

# SUBMISSION ON CONSULTATION DOCUMENT – ASSURANCE ENGAGEMENTS OVER GHG EMISSIONS DISCLOSURES



## CONSULTATION RESPONSES

### DESIGN PRINCIPLES AND KEY DECISIONS

#### QUESTION 1. DO YOU HAVE ANY COMMENTS ON THE DESIGN PRINCIPLES OR KEY DECISIONS?

Relating to “Including additional information in the Assurance report” Clause 40(b) requires details of the qualifications and experience of the engagement leader and others involved with the engagement. We query the benefit of this potentially unnecessary detail, particularly with reference to the fact that there is currently no standardised or formal qualification pertinent to these disclosures. As such, the reader would be unable to make an informed assessment on the competency of the engagement leader.

In addition, query the benefit of disclosing the experience of the team involved. This is not typical of standard finance audit practices and may dissuade firms from involving trainees. Perhaps a disclosure over the entire firm’s general experience and practice with respect to climate reporting and accounting may be more appropriate.

#### 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No, but we note that 14064-3:2006 has only recently been superseded.

QUESTION 3. DO YOU CONSIDER THE PROPOSED ETHICAL REQUIREMENTS ARE APPROPRIATE? IF YOU DISAGREE, PLEASE EXPLAIN WHY.

Generally, we consider the proposed ethical requirements to be appropriate.

Relating to Compliance with the Fundamental Principles (Clause 8, which references Clause A7)

Under clause A7a we suggest “Self-interest threat – the threat that a financial or other *material* interest will inappropriately influence an assurance practitioner’s judgment or behaviour” and append a definition of what would be considered as material.

We are interested in how mitigation strategies may be applied to allow parallel services

Around independence and self-review threat, we have some queries:

- How is fulfilment of this requirement to be made clear to the readers of these statements, outside a declaration?
- **Clause 12(c)** *The assurance organisation and the assurance practitioner shall not “provide any other services to the assurance client that might possibly create a self-review threat in relation to the GHG disclosures on which the assurance practitioner will express an assurance conclusion.”*

Within our organisation there is no interaction between the assurance practitioners and the advisory services, and assurance is conducted entirely independently. However, as both separate business units are owned by the same company, the definition of ‘assurance organisation’ precludes us being able to assist companies in any other fashion than assurance, regardless of our internal walls.

We query if there is a “walls” scenario such as happens in banking sector – audit is separate from technical but still under the same overarching company. We concur it is essential that there is no direct involvement of the assurance team in the other services, such that the assurance organisation and the assurance practitioner thereby remain free from conditions and relationships that a reasonable and informed third party would conclude compromised their independence.

We query if our statements, disclosures and company structure will be sufficient to prove this.

- **Clause 11, referencing clause A10 ‘Conditions and relationships’** we request more clarity on what is meant in terms of assurance over GHG, relating to close business relationships and recent service with an assurance client.
- Ethics and independence requirements are appropriate, but more clarity required around **clause A13** *“A self-review threat might possibly be created by services provided at the same time as an assurance engagement is performed or by services provided before the start of the assurance engagement period.”* Is this specifically in relation to services provided by the assurance practitioner?

QUESTION 4. DO YOU CONSIDER THE PROPOSED QUALITY MANAGEMENT REQUIREMENTS ARE APPROPRIATE? IF YOU DISAGREE, PLEASE EXPLAIN WHY.

We consider the proposed requirements appropriate.

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 consider the proposed requirements of the report appropriate. It allows the practitioner to report to the reader in a manner similar to financial statements yet allowing relevant information to be reported to the user, and allows for consistent use across 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?

There are differences to the ISO terminology regarding audit procedures and potential legal connotations for the term 'evidence'.

We suggest remove the option of using "based on our examination of evidence" and use "based on the procedures we have performed" or "based on the results of procedures performed in the assurance engagement"

If 'evidence' is retained, we suggest this be amended to "presented evidence" (A26: ...based on our examination of the *presented* evidence...)

We query "properly prepared" similarly, in the examples given.

No other issues with terminology noted.

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 inclusion of the above paragraphs.

This is more transparent and allows the auditor to bring matters of importance to the user that are not a qualification in nature.

i.e., if a client has used assumptions in a model or calculation/ used some spend based factors that are assumptive themselves/ not doing a site visit.

This will be familiar wording to financial opinions so the reader will be familiar with the terminology. As this is a very fast changing area, where calculation methodologies can change within a year, it would be a great place to highlight such items to the reader.

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.

- Has mixed assurance been considered, and how might this be presented?
- Include mention of the currency and suitability of emission factors "we reviewed the suitability of the EF used throughout the inventory". Alternately, an assurance conclusion over

the “accounting policy” on how the inventory was compiled, including which emissions factors were used.

- There may be benefit to including a data quality score in the opinion so the reader could assess the quality of the information supplied to the auditor and on what quality of information the inventory is compiled.

#### 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 consider the requirements are appropriate, but add the following caveats:

- We note that in this fast-evolving field there continuous learning and keeping up to date with changes and the paragraphs do not mention anything around future learning or continuous learning.
- We find the requirements relevant and appropriate but note that they should be applied to the assurance organisations’ competence, training, commitment to improvement, not on an individual signatory level.

#### 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 consider the requirements appropriate. Normative PES standards give additional guidance.

#### OTHER COMMENTS

#### QUESTION 11. DO YOU HAVE ANY OTHER COMMENTS ON THE PROPOSED STANDARD? IF SO, PLEASE SPECIFY.

- Amend definition of ‘assurance organisation’ to include “separately identifiable independent business unit within a company”

We note that many entities are seeking guidance on formulating the disclosures. With assurance engagements potentially being extended across more of the disclosures, aspects of Independence under clause 12c as it stands may be challenging for any smaller organizations to meet without with the above suggested ‘walls’

- Clarity is requested on assurance over comparative information required by these disclosures. If this earlier information is unassured, or has been assured under a different standard, how is this to be treated?
- Clarity is requested on the assurance of comparative information as below:

NZSAE1 Para 23-25 requires the Assurance Practitioner to assess comparative information, check it agrees with prior information (including methodology), include in other matters if these have **not** been assured, and address material misstatements.

NZCS1 p26 “for the avoidance of doubt” does **not** state comparative information as requiring assurance. The information subject to assurance is:

- GHG emissions scope 1, 2, 3 and
- Measurement standards, consolidation approach, source of emissions factors and GWP rates, summary of exclusions and
- methods, assumptions, and estimation uncertainty.

It may be inferred from NZCS3 p40 that “for each metric disclosed in the current reporting period an entity must disclose comparative information for the immediately preceding two reporting periods” thereby requires assurance over the comparative GHG emissions.

- Clarity is requested on the procedure when previously assured figures are required to be restated, due to new information coming to light or substantive changes in emissions factors. (see ISO 14064:2019 clause 10 “Facts discovered after the verification / validation”)

NZSAE1 calls upon PES4: the comply with the independent reviewer requirements set out in paragraph 52 to 56. PES 4 paragraphs 52-56 could not be located. The cited clauses of PES1 and PES3 are queried also.