act, as amended by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021⁷

461ZH Assurance engagement required for parts of climate statements relating to greenhouse gas emissions

(1) Every climate reporting entity must ensure that the climate statements or group climate statements that are required to be prepared under any of sections 461Z to 461ZC are, to the extent that those statements are required to disclose greenhouse gas emissions, the subject of an assurance engagement.

(2) None of the following persons may carry out the assurance engagement:

(a) a director, an officer, or an employee of the climate reporting entity:

(b) a person who is in partnership with, or in the employment of, a person specified in paragraph (a):

(c) a liquidator or a person who is a receiver in respect of the property of the climate reporting entity:

(d) a person who, by virtue of paragraphs (a) to (c), may not carry out an assurance engagement under this Part for a related body corporate of the climate reporting entity.

(3) In the case of a climate reporting entity that is a public entity under the Public Audit Act 2001, the only person who may carry out the assurance engagement is the Auditor-General or any other person who may act as the CRD assurance practitioner under that Act in respect of the assurance engagement.

461ZHA Assurance engagement must be carried out in accordance with auditing and assurance standards

An assurance practitioner must, in carrying out an assurance engagement under this Part, comply with all applicable auditing and assurance standards.

461ZHB Assurance practitioner's report

(1) The assurance practitioner's report on the climate statements or group climate statements prepared by an entity under any of sections 461Z to 461ZC must comply with the requirements of all applicable auditing and assurance standards.

⁷ Amendments to the Financial Markets Conduct Act 2013 to come into force by third anniversary of Royal assent: [Financial Sector \(Climate-related Disclosures and Other Matters\) Amendment Act 2021 No 39, Public Act – New Zealand Legislation](#)



(2) If the assurance practitioner's report indicates that the requirements of this Part have not been complied with, the assurance practitioner must, within 20 working days after signing the report, send a copy of the report, and a copy of the climate statements or group climate statements to which it relates, to—

(a) the FMA; and

(b) the External Reporting Board; and

(c) in the case of a climate reporting entity that is an issuer of debt securities or a manager of a registered scheme, the supervisor.

(3) An assurance practitioner who contravenes subsection (2) commits an offence and is liable on conviction to a fine not exceeding \$50,000.

461ZHC Assurance engagement may cover other parts of climate statements

(1) Section 461ZH does not prevent the assurance engagement from covering the whole, or other parts, of the climate statements or group climate statements.

(2) If an assurance engagement does cover the whole, or other parts, of the statements,—

(a) the assurance practitioner's report must separately identify the matters that are required to be the subject of the assurance engagement under section 461ZH; and

(b) this subpart applies, with any necessary modifications, in relation to the whole of the assurance engagement.

(3) In this section, other parts, in relation to climate statements or group climate statements, means any part or parts of those statements that are not required by section 461ZH to be the subject of the assurance engagement.



Appendix B: Summary comparison of international assurance standards

Area	PES/ISAE requirements (including ISAE 3410 and PES 1 and 3)	ISO requirements (including 14064-3 and 14066)	How the exposure draft deals with this
Scope of Engagement	Assurance over entity-level GHG statements.	Assurance over entity-level GHG statements. Scope also includes project and product GHG statements.	The scope of the proposed standard is very narrow, recognising that the assurance engagement required by the FMC Act as amended covers the GHG disclosures included in climate statements only.
Level of assurance	Limited and reasonable.	Limited and reasonable. Includes requirements for verification and validation as well as agreed upon procedure engagements.	Climate-reporting entities (CREs) are required to obtain limited assurance over their GHG disclosures, at a minimum, but can opt to obtain reasonable assurance. The exposure draft requires the level of assurance to be specified in the assurance report.
Objectives of the engagement	Objectives outlined in para 13. These include obtaining assurance that the GHG statement is free from material misstatement and communicating the conclusion in a written report.	Objectives outlined in section 5.1.4. These include reaching a conclusion about the accuracy of the GHG statement and conformity with the criteria.	The objectives of the mandatory assurance engagement over GHG disclosures are included in the exposure draft to enable practitioners to meet the requirements of the Act.
Definitions	Core concepts defined. ISAE 3410 refers to the term “professional scepticism” but does not define it. However, the term is outlined in PES 1.	Core concepts, including “professional scepticism” are defined. In addition, the concepts of “verification” and “validation” have been defined. As outlined in section 4.5 above, users are likely to see these terms included in the assurance practitioner’s reports where the engagements have been undertaken in accordance with ISO 14064-3.	Specific terms have been defined in the exposure draft where these are considered relevant to mandatory assurance over GHG disclosures. Professional scepticism has not been defined as it was considered that there was sufficient understanding of this concept.



Area	PES/ISAE requirements (including ISAE 3410 and PES 1 and 3)	ISO requirements (including 14064-3 and 14066)	How the exposure draft deals with this
Pre-engagement requirements	Requirements include competency of the practitioner, agreeing the objectives, scope and criteria with the engaging party (including the organisational boundary) and considering the suitability of criteria.	Requirements include competency of the practitioner, agreeing the objectives, scope and criteria with the engaging party (including the organisational boundary) and considering the suitability of criteria.	No additional requirements proposed.
Planning	Similar requirements in relation to planning. Also includes requirements in relation to the entity's climate change objective and strategy and understanding of internal audit function, if they have one.	Similar requirements in relation to planning. Requirements in relation to understanding the entity's climate change strategy and internal audit function are included in ISO 14065 and ISO 14066.	No additional requirements proposed.
Materiality	Same definitions used for materiality and performance materiality. Includes a requirement to set a 'clearly trivial' level, above which all misstatements are reported to the entity.	Same definitions used for materiality and performance materiality. Includes requirement to ask intended users for their materiality thresholds and use this if they have determined one. No apparent requirement to set a 'clearly trivial' level.	No additional requirements proposed as these differences are not expected to result in significant differences in approach.
Risk Assessment	Risk assessment based on inherent, control and detection risk and assertions at risk included. Requires enquiry, planning analytical review and inspection and observation. Includes requirement to consider whether it is necessary to perform procedures on location at significant facilities.	Requires enquiry, planning analytical review and inspection and observation. Also includes requirement to perform site visits or justify why a site visit is not needed.	No additional requirements proposed as we consider that site visits will be undertaken where appropriate under existing standards.



Area	PES/ISAE requirements (including ISAE 3410 and PES 1 and 3)	ISO requirements (including 14064-3 and 14066)	How the exposure draft deals with this
Responses to identified risks/evidence-gathering activities	Similar approach taken.		No additional requirements proposed.
Obtaining an understanding of the entity's internal controls	Similar approach taken.		No additional requirements proposed.
Tests of controls	Includes requirement to design and perform tests of controls where the assurance practitioner intends to rely on the operating effectiveness of controls or procedures other than tests of controls cannot provide sufficient appropriate evidence (para 38R). This requirement applies to reasonable assurance engagements only.	Includes requirement to design and implement evidence-gathering activities to test the operating effectiveness of controls for verification engagements (para 6.1.3.6.2). Where deviations are identified, practitioners are required to assess the impact of the deviations on the ability to rely on controls and assess whether additional tests of controls are necessary and whether other types of evidence-gathering activities need to be applied.	No additional requirements proposed. In substance, we understand a similar approach is taken by assurance practitioners in relation to testing the design and operational effectiveness of controls over preparation of the GHG disclosures (i.e. controls are tested where they are operating effectively and able to be relied upon).
Communication responsibilities	Includes requirements to communicate deficiencies, identified misstatements, fraud and non-compliance with laws and regulations (NOCLAR). No requirement to communicate immaterial misstatements.	Includes requirements to communicate identified misstatements, fraud and NOCLAR. No requirement to communicate non-material misstatements. Refers to non-conformities rather than deficiencies however substance is the same.	No additional requirements proposed as no substantive differences identified.



Area	PES/ISAE requirements (including ISAE 3410 and PES 1 and 3)	ISO requirements (including 14064-3 and 14066)	How the exposure draft deals with this
Forming a conclusion	Similar approach taken.		No additional requirements proposed.
Assurance practitioner's report	Both standards include specific requirements in relation to the assurance practitioner's report. As outlined in section 8.4 above, there is likely to be some difference in the terminology used in the assurance practitioner's reports, with ISO reports referring to "validation" and "verification" as well as "reasonable" and "limited" assurance.		The exposure draft layers additional reporting requirements on top of ISAE and ISO requirements where these are considered necessary to enhance the communicative value of the report. Illustrative wording has also been included.
Comparative Information	Includes specific requirements in relation to comparative information (para 62 and 63 and A118 – A123).	Includes requirements in relation to comparative information (changes in GHG emissions from prior period).	The exposure draft includes specific requirements in relation to comparative information and a requirement to include an "Other Matter" paragraph where the comparative information was not subject to assurance, which is particularly relevant on transition into this regime.
Other Information	Includes specific requirements in relation to other information (para 64 and A124 – A126).	No specific requirements in relation to other information. ISOs do have additional requirements relating to environmental claims made by the client.	The exposure draft includes specific requirements for the assurance practitioner to read other information included in documents containing the GHG disclosures to identify any material inconsistencies with the GHG disclosures. The assurance practitioner is not required to assure the other information.



Area	PES/ISAE requirements (including ISAE 3410 and PES 1 and 3)	ISO requirements (including 14064-3 and 14066)	How the exposure draft deals with this
Use of the work of others	Includes specific requirements in relation to reliance on the work of another assurance practitioner (for example to attend site visits), use of practitioner’s external experts (for example engineers and scientists) and use of management experts.	Requirements in relation to use of the work of another practitioner/experts are included in ISO 14066.	The exposure draft includes specific requirements in relation to using the work of others to ensure consistency in approach given the likelihood others may be asked to assist in undertaking these engagements.
Consideration of fraud	Includes specific requirements for fraud brainstorming sessions as part of the planning process and fraud enquiries with management and other informed parties (paras 28 and 29).	Section 5.4.3 includes a requirement to communicate any matters relating to intentional misstatements with the appropriate parties. ISO 14066 includes requirements to consider the appropriateness and sufficiency of audit evidence. However, no specific requirement to hold a fraud brainstorming session.	The exposure draft includes a requirement for the engagement team to consider the risk of management bias in relation to the GHG disclosures. This consideration is required to be documented and to cover the ability to quantify scope 1, 2 and 3 emissions, potential non-compliance with any relevant laws and regulations and the susceptibility of the GHG disclosures to material misstatement whether due to fraud or error.
Written representations /responsibility of the reporting entity	Includes a requirement to request a written representation (para 58) and to disclaim the opinion or withdraw from the engagement if there is sufficient doubt about the integrity or reliability of the representation or such a representation is not provided.	Includes a requirement to include a statement that the responsible party is responsible for the preparation and fair presentation of the GHG statement in accordance with the criteria. No specific requirement for a written representation.	No specific requirement to request a written representation is included in the exposure draft. We consider that requesting a written representation should form part of the risk management processes of the assurance organisation and would expect that such representations are requested where there are concerns about the integrity or reliability of the GHG disclosures.



Area	PES/ISAE requirements (including ISAE 3410 and PES 1 and 3)	ISO requirements (including 14064-3 and 14066)	How the exposure draft deals with this
Ethical requirements	Requires compliance with a separate standard, PES 1, or ethical requirements at least as demanding as PES 1. Ethical requirements based on the fundamental principles sit in a separate standard (PES 1) although application material is included in relation to independence.	High-level ethical principles included in section 4 (impartiality, evidence-based approach, fair presentation, documentation and conservativeness). More detailed ethical requirements are included in ISO 14066.	<p>Specific ethical requirements included in the exposure draft. These include:</p> <ul style="list-style-type: none"> - Fundamental principles - Threats to compliance with the fundamental principles - Specific requirements and prohibitions relating to independence such as self-review, financial interests and holding a management responsibility. <p>FAQs have been developed to assist practitioners navigate to additional material in specific areas, such as long association provisions and specific conditions or relationships that may impact on the ability to be independent.</p>
Quality Management	High-level quality management requirements included in relation to quality control and engagement quality control review (EQCR). Additional quality management requirements sit in separate standards (PES 3 and PES 4).	Majority of quality management requirements sit in separate standards such as ISO 14065. In addition, independent reviewer requirements are included in section 8 of ISO 14064-3.	<p>Specific quality management requirements included in the exposure draft. These include requirements relating to:</p> <ul style="list-style-type: none"> - overall system of quality management - engagement performance - consultation - independent review.