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Submitted via email

Submission on:

Assurance Engagements over GHG Emissions Disclosures

By Carbon and Energy Professionals New Zealand

INTRODUCTION

CEP welcomes the opportunity to comment on the XRB's Assurance Engagements over GHG Emissions Disclosures consultation. It would be easy to drop-in a quick solution for setting Standards for assurance engagements but that would carry short and long term implications that would most likely not be in the best interests of New Zealand. We applaud the XRB for adopting a profession agnostic stance on assurance and taking a considered view on setting standards even though they may be temporary and are likely to be superseded in the medium term when MBIE has concluded its consultation process. Making poor decisions now could see highly capable practitioners excluded from the market to the long term detriment of New Zealand companies and the New Zealand economy.

CEP has an interest in climate-related financial disclosures as many of our members and certification holders will be directly involved in the assessment and mitigation of climate related risk and in the assurance process under consultation.

For context, CEP is the professional body that represents energy efficiency and carbon professionals in New Zealand. We train and certify individuals in a wide array of energy efficiency, carbon management and carbon measurement disciplines.

CEP is affiliated with Engineering New Zealand as a Collaborating Technical Society. The CEP membership comprises expert level practitioners in energy efficiency and carbon management, the people who will deliver carbon reductions across the New Zealand business environment.

CEP is a not-for-profit Incorporated Society. Supporting effective energy, carbon and sustainability management is embedded in our constitution.

We have separated our comments into two sections. Firstly, we respond to the questions raised in the consultation paper. Secondly, we provide some drafting comments.

RESPONSES TO QUESTIONS

Our comments on the questions raised by the XRB are:

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

We support the design principles as laid out. We do, however, wonder if Independence warrants inclusion as a design principle in its own right. While the stated Principles include the requirement the engagement leader ensures all those involved satisfy the required level of independence and the Exposure Draft includes a section dedicated to independence, the issue is fundamental and, arguably, should be included in the list of principles.

A point of detail in this section is that under the Importance of Ethics Principle, the document refers to professional and accreditation bodies placing ethical and

quality management requirements on their “members”. Best practice for organisations operating the certification of persons requires certifications/accreditations to be administered independently of any memberships. Accordingly, “members” should be replaced with “members and certification holders”.

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 standards in use in New Zealand.

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

We note the inclusion of independence as a fundamental principle (Consultation Document, P13) and wonder if this should be included in its own right as a design principle.

The first listed ethical requirement (Consultation Document, P13) includes “A prohibition to prevent an assurance organisation or an assurance practitioner from assuring their own work and prevent other services”

We believe there should be a further extension of this prohibition to prevent assurance providers dictating acceptable (and by default, not accepted) other suppliers of certain services. For example, credible software providers could be excluded from the market if assurance providers were in a position to influence decisions on which software is used, even if not their own. While this is not necessarily an issue of independence, it is an issue of market influence and assurance practitioners should not be in a position to unduly influence supplier selection of the assurance client.

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

The proposed quality management requirements seem reasonable.

However, we question the use of the word “satisfactory” in Requirement 49. It is conceivable that “satisfactory” could be associated with a specific outcome rather than full completion of the assurance process. If the word is inserted as a synonym for full it is probably redundant as “completion” does not require an adjective, a report would be either completed or not completed. If the insertion is intended to be interpreted as thorough, it would be better to use that word, or something similar.

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

The proposed requirements mostly seem appropriate. We believe the wording should be strengthened in regard to the credentials of the engagement leader and others. The consultation document states the exposure draft “encourages the assurance practitioner to disclose and details of the qualifications and experience of the engagement leader and others involved with the engagement if [our emphasis] they consider they would be useful”. It is important well-credentialed and highly competent practitioners are engaged in assurance provision. It would add negligible additional burden on assurance providers to list their credentials and in the unregulated environment we shall be under for the next few years at least, having providers list credentials will contribute to enhancing trust and confidence. We suggest the engagement leader, if not all engaged in the assurance, should be required to list credentials rather than encouraged. This should be reflected in inclusion of credential listing under Requirement 41 in the exposure draft and supplemented by something similar for team members.

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?

There is a significant difference in the demand on the assurance provider between the two standards in respect of forecasts (Consultation Document, illustrative wording p.16). The ISAE 3410 Standard is phrased in the negative, i.e. that “nothing has come to our attention that causes us to believe that the GHG disclosures are not prepared in accordance with the standards”. The ISO14064:3 Standard is phrased in the positive, i.e. that “the forecast is properly prepared”. This puts the onus on practitioners using the ISO Standard to endorse the methodology and inputs to the forecasts, not just confirm it has not picked up areas of concern. In effect, the wording in the ISO Standard requires the practitioner to endorse the methodology and inputs, whereas the ISAE wording requires practitioners only to identify obvious flaws. The ISO standard is, therefore, more stringent and the difference could, conceivable, skew the market more to the use of the more lax ISAE Standard. While, at first glance, this distinction may appear trivial, the onus on positively approving the methodology employed will carry significantly more risk and liability for the ISO practitioner. It would be beneficial if the XRB could address this imbalance.

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

These inclusions seem reasonable.

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

No.

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?

In the unregulated market that New Zealand will see for the next few years at least, pending the conclusions of the MBIE review of licensing in this area, it will be important to use mechanisms other than licensing to encourage high standards and competence. The Standards should, at the very least, require Engagement Leads list credentials and, we believe, this should also apply to supporting team members.

In its communications, The XRB should also be encouraging the commissioning of well-credentialed practitioners for assurance engagements.

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?

These are fair, although with the presented wording it isn't clear what 20b adds over 20a, obtaining an understanding would be a subset of evaluating competence and so 20b is redundant.

In Requirement 21, "and independence" may add clarification and weight to the sentence ending "expert's objectivity".

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

No, other than to congratulate the XRB on a sound start to developing appropriate Standards.

DRAFTING COMMENTS – EXPOSURE DRAFT

Page	Item	
3	3c	There should be an apostrophe at the end of users in the final line.
10	49	Use of the word satisfactory here could lead to ambiguity, see above.
11	51b	There should be a comma after from in the first line.
12	A3 bullet 2	The spelling of judgement is inconsistent with the remainder of the document.

We hope the XRB finds these comments useful and if there any areas of clarification required please just let us know.



CEO
Carbon and Energy Professionals New Zealand
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