

24 March 2023

External Reporting Board
PO Box 11250
Manners St Central
Wellington 6142

Submitted electronically

Dear Board Members,

Consultation Document: Assurance Engagements over GHG Emissions Disclosures

Thank you for the opportunity to comment on the proposed exposure draft for NZ SAE 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures.

It is clear that investors, regulators and communities value climate-related information from organisations in order to help them assess the impact of climate-related risks and opportunities and to make capital allocation and other decisions. Assurance practitioners have a critical role to play in protecting the public interest so that users can have trust and confidence in the information being assured.

High quality assurance requires appropriately qualified people undertaking assurance engagements in accordance with clear standards and guidance, supported by ethical and quality management standards. As noted in the Consultation Document, the “expectations that this work is carried out in accordance with rigorous professional and ethical standards remain” (page 7).

We are concerned that the exposure draft as designed does not meet this high-quality expectation.

In particular, we are concerned that the exposure draft allows practitioners to apply standards (in particular, ISOs) which are not publicly available, as this reduces transparency and enhances the potential for misunderstanding which is already inherent in a two standards approach. For example, even terminology differences between standards risk creating confusion and undue reliance by users as “validation” and “verification” (terms used by the ISO standard) are, in our opinion, too precise for reasonable and limited assurance engagements.

We are also concerned that the exposure draft does not require compliance with existing ethical and quality standards. This undermines the quality of the assurance obtained for these engagements, and introduces the ability for differentiation in product, potentially pricing high quality assurance providers out of the market (similar to the experience with AML/CFT assurance engagements). While we appreciate that the exposure draft has attempted to limit this by including quality and ethical principles in the exposure draft, these are not included in the context of the standards as a whole (including examples and guidance built up over many years) so are at risk of interpretation and implementation differences between practitioners.

We understand that given the short timeframe that there may be a need for some compromise but given the importance that GHG information (along with climate and other ESG reporting) will have for capital markets and other stakeholders, we believe that it is appropriate for the ethical and quality bar to be maintained at a high level. We note that the IAASB is developing an overarching standard for assurance on sustainability reporting in order to meet international demand for standards that drive consistent, high-quality assurance engagements which are:

- responsive to the public interest,
- suitable across all sustainability topics, and
- implementable by all assurance practitioners.

While we believe that changes are required to uphold quality in the current exposure draft, should significant changes not be implemented, we encourage the XRB to plan to transition as soon as possible to the IAASB's standard once issued. This will be important to ensure New Zealand entities can access funding and investment from international investors.

Ultimately it will be important to have one set of standards (including ethical and quality) which are publicly available, have sufficient guidance to be able to be implemented appropriately by practitioners, and able to be monitored against by the regulators to ensure a consistent high quality is maintained.

Our comments in response to the particular questions raised are included in Appendix 1. Please do not hesitate to contact us should you require further clarification on any of the matters discussed.

Yours sincerely



Melissa Collier
**National Leader – Assurance & Advisory
for Deloitte Limited**

Victoria Turner
**Partner
for Deloitte Limited**

Appendix 1: Specific Questions for Comment on Assurance Engagements over GHG Emissions Disclosures (NZ SAE 1)

Design principles and key decisions

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

It is clear that investors, regulators and communities value climate-related information from organisations in order to help them assess the impact of climate-related risks and opportunities and to make capital allocation and other decisions. Assurance practitioners have a critical role to play in protecting the public interest so that users can have trust and confidence in the information being assured.

High quality assurance requires appropriately qualified people undertaking assurance engagements in accordance with clear standards and guidance, supported by ethical and quality management standards. As noted in the Consultation Document, the “expectations that this work is carried out in accordance with rigorous professional and ethical standards remain”¹.

In general, we agree that the “design principles”² attempt to meet this expectation, especially in respect of decision making that will enable users to place trust and confidence in the GHG disclosures of climate reporting entities. However, we are concerned that the temporary nature of the standard has overly influenced the approach taken such that the standard does not ultimately meet this high-quality expectation.

In particular, we are concerned that the exposure draft allows practitioners to apply standards (in particular, ISOs) which are not publicly available, as this reduces transparency and enhances the potential for misunderstanding which is already inherent in a two standards approach. If different standards are permitted then they should all be publicly available with detailed comparisons also publicly available to enhance user understanding.

We are also concerned that the exposure draft does not require compliance with existing ethical and quality standards. This undermines the quality of the assurance obtained for these engagements, and introduces the ability for differentiation in product, potentially pricing high quality assurance providers out of the market (similar to the experience with AML/CFT assurance engagements). While we appreciate that the exposure draft has attempted to limit this by including quality and ethical principles in the exposure draft, these are not included in the context of the standards as a whole (including examples and guidance built up over many years) so are at risk of interpretation and implementation differences between practitioners.

We understand that given the short timeframe that there may be a need for some compromise but given the importance that GHG information (along with climate and other ESG reporting) will have for capital markets and other stakeholders, we believe that it is appropriate for the ethical and quality bar to be maintained at a high level.

We note that the IAASB is developing an overarching standard for assurance on sustainability reporting in order to meet international demand for standards that drive consistent, high-quality assurance engagements which are:

- responsive to the public interest,
- suitable across all sustainability topics, and
- implementable by all assurance practitioners.

While we believe that changes are required to uphold quality in the current exposure draft, should significant changes not be implemented, we encourage the XRB to plan to transition as soon as possible to the IAASB’s standard once issued. This will be important to ensure New Zealand entities can access funding and investment from international investors.

¹ Consultation Document: *Assurance Engagements over GHG Emissions Disclosures* page 7

² Consultation Document: *Assurance Engagements over GHG Emissions Disclosures* pages 9 - 10

Ultimately it will be important to have one set of standards (including ethical and quality) which are publicly available, have sufficient guidance to be able to be implemented appropriately by practitioners, and able to be monitored against by the regulators to ensure a consistent high quality is maintained.

Should one set of standards not be possible, we note that some clarity on the applicability of supporting standards would also be of benefit. The exposure draft requires the assurance practitioner to comply with either ISO 14064-3:2019 or ISAE (NZ) 3410³. If the practitioner follows ISAE (NZ) 3410, that standard also requires the practitioner to comply with ISAE (NZ) 3000, PES 1 and PES 3⁴ (such that the lead assurance practitioner is required to be a member of a firm that applies PES 3 or other requirements that are at least as demanding as PES-3). However, the exposure draft specifically states that PES 1, PES 3 and PES 4 do not apply⁵. There is no clarification as to whether the principles of the exposure draft override other standards. This lack of clarity increases the risk that interpretation differences will arise, creating inequality in service between practitioners, which may not be understood or appreciated by users (enhancing the 'expectation gap').

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 currently being used in New Zealand.

Ethical requirements, including independence

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

We are concerned that the exposure draft does not require compliance with existing ethical and quality standards. This undermines the quality of the assurance obtained for these engagements, and introduces the ability for differentiation in product, potentially pricing high quality assurance providers out of the market (similar to the experience with AML/CFT assurance engagements). While we appreciate that the exposure draft has attempted to limit this by including quality and ethical principles in the exposure draft, these are not included in the context of the standards as a whole (including examples and guidance built up over many years) so are at risk of interpretation and implementation differences between practitioners.

Should PES 1 not be mandated, then we note that:

- A more detailed comparison between the XRB's independence requirements and those in the ISO standards, including ISO 14066 should be made available.
- The exposure draft should be enhanced in its discussion of safeguards which is currently only referenced in the documentation requirements. This is an area where PES-1 is more fulsome.
- The requirement to consider long association would be enhanced by inclusion of the factors to consider as set out in PES-1.940.3.A3. As some practitioners may already have a long association with the entity, transitional guidance would also be beneficial around familiarity risk.
- The illustrative report on page 19 requires disclosure of the professional and ethical standards applied with reference to the NZICA Code of Ethics, which conflicts with the ISAE (NZ) 3410 requirement.
- PES 1 includes extensive guidance on what to do when non-compliance with laws and regulations is identified which should be included for all practitioners. It also requires assurance practitioners to consider whether to

³ Exposure draft NZ SAE 1 paragraph 6(a)

⁴ ISAE (NZ) 3410 paragraphs 9 - 10

⁵ Exposure draft NZ SAE 1 paragraphs 6(b) – (d)

report on matters of non-compliance with laws and regulations to the entity's external auditor, if any⁶. In our view, given the importance of climate reporting to investors and other users, and its possible financial ramifications, this should also be a requirement for climate assurance practitioners.

Quality management

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

As noted above in question 3, we are concerned that the exposure draft does not require compliance with existing ethical and quality standards. This undermines the quality of the assurance obtained for these engagements, and introduces the ability for differentiation in product, potentially pricing high quality assurance providers out of the market (similar to the experience with AML/CFT assurance engagements). While we appreciate that the exposure draft has attempted to limit this by including quality and ethical principles in the exposure draft, these are not included in the context of the standards as a whole (including examples and guidance built up over many years) so are at risk of interpretation and implementation differences between practitioners.

In our view, all practitioners should be required to apply the same or similar ethical and quality management standards in order to maintain public trust, confidence and transparency. This also enables practitioners to be consistently monitored by the regulators to ensure high quality is maintained.

Should PES 3 not be mandated, then we note that:

- A detailed comparison of the ISO quality management requirements compared to PES 3 should be provided.
- Consideration should be given to whether other principles and guidance should be included in the exposure draft to ensure that all practitioners operate within high-quality environments. For example, PES 3 includes monitoring expectations, including inspection of completed engagements on a cyclical basis for each engagement partner⁷, which is not specified in this standard. As ISO standards are not publicly available, we have not performed a comparison to determine whether this is a significant difference or not.

In addition, the requirements are expressed in reference to the conduct of GHG disclosures assurance engagements. Firms that already comply with PES 3 will have system documentation which may not specifically talk to GHG disclosures assurance engagements, but more generally to all audit, assurance and related services engagements (as specified in PES 3). We would assume that this is acceptable.

Should PES 4 not be mandated, then we note that:

- The reviewer requirements in 52(b), (e) and (f) are written very broadly which may lead independent reviewers to review the majority of the engagement file. PES 4 by way of comparison focuses on significant matters and judgements with additional guidance on the factors that may change the nature and extent of the reviewer's procedures⁸. In our view the PES 4 approach is more appropriate given the nature of the reviewer's role.
- PES 4 also has a specific requirement for reviewers to evaluate whether appropriate consultation has taken place on difficult or contentious matters or matters involving differences of opinion⁹ which would also be appropriate for a GHG assurance engagement.
- There is no discussion on what it means for an independent reviewer to be 'competent'. In our view, the independent reviewer should have a similar level of competence to that required by the engagement leader.
- The reviewer is required to be independent from the assurance client and the GHG disclosures but it is not clear how to apply this in practice. For example, if the reviewer for the GHG disclosures were also the engagement quality reviewer for another assurance engagement performed for the client, would they be

⁶ Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) paragraph R260.15 and 260.15 A1

⁷ Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements* (PES 3) paragraph 38

⁸ Professional and Ethical Standard 4 *Engagement Quality Reviews* (PES 4), refer paragraphs 25 and NZA30.1

⁹ PES 4 paragraph 25(e)

independent? What if the reviewer had provided unrelated advisory services to an insignificant component of the group?

- The reviewer is only required to complete their review before the assurance report is issued¹⁰. There is no guidance on the need for the reviewer to have sufficient time to perform their review, nor the need for their procedures to be performed on a timely basis throughout all stages of the engagement¹¹.

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.

We agree that the independent assurance report should clearly identify the information subject to assurance, and include the conclusion upfront (noting however that this differs to illustrative examples included in ISAE (NZ) 3410).

We disagree with the inclusion of Key Matters particularly for limited assurance engagements and we explain this further in question 7. We also disagree with the inclusion of information on materiality, and have some comments on the illustrative report wording as discussed in question 8.

We also note that the exposure draft does not contemplate the need for a modified opinion except when in relation to key matters¹². ISAE (NZ) 3000 discusses when a modified conclusion may be required as well as examples that may be helpful for practitioners¹³.

We note that there are examples of an 'Other Matter' paragraph in paragraphs 24 and 25 in respect of comparative information. Additional examples may be helpful for practitioners.

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?

Different terminology between standards risks creating confusion and undue reliance by users. In particular, terms such as "validation" and "verification" as used in the ISO standard are, in our opinion, too precise to be used for reasonable and limited assurance engagements and may not be understood by users. It would be better if there was consistent reporting by practitioners.

¹⁰ Exposure draft NZ SAE 1 paragraph 54

¹¹ PES 4 paragraphs 18, 24 and A29

¹² Exposure draft NZ SAE 1 paragraph A4

¹³ ISAE (NZ) 3000 paragraphs 74 – 77, paragraph A183 and paragraphs A189 – A192

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

We disagree with the requirement to include Key Matters, especially where the practitioner is undertaking a limited assurance engagement.

The IAASB sought feedback in 2021 on the reporting of key matters as part of its post-implementation review¹⁴, including whether assurance reports for other types of engagements should include key audit matters. Several concerns were reported as part of this analysis, and in particular concerns that:

- “Users may inappropriately perceive a greater level of assurance if KAM is presented for a limited assurance engagement,
- Costs may outweigh benefits for these types of engagements” and
- “Need to maintain the distinction between other types of assurance engagements and audits of financial statements”.

In our view, and given the temporary nature of the standard, we do not believe it is appropriate to go ahead of international standards in this respect. We suggest that this is either not included at this time, or is only included as an encouraged disclosure for reasonable assurance engagements.

We agree with the inclusion of inherent uncertainty, emphasis of matter and other matter paragraphs as these are well established in existing assurance standards.

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.

Independence – relationships

We do not believe that it is necessary to specifically state in the assurance report that the assurance organisation is not permitted to be involved in the preparation of the GHG information as doing so may compromise independence¹⁵. The disclosure of any relationships with the assurance client or its subsidiaries, should be sufficient to inform the users¹⁶. The prohibition from preparation is also clearly specified in the standard.

Ultimately, if an assurance provider is both the statutory auditor of the financial statements and the assurance provider over GHG disclosures in the Climate Related Disclosures, then the relationships paragraph in these reports should be consistent for users (especially as both reports may end up being included in the annual report).

Materiality

While materiality has been included as an optional disclosure for inclusion in the assurance report, we do not believe that it is appropriate to include materiality considerations at this time.

- Materiality can be a particularly difficult concept to explain when providing assurance over non-financial information, particularly when qualitative factors are more relevant or where more than one materiality assessment is applied. ISAE (NZ) 3410 for example notes that “in some cases, there are particular types of emissions or disclosures for which misstatements of lesser or greater amounts than materiality for the GHG statement in its entirety are acceptable. For example, the assurance practitioner may consider it appropriate to set a lower or greater materiality for emissions from a particular jurisdiction, or for a particular gas, scope or facility”¹⁷. If such information were provided, then it may risk being misleading, or confusing for users.
- Procedures performed in limited assurance engagements are limited. The inclusion of materiality information may lead users to perceive that a greater level of assurance has been obtained than is the case (increasing the expectation gap).

¹⁴ [IAASB-Feedback-statement-auditor-reporting-implementation-review.pdf \(ifac.org\)](#) page 14

¹⁵ Exposure draft NZ SAE 1 paragraph 39

¹⁶ Exposure draft NZ SAE 1 paragraph 38

¹⁷ ISAE (NZ) 3410 paragraph A49

Illustrative report

- It would be helpful if an illustrative report is provided where a practitioner applies ISAE (NZ) 3410. That standard has the heading Our Independence and Quality Management which is discussed differently to this standard.
- We are aware of scenarios where entities are currently obtaining limited assurance over scope 3 GHG emissions and reasonable assurance over scope 1 and 2 GHG emissions. It would be helpful if an illustrative report is provided to assist practitioners when different levels of assurance are being obtained in the same engagement.
- We note that the current wording of the other relationships paragraph does not make it clear that there could be more than one GHG related engagement (assurance over GHG emissions in the climate statement, and assurance over disclosures in a separate GHG report). We propose amended wording as follows: “Other than in our capacity as assurance practitioners for this engagement, and the provision of assurance over ABC’s separate Greenhouse Gas Report, we have no relationship with, or interests, in ABC.”

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?

We do not consider that the current wording is appropriate. The exposure draft only specifies that an engagement leader should have ‘sufficient’ competence both in assurance skills and skills in the measurement and reporting of GHG emissions¹⁸. Guidance notes that skills and competence are developed through extensive training and practical application¹⁹ but this is not linked to what is “sufficient” nor to whether this is the competence required by the engagement leader, or by the team as a whole.

We prefer the approach included in ISAE (NZ) 3410 which requires the lead assurance practitioner to “have competence in assurance skills and techniques developed through extensive training and practical application, and sufficient competence in the quantification and reporting of emissions, to accept responsibility for the assurance conclusion”²⁰. This expands to require the lead assurance practitioner to be satisfied with the collective competence of the team.

In addition, skills and competence necessary to undertake an assurance engagement only references risk assessment methodologies, sampling techniques and GHG information systems and internal controls.²¹ In our view, experience in the exercise of professional scepticism and documentation of audit evidence obtained should also be referenced.

¹⁸ Exposure draft NZ SAE 1 paragraph 18

¹⁹ Exposure draft NZ SAE 1 paragraph A20

²⁰ ISAE (NZ) 3410 paragraph 16

²¹ Exposure draft NZ SAE 1 paragraph A21

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?

While the requirements appear appropriate, we note that ISAE (NZ) 3000 has more extensive guidance on the considerations when an assurance practitioner's expert is involved on the engagement which would help provide context for practitioners not familiar with those assurance standards²².

We note that ISAE (NZ) 3000 includes guidance if an assurance practitioner's report were to reference the use of an expert²³. This may be appropriate guidance if key matters were still mandated in the final standard (which is not our recommendation as noted above).

Other comments

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

Scope of the standard

We note that the scope of the standard is in relation to assurance over the parts of the climate standards relating to greenhouse gas emissions (GHG) required by the Financial Markets Conduct Act 2013 and that the standard does not set requirements or provide guidance for assurance engagements over other parts of the climate statements²⁴.

As the Act doesn't prevent assurance engagements from covering the whole, or other parts, of the climate statements²⁵, we are not clear on what the expectation is for practitioners. In our view, it would not be appropriate to apply this standard to a broader assurance engagement given its limited scope but this raises other issues as to whether multiple reports should be provided. Ultimately, we appreciate that the work being done by the IAASB is scoped sufficiently to cover this situation so some fragmentation or confusion may be acceptable until the IAASB project is completed. We therefore encourage the XRB to adopt the new international standard on a timely basis.

Other information

Other information is defined in section 3(h) as "information (other than GHG disclosures and the assurance report thereon) which is included in a document containing the GHG disclosures and the assurance report thereon".

The Financial Markets Conduct Act 2013 section 461ZJ notes that a climate reporting entity must include either a copy of the climate statements prepared by the entity, or the address (or a link to) the Internet site where a copy of those statements can be accessed, in the entity's annual report.

It is therefore not clear whether the definition of other information would include the annual report or not, especially where the link only approach is taken.

In addition, we note that ISAE (NZ) 3410²⁶ provides examples on what further action to take if inconsistencies are identified which might be helpful for all practitioners.

²² ISAE (NZ) 3000 (Revised) paragraphs A121 – A135.

²³ ISAE (NZ) 3000 (Revised) paragraphs 70, A186-A188

²⁴ Exposure draft NZ SAE 1 paragraphs 1-2

²⁵ Exposure draft NZ SAE 1 paragraph A1

²⁶ ISAE (NZ) 3410 paragraph A126

Written representations

The exposure draft does not include a specific requirement to request a written representation letter and it is an identified area of difference between standards²⁷. In our view, written representations should be required. They ensure that the responsible party confirms that they believe they have fulfilled their responsibility for the preparation of the GHG disclosures **and** for the completeness of the information provided to the assurance practitioner.

We note the comment in the Consultation Document that “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”²⁸. We have concerns with this statement because the provision of representations cannot overcome issues identified in respect of the integrity or reliability of GHG disclosures, and in fact the quality of representations is diminished in this circumstance. Further, a responsible party’s refusal to provide a representation when one is required under ISAE (NZ) 3410 has significant ramifications for the assurance practitioner (should disclaim their conclusion or withdraw from the engagement)²⁹. In our view, it would be confusing for users if some practitioners disclaim a conclusion (or withdraw) because of an entity failing to provide a representation letter, when other practitioners do not obtain it at all. Ultimately, a written representation either enhances quality (as the refusal to provide one can be a strong indicator of an integrity or reliability matter) or is quality neutral, so should be obtained.

Objective of assurance

We note that the objective of the assurance practitioner is “to obtain” assurance and “to report” their findings or “express” a conclusion³⁰. The exposure draft uses the phrase “provide assurance”³¹ which is inconsistent with the objectives of audit and assurance standards.

²⁷ Consultation document page 27

²⁸ Consultation document page 27

²⁹ ISAE (NZ) 3410 paragraph 60

³⁰ ISAE (NZ) 3410 paragraph 13, as is consistent with ISAE (NZ) 3000 paragraph 10 and ISAs (NZ) 200 paragraph 11

³¹ Exposure draft NZ SAE 1 paragraph 19