



23 March 2023

External Reporting Board

PO Box 11250, Manners St Central,

Wellington 6142.

Submitted online to: [Consultations - assurance standards in development](#)

Attention: April Mackenzie

Tēnā koe April

Exposure Draft: Assurance over GHG Emissions Disclosures

We appreciate the opportunity to comment on the External Reporting Board's (XRB's) Exposure Draft: *Assurance over GHG Emissions Disclosures* (ED).

Overall, we support the development of a standard that will apply to all assurance practitioners that provide assurance on greenhouse gas (GHG) emissions disclosures and, in future, other climate-related disclosures (CRD).

A standard that enables high-quality assurance engagements during the interim period

The proposed standard will be effective during an interim period where FMC reporting entities' reporting on GHG emissions disclosures, and the assurance thereof, will be mandatory for the first time. During this period there will be no CRD assurance regulation or accreditation in place as an oversight mechanism.

Given the importance of FMC reporting entities, and the information being reported, the GHG emissions disclosures and assurance report thereon will be of high interest and subject to scrutiny by the wider public. The proposed standard will play an important role, in the interim, to support high-quality assurance engagements and should therefore set the highest level of quality management and ethical requirements.

Complying with the professional and ethical standards PES 1, PES 3 and PES 4 form an integral part of high-quality assurance engagements and are the premise on which the ISAEs NZ are based. Therefore, we are of the view that the assurance practitioner needs to comply with those professional and ethical standards.

All assurance engagements performed on behalf of the Auditor-General will be performed at the same level of integrity, ethics, and quality. Assurance practitioners, performing these engagements on the Auditor-General's behalf, will therefore be required to comply with the proposed standard and, in addition, comply with the Auditor-General's quality management, independence and ethical standards.

We acknowledge that the proposed standard contains the essential elements of the XRB's PESs and we support the inclusion of explicit prohibitions on self-review threats; performing management responsibilities; and having financial interests in the entity that is being assured.

Incorporating ISO 14064-3: 2019 into the standard (by reference)

It is important for all stakeholders of the GHG emissions disclosures and the assurance report thereon, to understand the assurance standards that were applied in the assurance engagement. Stakeholders should be able to engage with the standards and have the opportunity to influence them. A transparent, independent standard setting process that weighs and balances all stakeholders' views (and includes necessary oversight), is essential to be responsive to the public interest.

ISO 14064-3 is not a publicly available standard, because it is currently only available to ISO members. It is our understanding that only full members of ISO can influence the development or amendment to ISO standards.

We therefore question whether incorporating ISO 14064-3 in the proposed standard (by reference), is “otherwise appropriate”, and complies with the principles of good law making outlined in the LDAC Legislation Guidelines¹ (which include the principles of accessibility and legitimacy).

Further details of our overall response are provided to the individual Consultation Questions attached to this letter.

If you have any questions about our submission, please contact Miranda Biggins Director, Audit Operations – Audit Quality Group at Miranda.Biggins@oag.parliament.nz. As our Office does with our other submissions, we will publish this on our website in due course.

Ngā mihi nui,



Todd Beardsworth
Assistant Auditor-General – Audit Quality

¹ [LDAC Legislation Guidelines 2021](#) at cl 15.3.

Responses to the Consultation Questions

Design principles and key decisions

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

We agree that the design principles applied in the development of the proposed standard are appropriate. However, we do not agree with key decisions taken as described below.

Trust and confidence

We do not support the proposal to give practitioners the option of complying with either ISO 14064-3 or ISAE 3410.

In terms of section 25(a) of the Financial Reporting Act 2013 (FR Act), once the XRB issues the proposed standard under section 12 of the FR Act (and complies with the publishing requirements in Part 3 of the Legislation Act 2019), the proposed standard will become secondary legislation.

Consequently, as empowered by section 64(1) of the Legislation Act 2019, ISO 14064-3 will be incorporated into the standard (by reference).

We note that before secondary legislation incorporating material² (i.e., ISO 14064-3) by reference in reliance on section 64 is made, the Chief Executive of the administering agency (in this case, the External Reporting Board), must:³

- give public notice of the proposal to incorporate the material, of the reasons for the proposal, and of how the material has been made publicly available; and
- ensure that copies of the proposed material are publicly available in that way; and
- allow a reasonable opportunity for persons to comment on the proposal; and
- after considering any comments made and having regard to the purpose of the Legislation Act 2019, be satisfied that:
 - the secondary legislation clearly identifies the material incorporated; and
 - the means of making the material publicly available is sufficient to enable persons to whom the law applies to find and obtain copies of the material incorporated; and
 - it is otherwise appropriate to incorporate the proposed material as part of the secondary legislation.

We raise these points because, while the Board is plainly giving public notice of its intention to incorporate ISO 14064-3 into the standard by reference (as part of this consultation process), we are unclear how it will be made publicly available (given that it is currently only available to ISO members).

We also question whether incorporating an international standard by reference (which only full members of the International Organisation for Standardisation are permitted to provide input into), is “otherwise appropriate”, and complies with the principles of good law making outlined in the LDAC Legislation Guidelines⁴ (which include the principles of accessibility and legitimacy).

We note that there are three levels of membership and only full members can develop or make any future changes to the ISO standards. Correspondent members may observe the development of standards and subscription members can only apply the standards.

This contrasts with the auditing and assurance standards set by the XRB or internationally where all stakeholders can influence the standards.

An alternative approach would be to require assurance practitioners to comply with ISAE (NZ) 3410 and incorporate into the proposed standard, guidance based on ISO 14064-3, which the XRB determined to be appropriate.

² 'Material' includes a standard of an international organisation, [section 64\(1\)\(a\)](#) of the Legislation Act 2019.

³ [Cl 1, Schedule 2](#) of the Legislation Act 2019.

⁴ [LDAC Legislation Guidelines 2021](#) at cl 15.3.

Accountability and clarity

We agree with placing responsibility on the engagement leader to ensure that all those involved in the engagement meet the required level of independence and competence and collectively enable compliance with the requirements of the proposed standard.

Importance of quality and ethics

The application of PES 1, PES 3 and PES 4 should be mandatory for all assurance practitioners who wish to provide assurance over GHG emissions and other sustainability related disclosures. This approach is appropriate because the professional and ethical standards form the basis for applying the ISAE NZ standards. Complying with the professional and ethical standards are widely regarded as being in the public interest and forms an integral part of high-quality assurance engagements.

We also note that climate statements will likely sit within an entities annual report. It does not seem appropriate that two assured sections of an annual report could be underpinned by potentially differing professional and ethical standards.

The Auditor-General would only permit assurance practitioners, performing these engagements on his behalf, to comply with the Auditor-General's Auditing Standards. Assurance practitioners of multi-national audit firms may also be required to comply with global policies on ethical requirements and quality management. This scenario has the potential to result in an unlevel playing field (that is, those practitioners who are members of a professional accounting body in public practice may be held to higher standards at additional cost).

If the above recommendation is not followed, we provide additional commentary in the paragraphs that follow to improve the proposed standard.

We support the inclusion of ethical and independence requirements in the proposed standard, particularly the prohibitions in relation to self-review threats, performing management's responsibilities, and having financial interests in the entity being assured. We also support the inclusion of quality management requirements, in particular an 'independent review' of the engagement team's work prior to issuing the assurance report.

We agree with the reference to the 'assurance organisation' and the 'assurance practitioner' in paragraphs 11, 12 and 39 in relation to independence, because assurance organisations often establish internal separation requirements to allow different practitioners of the same organisation to provide assurance and preparation or advisory services to the same entity. This is consistent with our own standard, AG-PES 1 which does not permit internal separation as a mitigation for self-review threats.

However, assurance practitioners who are not members of a professional accounting body in public practice may not be familiar with the concepts described in the XRB's PESs and how they are applied in practice. Some requirements have to be described in more detail to enable an equal understanding of the proposed standard's expectations. Comprehensive guidance and application material are also needed to enable consistent understanding and application of the proposed standard.

In our view, the following are examples of circumstances where concepts from PES 1 are not described in sufficient detail:

- Paragraph 7(a) describes independence as freedom from conditions or relationships which would compromise integrity or objectivity but does not describe that independence could be based on perception as well as fact. In general independence considerations require professional judgement. PES 1 provides examples/scenarios to illustrate the fundamental principles of ethical behaviour and how they should be applied. This may be ineffective when the proposed standard does not require compliance with PES 1.
- Paragraph 11 refers to a 'reasonable and informed third party' with some explanation in the application material. This is an important concept that is also applied more strictly in our own standard, AG-PES 1 i.e., the reasonable and informed party is the general public who considers information that is only available in the public domain.
- Paragraph 16 requires the assurance practitioner to address familiarity threats that arise due to long association with the assurance client. PES 1 contains rotation and cooling-off periods for assurance engagements which are currently applied by assurance practitioners who perform engagements under the XRB's standards.

The paragraph also refers to 'assurance organisation'. It is unclear whether the intention is that 'firm rotation' would also have to take place at regular intervals. This should be clarified.

- Paragraph 17 requires independence during the engagement and for the reporting period. This does not seem sufficient because the assurance practitioner could have assisted with baseline information or the corresponding information.

The following illustrates our comment in respect of PES 3 and PES 4:

- Paragraphs 42 to 56 of the proposed standard describe what is required in terms of quality management and independent reviews. There is however no application material for the assurance practitioner to consider and therefore may not support consistent application by all assurance practitioners.

Other requirements that may not be applied consistently by all assurance practitioners (because the requirements contain no application material for the assurance practitioner to consider) include:

- Paragraph 22 requires the risk of management bias to be considered in relation to GHG disclosures. This is an important concept that we fully support because it promotes professional scepticism. We recommend that application material be included similar to the information contained in ISA NZ 540 (Revised) to clarify the XRB's expectation. Also refer to our response to question 11 in respect of management commentary and to issues such as 'greenwashing'.
- Paragraph 25(a) requires the assurance practitioner to perform procedures appropriate in the circumstances where a material misstatement is identified. There is no application material on the work effort needed to meet the requirement. We recommend that application material be included similar to the information contained in ISA NZ 450 (Revised) to clarify the XRB's expectation.
- Paragraph 28 refers to excluded information. Excluded information is captured by the 'other information' requirements in the proposed standard. It would be helpful to give examples of what the XRB intends by the term 'excluded information' in the proposed standard. The proposed standard doesn't appear to address the completeness of the disclosures subject to assurance. Those disclosures may be completely missing from the disclosure document or may be disclosed in a part of the disclosure document that is not being assured, which could result in material misstatements.
- Paragraphs 31 to 33 describe Key matters, which is a new concept that is derived from ISA NZ 701. More application material from that standard should be included in the proposed standard so that assurance practitioners that are not familiar with ISA NZ 701 can understand the concept.

Transparency

We strongly support transparency about the assurance engagement by providing assurance practitioners the tools that will enable them to enhance the communicative value of the assurance report. We support 'key matters' being reported in the assurance report for both limited, reasonable or mixed assurance scenarios and recommend that 'key matters' be mandatory for all engagements to enable consistent application by all assurance practitioners. This may eliminate any possible stakeholder confusion as to why only some entities' assurance reports contain a 'key matter'.

We note that the IAASB in their development of the international sustainability assurance standard are not proposing 'key matters' for the following reasons:

- *Users may perceive a greater level of assurance than that provided in a limited assurance engagement;*
- *Costs may outweigh benefits for these types of engagements; and*
- *A need to maintain a clear distinction between other types of assurance engagements and audits of financial statements, including flexibility in reporting for the former.*

We do not agree with the above reasons because:

- 'Key matters' relate to matters that were of most significance during the engagement. In a limited assurance engagement where the assurance practitioner becomes aware of a possible material misstatement, additional work will be required to reach a conclusion. Such a scenario would be regarded as a 'key matter' and therefore appropriate for communication in the assurance report.
- The benefits of being transparent to the users of the assurance report should outweigh the cost.
- Reporting on 'key matters' does not make the assurance report less flexible or distinguishable from an audit report on financial statements.

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 currently apply the Auditor-General's auditing standard: AG-4 *The audit of performance reports* in the public sector where a public entity reports climate-related disclosures within their service performance information.

We are also aware of Assurance Standard (AA1000AS v3) which is issued by AccountAbility and applied globally for sustainability assurance engagements.

Ethical requirements, including independence

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

As described in our letter and our response to question 1, we recommend that PES 1 be applied by all assurance practitioners. If our recommendation is not accepted, we recommend that the ethical requirements and relevant application material be expanded in the proposed standard so that they create a level playing field, are understandable by all assurance practitioners and can be applied consistently.

This is important because, during the interim period there will be no CRD assurance regulation or accreditation in place as an oversight mechanism.

Quality management

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

As described in our letter and our response to question 1, we recommend that PES 3 and PES 4 be applied by all assurance practitioners. If our recommendation is not accepted, we recommend that the quality management requirements be expanded with sufficient application material so that they create a level playing field, are understandable by all assurance practitioners and can be applied consistently.

This is important because, during the interim period there will be no CRD assurance regulation or accreditation in place as an oversight mechanism.

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.

Please refer to question 1 for our response on 'key matters'.

Additional comments on requirements and application material are described in the paragraphs that follow.

In the proposed standard, the term 'intended users' has been used for the 'addressee' of assurance report. This may be confusing when the auditor's report on the financial statements of FMC reporting entities is addressed to the shareholders. We recommend that the proposed standard explains who the 'addressee' of the assurance report is. If it is intended that the assurance report may be addressed to parties other than the shareholders, this should be made clear, for example, it may be that the addressee has been agreed.

Paragraph 24 requires the inclusion of an Other Matter paragraph to describe which comparatives have not been subject to assurance. Application material is needed to describe when this scenario would be

appropriate. We recommend that the scope section of the assurance report describe the information that was not subject to assurance, whether it be current year or comparative information.

Paragraph 25(b) requires an ‘Other Matter’ paragraph when the comparative information is materially misstated and not restated after being identified. We consider that the assurance opinion should be qualified if the comparative information has material misstatements (rather than merely stated in an ‘Other Matter’ paragraph).

We agree with paragraph 29 requiring the conclusion paragraph to be included first.

Paragraph 30 requires clear identification of the GHG disclosures that are subject to each level of assurance and the related conclusion. We appreciate that the proposed standard acknowledges that there will be circumstances where the disclosures may be subject to different levels of assurance. This is because NZCS-1 states “This Standard requires that this assurance engagement is a limited assurance engagement at a minimum.” The proposed standard is therefore appropriately designed to work with both reasonable and limited assurance engagements, as is ISAE 3410.

We support reasonable assurance for scope 1 and scope 2 GHG emissions disclosures. Our experience is that reasonable assurance can be provided for scope 3 GHG emissions also, but not without modifying the opinion. We believe that useful information can be provided to stakeholders on the robustness and evidential support for scope 3 GHG emissions through other means, for example:

- The scope section of the assurance report can be used to describe more appropriately what has been included/excluded with levels of assurance that are being provided.
- The summary of work performed can describe the work performed in detail – this section of a limited assurance report is generally described in more detail than for a reasonable assurance engagement.
- There is a separate section on inherent limitations where problematic areas related to scope 3 emissions could be described.
- The ‘key matter’ section can be used to describe the issue, the procedures performed and what the outcome of the procedures were.

We note that the proposed standard only includes an illustrative example of a limited assurance report. However, entities may agree with the assurance practitioner to have reasonable assurance or different levels of assurance over the different scopes of the GHG information. It is important to ensure that there is clarity over what is subject to each level of assurance and how that is communicated to users in the assurance report. We therefore recommend that the XRB include in the proposed standard, illustrative examples of a reasonable assurance report and a mixed assurance report (that includes both limited and reasonable assurance opinions) in addition to the limited assurance report. Below is a hypothetical example of what the opinion in terms of paragraph 30, could look like:

Subject matter

We have been engaged to provide a reasonable assurance opinion on the metrics listed in table (a) and a limited assurance conclusion on the metrics listed in table (b) below. The metrics described below have been prepared in accordance with NZ CS 1.

(a) Reasonable assurance on the following metrics		
Category	Metrics	Scope of Coverage
GHG emissions Scope 1	<ul style="list-style-type: none"> • ... (pg xx), • ... (pg xx) 	ABC Group
GHG emissions Scope 2	<ul style="list-style-type: none"> • ... (pg xx), • ... (pg xx) 	ABC operations at sites 1, 2 and 3

(b) Limited assurance on the following metrics		
Category	Metrics	Scope of Coverage
GHG emissions Scope 3	<ul style="list-style-type: none"> • ... (pg xx), • ... (pg xx) 	ABC Group

Reasonable Assurance Opinion and Limited Assurance Conclusion

(a) *Reasonable assurance opinion*

In our opinion [*and subject to the inherent limitations outlined elsewhere in this report*], the metrics set out in section (a) of the Subject Matter paragraph above for the year ended ... are prepared, in all material respects, in accordance with NZ CS 1.

(b) *Limited assurance conclusion*

Based on the procedures we have performed and the evidence we have obtained [*and subject to the inherent limitations outlined elsewhere in this report*], nothing has come to our attention that causes us to believe that the metrics as set out in section (b) of the Subject Matter paragraph above for the year ended ... are not prepared, in all material respects, in accordance with NZ CS 1.

Paragraphs 34 and 35 describe 'Emphasis of Matter' paragraphs but the proposed standard does not describe the requirements for including 'Other Matter' paragraphs in the assurance report, yet the requirements in paragraphs 24 and 25 refer to 'Other Matter' paragraphs.

Illustrative wording for inherent uncertainties in preparing GHG disclosures should be provided in the proposed standard.

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?

The ISO uses different terminology to that of the ISAEs, which has the potential to create confusion in the market when users of the assurance report consider these terms and whether they have the same meaning. We recommend that the XRB require the use of uniform terminology and clearly define all terms that are used in the proposed standard to ensure all assurance practitioners, and stakeholders have a common understanding of those terms.

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

Please refer to our responses to questions 1 and 5.

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.

Please refer to our responses provided to questions 5, 6 and 11.

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?

Please refer to our response to question 1.

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?

Paragraph 20 contains the main proposed requirement to consider when using the work of an expert. ISA NZ 500 and ISA NZ 620 contain further application material on how to meet the requirements in (a)-(c) depending on the circumstances. The proposed requirement does not distinguish between the assurance

practitioner's expert and management's expert, or under which circumstances the expert is not part of the engagement team.

The phrase 'Rely on the work of an expert' does not adequately describe what the assurance practitioner should do. We recommend rephrasing the requirement to "...intends to use the work of an expert as evidence...".

The terms "auditor's expert" and "management's expert" are defined terms in ISA NZ 500 and ISA NZ 620 that should form part of the definition section of the proposed standard, appropriately adapted for the GHG assurance engagement.

We also recommend that the XRB consider including guidance on the 'use of the work of another practitioner'. For example, how could another practitioner's work on GHG disclosures (performed for another purpose and potentially already completed) be used. This is of particular relevance in the current New Zealand environment.

Other comments

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

Other information

The assurance practitioner is required to 'take further action as appropriate' when there are inconsistencies or misstatements of fact in the other information. The proposed standard does not contain any explanation of what the further action might be. There are a number of scenarios and the assurance practitioner's required response to each scenario should be described in the proposed standard.

Examples of what should be included in the proposed standard include: Does the other information or the subject matter contain the 'error'; is the error material; is management prepared to correct the error if material; if not modify the assurance conclusion if the subject matter contained the error or include an Other Matter paragraph if the other information contained the error.

Management commentary about GHG disclosures

We consider it likely that some entities will provide management commentary on their GHG disclosures. We recommend that the proposed standard provides more requirements and guidance in relation to management commentary and to issues such as 'greenwashing'. Also refer to our response to question 1 on management bias in respect of paragraph 22.