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By email: assurance@xrb.govt.nz

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Dear Marje

Thank you for the opportunity to provide feedback on the consultation over the proposed assurance standard (NZ SAE 1) for assurance engagements relating to greenhouse gas emissions (GHG) specifically in response to the amendments to the FMC Act for climate-related disclosures by Climate Reporting Entity's (CRE's).

Our response has been framed with reference to, and consideration of, the wider quality standards and expectations that, in our view, are fundamental to the achievement of the quality objectives and the maintenance of trust and confidence of users of assurance reports. We appreciate the process that the XRB has undertaken to compare ISO requirements with existing ISAE and PES standards. Appendix B of the Consultation provides a comparison of requirements at an engagement level, but we question whether Firm level quality requirements, that are considered fundamental to achieve quality outcomes in other audit and assurance engagements, have been sufficiently captured. We have been unable to confirm whether the ISO framework contains appropriate Firm level quality requirements. We also suggest further guidance on relevant engagement level quality requirements defined in PES 1, 3 and 4 is necessary to ensure a consistent approach to delivering quality engagements for practitioners delivering services under ISO standards and to provide a consistent platform against which to measure quality.

We have commented on the specific questions below. If you have any questions in respect of this submission, please feel free to contact me.

Yours sincerely

A handwritten signature in black ink that reads 'Jonathan Skilton'.

Jonathan Skilton



Design principles and key decisions

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

The Design Principles adopted by the XRB incorporate the fundamental principles of Trust and Confidence. It is widely acknowledged that Climate Related Disclosures will be, if not already, key drivers for investor decisions. Trust and confidence in those disclosures will be critical to the integrity of the capital markets.

While there are still questions over who should undertake these engagements and the competencies required, the broader principles of trust and confidence in the assurance report and the procedures designed and performed to obtain sufficient appropriate evidence to support the assurance conclusions must not be undermined.

In our view, a professionally agnostic standard risks creating confusion in the market and potentially two tiers of “assurance” quality. One tier being assurance engagements performed by qualified skilled assurance professionals who employ the necessary skills and competence to perform their engagement in compliance with existing professional and ethical standards, and another tier of assurance engagements performed by experts in climate related matters but who do not necessarily adopt and apply all of the quality requirements defined in PES 1, PES 3 and PES 4 which are fundamental to the quality of other audit and assurance deliverables.

Ethics and quality

Ethics and quality are defined as a core design principle. Compliance with quality management standards relevant to assurance practitioners is regularly monitored to ensure that trust and confidence in assurance deliverables is not misplaced. Assurance practitioners who are members of NZICA or CPA Australia, as accredited professional bodies, will already be required to comply with the ISQM framework and will be measured against that framework. The proposed standard identifies selected quality aspects from PES 1, PES 3 and PES 4, but not all requirements and, in doing so, risks creating a quality framework that is not as robust as the ISQM framework that members of NZICA or CPA Australia who already perform assurance engagements will be measured against by regulators. We believe that it is important to ensure that the standards facilitate the ability to measure quality performance and establish appropriate criteria against which quality can be reliably measured at both the Firm and Engagement level.

With respect to the temporary nature of the standard, we understand that the XRB are working proactively to respond to the change in the FMC Act. We question whether there is a risk that the XRB may create an assurance product or market expectation that is difficult to reverse should the approach be inconsistent with the IAASB standards that are also being developed. We believe that the current assurance standards issued by the XRB provide sufficient authoritative guidance to apply to an assurance engagement over GHG disclosures as well as other climate related disclosures.

Examples of aspects of PES 1 not accommodated in the proposed standard

We have noted the following relevant aspects of PES 1 that have not been addressed in the proposed standard or, in our view, do not have sufficient guidance to enable a professional to understand market and regulator expectations, and which are critical to the maintenance of trust and confidence.

Practitioners who perform the assurance engagements in accordance with ISO rather than ISAE (NZ) 3410 may not consider or appropriately evaluate the effect of the following relevant PES 1 requirements.



The below examples are not an exhaustive list, however we note these to highlight that there are potential quality risks in the proposed “temporary” standard.

- PES 1 Paragraph 210 *Conflicts of Interest*. Conflict of Interest is mentioned in paragraph 7(c) of the proposed standard, but does not provide sufficient explanation or guidance on what might constitute a conflict of interest in respect of the GHG engagements.
- PES 1 Paragraph 220 *Preparation and presentation of information*. While the proposed standard refers to what might constitute a self-review threat, the extent of the guidance around the Assurance provider's preparation of the information subject to the assurance engagement is not sufficiently explained. Guidance on relying on the work of others or having processes to manage situations where information is, or might be, misleading have not been built into the proposed standard. This may represent a quality risk.
- PES 1 Paragraph 260 *Non-compliance with laws and regulations (NOCLAR)*. There is no expanded guidance for assurance practitioners on the impact of NOCLAR in the proposed standard. Therefore, a GHG assurance practitioner who is not a member of NZICA or CPA may not be conversant with the potential impact on their assurance engagement where NOCLAR is identified.

We also note the limited guidance on what constitutes timely engagement documentation, application of professional scepticism, or monitoring activities that firms should adopt. Whilst the ISAE and ISO standards do provide some level of guidance, in our view, this is limited.

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?

No

Ethical requirements, including independence

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

The proposed requirements support the key objectives of building trust and confidence in GHG, and potentially other climate related reporting. However, the explicit statement that there is no requirement to comply with PES 1, PES 3 or PES 4 is inconsistent with all assurance standards and our expectations of trusted quality deliverables issued by assurance practitioners.

If the assurance practitioner is performing the engagement in accordance with ISAE (NZ) 3410, rather than ISO, they are required to comply with PES 1, PES 3 and PES 4 by default, as required by ISAE (NZ) 3410.

In our view, emphasising key requirements of PES 1, PES 3 and PES 4 relevant to the assurance engagement within the standard is appropriate. Suggesting that, because these requirements are now captured in NZ SAE 1, the assurance practitioner need not comply with PES 1, PES 3 and PES 4, is, in our view, open to misconstruction and confusion, particularly given there is a specific requirement for the



assurance practitioner to comply with those standards if they perform the engagement in accordance with ISAE (NZ) 3410 and NZ SAE 1.

An example of where there may be insufficient guidance for assurance practitioners adopting ISO standards and NZ SAE 1:

NZ SAE 1, Para 16 does not provide sufficient guidance for assurance practitioners to interpret requirements for rotation and how GHG Emissions Disclosures assurance engagements for PIE entities should be managed in this regard. Rotation requirements specifically respond to the familiarity threat that might arise due to long association with the assurance client. It may be necessary to provide guidance around cooling off periods and considerations relevant to services that may have been provided prior to the introduction of this standard and the changes in the FMC Act.

A further example of inconsistency in the proposed standard is the definition of a reasonable and informed third party.

NZ SAE 1 Para 11 states:

The assurance organisation and the assurance practitioner shall remain free from conditions and relationships that a reasonable and informed third party would conclude compromised their independence. (Ref: Para. A10).

The above definition is not consistent with the definition of the reasonable and informed third party test in PES 1 and we recommend that the definition in the proposed standard be expanded to include the same wording as PES 1 para 120.5 A6.

PES 1 Paragraph 120.5 A6:

The reasonable and informed third party test is a consideration by the assurance practitioner about whether the same conclusions would likely be reached by another party. Such consideration is made from the perspective of a reasonable and informed third party, who weighs all the relevant facts and circumstances that the assurance practitioner knows, or could reasonably be expected to know, at the time the conclusions are made. The reasonable and informed third party does not need to be an assurance practitioner, but would possess the relevant knowledge and experience to understand and evaluate the appropriateness of the assurance practitioner's conclusions in an impartial manner.



Quality management

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

We agree that it is necessary to ensure the assurance practitioner has in place an appropriate system of quality management.

Assurance practitioners who are offering other assurance services will have sophisticated and mature quality management systems in place to respond to the requirements of PES 3 and PES 4. The proposed standard attempts to summarise and emphasise certain requirements of two fundamental standards that provide the framework for quality, and support the confidence that assurance report users have in assurance deliverables. This selectiveness, in our view, undermines the importance of the comprehensive quality framework implemented in order to meet users' expectations of quality. While we acknowledge the XRB's intention to create a "standalone" standard and to enhance accessibility for all GHG assurance practitioners, we are concerned that there is significant risk to quality in, what is expected to be, a reporting area that will influence user decisions and investment in capital markets.

Independent Review

In our view, the proposed standard does not provide sufficient guidance to assurance professionals and practitioners who have not undertaken such roles in the past and who are adopting ISO rather than ISAE standards.

Whilst the proposed standard defines the requirement to appoint a competent independent reviewer, it does not specify what skills and experience the independent reviewer should have (paragraph 53) or whether they are a part of the engagement team. We believe that there should be a clear definition of the competency requirements of the independent reviewer, including skills in assurance, GHG and disclosures, having sufficient time to perform the role and the appropriate authority.

Paragraph 56 of the proposed standard refers to the requirement to document the "results of the independent review". We believe it would be helpful for all assurance practitioners to understand what the standard setters anticipate would satisfy the requirements of paragraph 56.

The proposed standard, and its aligned standard ISAE (NZ) 3410 do not define expectations around the timeliness of an engagement quality review. A critical role in the engagement quality framework for audits, the requirement to appoint an independent reviewer would be undermined if the review is not performed on a timely basis. We suggest that the XRB address in the proposed standard the requirements contained in PES 4 to complete the review on a timely basis. Whilst paragraph 54 of the proposed standard states that the independent review shall be completed before the assurance report is issued, an independent review completed on the same day as the assurance report is issued, with no other involvement of the independent reviewer, is inconsistent with the expectations and requirements established in PES 4.

As defined in PES 4, timely review of the engagement documentation by the engagement quality reviewer throughout all stages of the engagement (e.g., planning, performing and reporting) allows matters to be promptly resolved to the engagement quality reviewer's satisfaction, on or before the date of the engagement report. Timely performance of the engagement quality review also may reinforce the exercise of professional judgement and, when applicable to the type of engagement, professional scepticism, by the engagement team in planning and performing the engagement.



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.

The proposed requirements establish an appropriate basis for the report .

The XRB may consider taking this opportunity to clarify in the standard what they expect with respect to disclosing "any other relationships".

For audit engagements, ISA (NZ) 260 establishes a requirement to disclose any relationship that may have a bearing on the independence of the firm or engagement in communications with those charged with governance. The requirement in ISA (NZ) 700 to disclose any relationships in the audit report does not include the consideration of whether there is a bearing on independence. This is consistent with the report requirements of the proposed standard. We question whether the XRB intends the disclosure requirement in the assurance report to be as broad as it is, or whether it intends to only disclose relationships that might have a bearing on independence.

We support inclusion of the practitioners name, as well as the name of the firm and accredited body that they belong to.

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 use of different terminology may cause confusion in the market as well as increase the risk of pressure from clients to adopt wording that they have seen in other engagements, which may be inconsistent with the particular standards adopted by the assurance practitioner.

The differences between verification and validation would not necessarily be understood as it is inconsistent with language that users of assurance reports, prepared by assurance practitioners who have adopted New Zealand and International Assurance Standards, are attuned to.

It is our experience that a regulator will expect to see the exact wording as defined by a standard, notwithstanding that a change to the wording may not affect the message or conclusion.

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

For regulated entities, key matters will assist a reader understand where significant engagement team time was spent, areas of judgement and uncertainty, and challenges the assurance practitioner faced as well as the procedures performed to gain comfort and obtain evidence to support their conclusions.

Inherent uncertainties exist in any engagement and reference to relevant material inherent uncertainties is important to ensure users understand the basis of conclusions where material inherent uncertainty might exist. Changes in circumstances, processes or technologies can and will create uncertainties which will be relevant to measurement and reporting practices associated with greenhouse gas emissions.



The definition of “Other matter” (paragraph 3(i)) is extremely broad and open to misalignment of expectations by users and regulators. We believe further guidance to clarify the nature of “Other Matters” would be helpful to assurance practitioners. The lack of clarity creates risk for practitioners, not only from users but also from regulators when actual events are different to those forecast or expected. Whilst appropriate disclaimers in reports alert a reader to the fact that actual events might be different, this does not prevent or restrict the criticism and hindsight arguments that a practitioner would be required to defend.

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.

The exposure draft encourages disclosure of materiality considerations but does not require disclosure. Materiality for the proposed assurance engagements will include qualitative and quantitative bases. For this reason, an explanation of the qualitative basis would provide users with relevant information to evaluate the conclusions reached by the assurance practitioner.

Establishing a materiality base will be subjective and, in our view, will be relevant to the evaluation of the disclosures and to understanding the “rigour” applied by an assurance practitioner in the performance of the assurance engagement.

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 proposed standard refers to having “sufficient” competence in assurance skills and techniques, as well as in measurement and reporting of GHG emissions. The guidance material at A20 - A24 provides further guidance on expectations. This is helpful, however, we believe further examples may clarify some of the core fundamentals of an assurance engagement such as sufficiency and quality of evidence and documentation.

GHG emissions reporting will influence investor decisions, together with other sustainability related reporting. Providing assurance practitioners with sufficient guidance on the core fundamentals is an important part of ensuring quality and confidence and trust in the assurance deliverables is maintained. Audit standards are extensive, and provide guidance materials that assist in delivering quality audits and ensuring that trust and confidence in audit deliverables is maintained. As an example, we believe the core principles defined in ISA (NZ) 500 and ISA (NZ) 230 around documentation and evidence may provide a basis for guidance that would assist assurance practitioners understand what evidence a competent assurance practitioner must obtain and document to support their conclusion. Thereby also providing criteria upon which to measure their competence in assurance skills.



We take the opportunity to refer the XRB to paragraph 19 of NZ SAE 1 which refers to an engagement leader being satisfied with the competence of the assurance team “to provide assurance on the GHG disclosures”. The word “**provide**” is inconsistent with the objectives of the assurance engagement which is designed so that the assurance practitioner **obtains** assurance that the disclosures are free from material misstatement. We recommend the XRB reconsider the word “provide” in paragraph 19 to ensure that it is consistent with the objectives of audit and assurance standards - being that the practitioner gathers evidence to obtain assurance over the subject matter and issues a report with their conclusions from which users can take comfort having evaluated that report, understanding relevant parameters and judgements, and considering their personal circumstances.

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?

We agree that, when using the work of an expert, the skills and competence of the expert must be evaluated. We do not believe that this is only necessary if the expert is not part of the assurance team. An expert in the field may well be part of the assurance team.

While ISAE (NZ) 3000 paragraph NZ12.2 provides a definition of an assurance practitioner’s expert and that standard includes extensive reference to the use of experts, an assurance practitioner undertaking GHG assurance may not refer to ISAE (NZ) 3000 as the XRB have designed the standard to be standalone. We therefore encourage the XRB to consider whether there is sufficient guidance about the use of experts and the different roles they might have in the two standards, ISAE (NZ) 3410 and NZ SAE 1.

Other comments

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

We have no other comments.