

Friday, 24 March 2023

Marje Russ
Chair, New Zealand Auditing and Assurance Standards Board
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By email: assurance@xrb.govt.nz

Dear Marje

Assurance over greenhouse gas emissions disclosures

As the representatives of over 300,000 professional accountants globally, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide a submission on the Consultation Document on Assurance Engagements over GHG Emissions Disclosures ("the CD") and the Exposure Draft: Assurance Engagements over Greenhouse Gas (GHG) Emissions Disclosures ("the ED"). We make this submission on behalf of our members and in the public interest.

Given the significance of these proposals, we have greatly appreciated the opportunity to engage regularly with the External Reporting Board (XRB) throughout the development phase of the ED. We have consulted widely with our members and other stakeholders in developing this submission.

The accounting profession has been at the forefront of developments in sustainability reporting and assurance for several decades. CA ANZ and CPA Australia are both long-standing members of the Accounting for Sustainability (A4S) Accounting Bodies Network (ABN) which was launched in 2008 by HM King Charles III, while he was HRH The Prince of Wales. We continue to be advocates for, and supporters of, a just transition to a net zero economy. There is a critical role for independent external assurance to enhance the credibility of the GHG emissions disclosures included in the climate statements of climate reporting entities, which have an important role in decisions about the allocation of capital to achieve a just transition to a more sustainable and low-emissions economy.

Overarching comments

This is the first example of which we are aware, where a public consultation on an external assurance standard has been conducted and many key stakeholders are unable to access the requirements of the standard being proposed or all the underlying analysis. The requirements and other material that are part of ISO 14064-3:2019 *Specification with guidance for the verification and validation of greenhouse gas statements*, which is one of the options proposed as a standard for adoption, has not been included as part of this consultation.

We see this departure from accepted best practice and due process as a major risk and urge caution when assessing submissions and in undertaking further deliberations on the proposals, as it is imperative that:

- a) all stakeholders, including investors, can fully understand the basis of assurance being proposed, and

- b) all assurance practitioners and other stakeholders can identify and provide feedback on potential gaps and shortcomings, and unintended consequences, with what is being proposed.

Unrestricted access to all the requirements of the standard being proposed, and the underlying analysis in developing the ED, must be a key part of this public consultation.

Investor expectations

Investor groups (for example, the New Zealand Shareholders' Association (NZSA)) expect that, in time, sustainability reporting will be subject to investment-grade assurance¹. Consequently, investors expect to be able to attain a level of confidence and robustness in the assurance of sustainability reporting comparable to that which they attain in the audits of financial statements, which are used when making their investment decisions.

Achieving this expectation demands a comparable level of robustness in governance and oversight arrangements for assurance over sustainability reporting, including the governance and oversight of the related standard setting, as there is for financial statement audits. The cornerstones of such robust arrangements include consistent, comprehensive independence standards and ethical and quality management requirements being established in standards that are set according to a rigorous due process focused on the public interest.

In our view, the proposed requirements in the ED do not provide a comparable level of robustness that is present in the existing International Auditing and Assurance Standards Board (IAASB) assurance framework (see our response to Question 1) and standard setting process.

Comprehensive global baseline and collaboration

We support a global approach to the development of overarching sustainability assurance standards and are supportive of the IAASB as the global body to issue these standards. We believe the goal should be a globally consistent, comparable, and reliable assurance framework for sustainability reporting. We recommend a coordinated approach to the development of sustainability assurance standards to avoid fragmentation and duplicative efforts.

In our view, the IAASB's upcoming consultation on a new profession-agnostic overarching standard for assurance on sustainability reporting; ISSA 5000, *General Requirements for Sustainability Assurance Engagements* (ISSA 5000), expected by September 2023, is the critical next step towards a global baseline² for assurance on sustainability reporting. ISSA 5000 will build upon existing IAASB standards and guidance, namely:

- ISAE 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (ISAE (NZ) 3000)
- ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements* (ISAE (NZ) 3410).

¹ [Policy #22: Environmental Sustainability](#), see Par. 3.9(b)

² <https://www.iaasb.org/consultations-projects/assurance-sustainability-reporting>

This work is also underpinned by the International Ethics Standards Board for Accountants (IESBA) project to develop “ethics and independence standards for use and implementation by all sustainability assurance practitioners (i.e., professional accountants and other professionals performing sustainability assurance engagements)”³.

The International Organization of Securities Commissions (IOSCO) has issued a statement welcoming the Boards’ (IAASB and IESBA) plans to work towards high-quality, global assurance and ethics (including independence) standards that are profession-agnostic and can support assurance of sustainability-related information. It believes this work will serve to support the consistency, comparability and reliability of sustainability-related information provided to the market, enhancing trust in the quality of that information⁴.

Education

We recognise that establishing a comprehensive global baseline for sustainability assurance will take time and may be iterative. Building professional capacity and capability to support implementation, and ongoing collaboration globally between regulators, standards setters, policy makers, professional bodies, and other key players within the sustainability assurance ecosystem, will also be of key importance.

CA ANZ and CPA Australia are committed to supporting the work of the IAASB by developing relevant educational programs and resources that promote professional capacity and capability in sustainability assurance in our region.

For the reasons outlined above and in the **Attachment** to this letter, we strongly recommend that there should be one assurance standard in New Zealand for the assurance of GHG emissions disclosures, and that should be ISAE (NZ) 3410.

Our detailed responses to the questions raised in the CD are provided in the **Attachment** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Zowie Pateman (CA ANZ) at zowie.pateman@charteredaccountantsanz.com or Tiffany Tan (CPA Australia) at tiffany.tan@cpaaustralia.com.au

Yours sincerely

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³ <https://www.ethicsboard.org/consultations-projects/sustainability>

⁴ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD713.pdf>

Attachment

Design principles and key decisions

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

The ED proposes allowing a choice of the following two standards:

- ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements* (ISAE (NZ) 3410) issued by the XRB, which in turn requires compliance with:
 - ISAE (NZ) 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*,
 - PES 1 *Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, and
 - PES 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, or
- ISO 14064-3:2019 *Greenhouse gases—Part 3: Specification with guidance for the verification and validation of greenhouse gas statements* (ISO 14064-3) issued by the International Organisation for Standardisation (ISO).

For the reasons outlined below, where we have addressed each of the design principles in the CD, we recommend that there should be one assurance standard in New Zealand for the assurance of GHG emissions disclosures, and that should be ISAE (NZ) 3410.

Trust and confidence

Achieving integrity, robustness, and comparability in assurance of GHG emissions disclosures means ensuring that the prescribed requirements for assurance practitioners are set at an appropriate level that is equivalent for all practitioners. This baseline is needed for there to be trust and confidence in GHG emissions disclosures included in climate statements and to avoid confusion or misunderstanding about the assurance obtained, amongst investors and other stakeholders.

The CD says, “The proposed standard is intended to fill a gap”. However, we disagree that a gap exists. The IAASB assurance framework and standards are well-established with a long history of supporting and promoting high quality assurance engagements. They are already being used in many jurisdictions around the world for GHG emissions assurance engagements. The IFAC *State of Play in Sustainability Assurance*⁵ (February 2023) benchmarking study found that ISAE 3000 (Revised) (a profession-agnostic standard) remains the most widely used standard globally for sustainability assurance engagements.

In our view, the basis for developing a new standard has not been well articulated in the CD. Furthermore, given that there is an existing standard that is extensively used internationally, we do not believe that the case to depart from the IAASB standards has been made in the CD.

⁵ <https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/state-play-sustainability-assurance>

Transparency

The ISO Standards are privately owned, and only available at a cost. As a result, it is difficult for us, or other key stakeholders, to form a view on the appropriateness of the ISO framework and the equivalence of the two standards proposed as options in the ED. Assurance engagements over GHG emissions disclosures is of significant public interest. However, given stakeholders have no ready access to the ISO Standards, they would be at a significant disadvantage in assessing or understanding those engagements performed under the ISO Standards. This is a departure from the robust transparency, public interest and public oversight principles that are generally taken as a given when it comes to external assurance and auditing standards setting.

It is unusual to respond to a consultation on an exposure draft of an external assurance standard where it is not possible to access or review the requirements of the standard being proposed, or all the detailed underlying analysis. This represents a departure from existing external assurance standard setting in New Zealand, and what is generally considered to be global best practice in standard setting. To date, in New Zealand, this has been reflected in the adoption of international auditing and assurance standards, including the professional and ethical standards, for assurance practitioners as noted in the *NZAuASB Policy and Process for International Conformance and Harmonisation of Standards*⁶.

Importance of ethics and quality

Having one standard for all practitioners ensures consistent independence, ethics, and quality management requirements. The option to choose between two very different standards means that the requirements to be met in the performance of an assurance engagement – and hence the quality of the assurance engagement – will not be the same nor comparable for all practitioners. We are concerned that this difference would result in a two-tier approach to assurance over GHG emissions disclosures, and that such disparity could lead to market inequity in terms of the information being reported. This is detrimental to the good public interest outcomes.

Accountability and clarity

A three-party relationship is one of the five elements of an assurance engagement required by ISAE 3000 (Revised). These parties are typically: the responsible party, intended users, and the practitioner, where the intended users must be other than the responsible party. In the context of this ED, intended users can be investors. Under ISO 14064-3 “users” can be the responsible party, that is, responsible for the reporting of the underlying subject matter. Therefore, the “verifier” (practitioner) could be reporting to management/those charged with governance of the entity and not investors. Accordingly, it is not clear that ISO 14064-3 is fit for purpose for an external assurance engagement that is aimed at satisfying investor information needs.

⁶ <https://www.xrb.govt.nz/dmsdocument/4198>

Temporary nature of the standard

The temporary nature of the proposed ED presents uncertainty with respect to its future status as a permanent standard. The narrow scope of the proposed ED also restricts its ability to be expanded into an integrated approach, which provides an assurance framework where assurance engagements are undertaken across multiple sustainability-related disclosures.

We also question the costs and benefits in developing a short-term assurance solution. The ED is proposing adoption of the existing well established ISAE (NZ) 3410 in addition to providing the option of applying ISO 14064-3, with additional requirements (e.g., ethics, assurance quality, competence etc) that are aimed at attempting to bridge the current requirement gaps between the two standards—that is, to ensure the quality outcomes that would result from the use of the ISO Standards. Most practitioners will have embedded ISAE (NZ) 3410 or ISO 14064-3 into their methodology. We expect the disruption and implementation costs associated with implementing the proposed ED would outweigh the perceived benefits, especially in the context of a short-lived standard.

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?

We are not aware of any other assurance standards being used in New Zealand to undertake GHG emissions disclosures assurance engagements.

Ethical requirements, including independence

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

Appendix B of the CD, Summary comparison of international assurance standards (XRB versus ISO requirements), says “More detailed ethical requirements are included in ISO 14066.” It does not elaborate further on those ethical requirements in ISO 14066.

Unlike ISAE (NZ) 3410, which requires compliance with PES 1, ISO 14064-3 does not appear to require compliance with ISO 14066 *Competence requirements for GHG validation teams and verification teams*. Therefore, it is unclear whether compliance with the more detailed ethical requirements in ISO 14066 is mandatory when applying ISO 14064-3.

From our outreach, and roundtables we have attended, regarding this project, we are aware of an existing practice where firms applying ISO 14064-3 to provide assurance, commonly also undertake extensive consulting engagements that directly impact the reported information being assured. Other examples of firms being directly involved in the preparation of the reporting were also noted. These examples are at odds with the independence requirements in PES 1 that prohibit an assurance practitioner from assuring their own work.

Although the ED proposes that the assurance practitioner is only required to comply with the ethical requirements included in the ED alone and that there is no further requirement to comply with PES 1, this is not true for assurance practitioners from the accounting profession. Members of professional accounting bodies, including CA ANZ and CPA Australia, are required to comply with PES 1 as issued by the XRB. We are concerned that this disparity could lead to market inequity and differing standards of independence and ethics.

Based on the proposed ethical requirements in the ED alone, we have significant doubts whether this would result in appropriate and meaningful independence for the engagements that is equivalent to that required under PES 1. For example, the fundamental principle of independence in paragraph 7(a) of the ED only refers to actual independence, it does not refer to perceived independence. However, application material of the ED in paragraph A6 covers both independence of mind and independence of appearance. We recommend that, at the very least, paragraph 7(a) be revised to also refer to perceived independence.

Furthermore, [paragraph NZ1.2](#) of PES 1 clearly states “The Code is intended to apply to all those who perform assurance engagements, even if they are not part of the accounting profession.” In addition to the increased resources and costs in creating and proposing another set of ethical requirements by selectively applying the high-level principles from PES 1, the approach may also lead to unintended consequences and risks such as there being in place a “lower” level (or at least, a perceived lower level) of independence requirements vis-à-vis the requirements in PES 1.

Investors expect consistent independence standards and ethical requirements to be able to rely on GHG emissions disclosures. Having one GHG emissions disclosures assurance standard and related ethics for all practitioners would ensure this expectation is met. In our view, investors are relying on the XRB to establish settings to achieve this end.

Therefore, we recommend that the XRB not depart from consistent and comprehensive ethical requirements for external assurance as contained in PES 1 for all assurance practitioners to ensure investors’ expectations around independence and ethics are met.

Quality management

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

Appendix B of the CD, Summary comparison of international assurance standards (XRB versus ISO requirements), says the “majority of quality management requirements sit in separate standards such as ISO 14065”. It does not elaborate any further on those quality management requirements in ISO 14065. Furthermore, “such as” indicates other standards should be used as a reference point. As such, they should also be specified.

Unlike ISAE (NZ) 3410, which requires compliance with PES 3, ISO 14064-3 does not appear to require compliance with ISO 14065 *Requirements for validation and verification bodies*. So, it is unclear whether compliance with the quality management requirements in ISO 14065 is mandatory when applying ISO 14064-3.

Although the ED proposes that the assurance practitioner is only required to comply with the quality managements requirements included in the ED alone and that there is no further requirement to comply with PES 3, this is not true for assurance practitioners from the accounting profession. Members of professional accounting bodies, including CA ANZ and CPA Australia, are required to comply with PES 3 issued by the XRB. We are concerned that this disparity could lead to a lack of consistency in the quality of assurance engagements. It creates disparity in terms of the credibility of the information being reported and on which users rely, as well as potential market inequity.

Based on the proposed quality management requirements in the ED alone, we have significant doubts whether this would result in a system of quality management that is equivalent to that required under PES 3. Investors expect a consistent high level of quality to be able to rely on GHG emissions disclosures. Having one GHG emissions assurance standard for all practitioners would ensure this expectation is met.

The ED effectively creates an alternate set of quality management requirements by selectively applying the high-level principles from PES 3 leading to additional costs even for firms already applying PES 3. The approach may also lead to unintended consequences and risks such as there being in place a “lower” level (or at least, a perceived lower level) of quality vis-à-vis that attained by complying with the requirements in PES 3.

Therefore, we recommend that the XRB not depart from the requirements of PES 3 for all assurance practitioners to ensure investors’ expectations around quality, consistency and comparability are met.

Assurance 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.

There is only one illustrative assurance report: Unmodified Limited Assurance Report, about which we have some concerns – refer to our comments in response to Question 6 below. More illustrative reports (for example reasonable assurance report, modified assurance reports) should be prepared and consulted on, to ensure that informed commentary and feedback is provided.

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?

We are concerned that the market will not understand the different terminology used to express the conclusion or opinion in the two proposed assurance standards. Moreover, report users may not understand the distinction between them. For example, it is not clear that “verification” under ISO 14064-3 has the same meaning as “assurance” under ISAE (NZ) 3410.

Furthermore, the assurance approach to certain categories of scope 3 emissions differs between ISAE (NZ) 3410 and ISO 14064-3. ISO 14064-3 treats some inputs to scope 3 emissions calculations as “projected” or “forecast” information. In such instances the term “validation” is used in the assurance conclusion in relation to such information as opposed to “verification”. Under ISAE (NZ) 3410 these inputs are treated as estimates and there is no differentiation in assurance approach.

It is challenging creating a new reporting and assurance regime that is responding to the evolving needs of stakeholders. However, creating multiple and different assurance standards, with differing terminology and differing underlying methodologies and approaches, is confusing, and potentially may undermine the success of the efforts being undertaken overall reporting climate-related disclosures.

Therefore, we reinforce our recommendation as detailed in our response to Question 1 that there should be one assurance standard in New Zealand for the assurance of greenhouse gas emissions disclosures, and that should be ISAE (NZ) 3410.

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

We support the optional inclusion of Key Matter, Emphasis of Matter and Other Matter paragraphs in the assurance report. This is on the basis that they enhance the communicative value of the assurance report, especially given it is the only tangible output of the engagement.

However, we have significant doubts whether following the proposed requirements in the ED alone in relation to Key Matter, Emphasis of Matter and Other Matter paragraphs would result in an output that is equivalent to that under ISA (NZ) 701 and ISA (NZ) 706, as issued by the XRB.

We are aware of feedback indicating that the inclusion of Key Matters in a limited assurance engagement would be inappropriate, on the basis there is a risk that users could take more assurance than is warranted – key matters are only currently reported under a reasonable assurance engagement.

In our view, inherent uncertainty should be primarily addressed by the preparer. We also note that preparers are required to disclose GHG emissions methods, assumptions, and uncertainty under paragraphs 52–54 of NZ CS 3 *General Requirements for Climate-related Disclosures*. This may be appropriately dealt with using an Emphasis of Matter paragraph.

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.

If the XRB proceeds with a multi-standard/multi-tiered model, it is incumbent on the XRB to ensure that the assurance practitioner’s report is clear on the differences in work effort, and ethical and quality management requirements. In our view, paragraph 37, which requires the identification of the standards that have been applied, could be expanded to include a more fulsome explanation of the work performed, and the regulatory environment within which the practitioner operates, and importantly, the differences that result from using the standard chosen from the two options available.

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?

The ED gives equal weighting to competence in assurance, and GHG emissions. In our view subject-matter specific skills and knowledge are important, but in an assurance standard the fundamental skills and competence are those related to assurance.

There is also a lack of clarity in the level of assurance skills and competence required as set out in paragraph A21 of the ED, and the level of GHG emissions skills and competence required as set out in paragraph A23 of the ED. The complexity of assurance engagements with respect to GHG emissions can vary. In some cases, the engagement can be straight forward. In other instances, the engagement can be relatively complex, especially when dealing with assurance over disclosures related to scope 3 emissions.

In the case of a relatively complex engagement, which may focus largely on the system used to record and process the data, and arithmetical application of the specified emissions factor, specialist competence from other experts in areas such as information systems, scientific and engineering may be required. However, that does not mean the assurance practitioner does not have the skills and competence required to undertake the engagement – most audit and assurance engagements involve the use of experts as part of a multi-disciplinary team led by an assurance specialist. This is extensively covered in international assurance standards including ISAE (NZ) 3410.

We recommend that the XRB provides further clarification on what is expected of the engagement leader to be deemed to have “sufficient” competence, as proposed in paragraph 18 of the ED.

Ordinarily we would expect specific minimum requirements in relation to assurance practitioners' competence to be prescribed by the applicable regulatory body. The *Financial Markets Conduct Act 2013* currently requires assurance over GHG emissions disclosures in climate statements for reporting periods ending on or after 27 October 2024. The proposed climate-related disclosures (CRD) assurance practitioner licensing regime⁷ will not commence until 2027. We are concerned that there will be no regulatory oversight of the assurance of GHG emissions disclosures during this period. In our view, this poses a significant risk to the trust and confidence users can place on such disclosures. It is possible that some assurance practitioners who are currently performing GHG emissions assurance engagements would not meet the future licensing requirements.

⁷ <https://www.mbie.govt.nz/have-your-say/assurance-over-climate-related-disclosures/>

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?

Appendix B of the CD, Summary comparison of international assurance standards (XRB versus ISO requirements), says “Requirements in relation to use of the work of another practitioner/experts are included in ISO 14066.” It does not elaborate further on those requirements in ISO 14066. ISO 14064-3 does not appear to require compliance with ISO 14066 *Competence requirements for GHG validation teams and verification teams*. So, it is unclear whether compliance with requirements in relation to use of the work of another practitioner/experts in ISO 14066 is mandatory when applying ISO 14064-3.

However, as discussed in our response to Question 1, to comply with ISAE (NZ) 3410, assurance practitioners must also comply with ISAE (NZ) 3000. Together, ISAE (NZ) 3410 and ISAE (NZ) 3000 impose more requirements in relation to reliance on the work of others than is proposed in the ED.

Based on the proposed requirements in relation to the work of others in the ED alone, we have significant doubts whether this would result in an output that is equivalent to that which would result from the use of the ISAE (NZ) standards.

Other comments

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

- A written representation is required under paragraph 58 of ISAE (NZ) 3410, but there is no specific requirement for a written representation in ISO 14064-3. Furthermore, there is no specific requirement for a written representation proposed in the ED. This is an example of a difference between the two standards, specifically where ISAE (NZ) 3410 is more onerous. It is an example of where requirements from the existing standard have not been adopted as the baseline/minimum requirement in the ED.
- In our view there are some significant omissions from the ED. For example, the auditor's responsibilities relating to fraud, planning and materiality. Additionally, the only requirements in the ED around documentation are in relation to conclusions regarding compliance with the fundamental principles (paragraph 10) and the system of quality management (paragraph 47). We do not believe the ED provides a sufficient baseline/minimum requirement in these areas.
- For the avoidance of doubt, paragraph 52 should make clear that an independent review is required for every engagement.

We have identified several improvements needed to the definitions in paragraph 3, including:

- Assurance client – as currently drafted it could be taken to mean the whole population of climate reporting entities, as opposed to “a” climate reporting entity – being one single entity.
- Assurance organisation – it is unclear why the term “Firm” is not used here as defined in EG Au4 *Glossary of Terms*, as issued by the XRB.

- Assurance practitioner – embedding the requirement to be “competent and independent” within this definition could have unintended consequences from an enforcement perspective, particularly given the lack of a licensing regime for assurance practitioners at this time.
- Engagement leader – it is unclear how this is distinct from the term “assurance practitioner”. Furthermore, these two terms appear to be used interchangeably throughout the ED.
- “Financial interest” is defined in paragraph A16 in the application material, instead of paragraph 3, and has a different definition to that in PES 1.
- Several definitions are omitted completely, for example:
 - “Assurance team” and “engagement team” are not defined. Additionally, it is not clear what the distinction is between the two terms. They appear to be used interchangeably throughout the ED.
 - “Immediate family member” in paragraphs 14(c), 15(c) and A19 is not defined.
 - “Senior personnel” in paragraph 16 is not defined.