

Issues Paper: Key Issues from engagement on proposed NZ SAE 1 Assurance Engagements over GHG Emissions Disclosures

1. The submission process closed on 24 March 2023. The XRB received submissions from:
 - 1 Jeska McHugh submission Agenda item 5.4
 - 2 ACE submission Agenda item 5.5
 - 3 KPMG submission Agenda item 5.6
 - 4 Tonkin & Taylor submission Agenda item 5.7
 - 5 CEP submission Agenda item 5.8
 - 6 AFAANZ submission Agenda item 5.9
 - 7 OAG submission Agenda item 5.10
 - 8 PwC Agenda item 5.11 (late paper)
 - 9 Toitū Agenda item 5.12 (late paper)
 - 10 CA ANZ and CPA Agenda item 5.13 (late paper)
 - 11 IGCC Agenda item 5.14 (late paper)
 - 12 EY Agenda item 5.15 (late paper)
 - 13 Deloitte Agenda item 5.16 (late paper)
 - 14 Jacqueline d’Ath Agenda item 5.17 (late paper)
2. This Issues Paper includes a summary of the most substantive issues together with staff’s preliminary recommendations emerging from:
 - the above-mentioned submissions;
 - interactive feedback forum;
 - discussions with stakeholders, including preparers and users;
 - informal feedback received up to date.
3. We have grouped the most substantive issues in the following categories:
 - Use of ISO standard / Approach to allow use two different standards
 - Sufficiency of quality management and ethics requirements included in our standard
 - Competency and capability of those who perform GHG assurance engagements
 - Communication tools, including Key Matters, in the assurance report
 - Differences in wording of ISO conclusion vs ISAE conclusion for the forecast information
 - Use of experts and/or reliance on other assurance practitioners
4. We will consider all other issues and present a complete analysis of all the issues for the June Board meeting.

Compliance with ISO 14064:3 or ISAE 3410

5. Those practitioners who are not traditionally involved in financial statement audits supported the inclusion of both standards. (ACE, Toitū, Tonkin and Taylor)
6. Accounting professional bodies, assurance practitioners traditionally involved in financial statements audits, academia and some directors were not supportive of having two standards. Their concerns included:
 - a. ISO standard is not publicly available, the consequences of this raised in submissions being:
 - i. Concerns that it might be a breach of the Legislation Act or might be inappropriate and not in line with principles of good law making (OAG), that the consultation process departure from accepted best practice and due process (CA ANZ and CPA).
 - ii. Might result in lower trust and confidence in the ISO assurance. (EY)
 - iii. Reduced transparency and potential for misunderstandings (Deloitte)
 - b. Consistency and comparability of assurance work using two different standards (IGCC).
 - c. Risk of confusion in the market place, inadvertently undermining trust and confidence (EY, AFAANZ)
 - d. Due process and that the standard setting approach for ISO is different to other XRB issued assurance standards and that the XRB cannot consult and adapt the ISO standards. (CA ANZ and CPA)
7. Some recommended that ISAE (NZ) 3000 and ISAE (NZ) 3410 are the most appropriate standards to reference. (AFAANZ, CA ANZ and CPA, EY)
8. Some highlighted importance of alignment with international standards (when the standards will be developed by international bodies). (IGCC, Deloitte)
9. Recommendations included reviewing the approach as part of post-implementation review. (IGCC)
10. Finally, there was a very strong theme to be more explicit that the standard is temporary. This would include adding the end date and making it clear that there will be an expectation that all practitioners will need to apply the same standards after this end date. (KPMG, Deloitte, EY)

Staff preliminary recommendation:

11. The decision to require use of one of two international standards has been considered in detail in developing the exposure draft. It was interesting to hear views of users and preparers, who did express concern at inadvertently adding complexity or undermining trust and confidence by allowing use of two standards. Overall, staff recommend retaining the approach but only as a temporary solution.
12. The longer-term implications are considered in Agenda Item 4 regarding assurance standard setting policies. We will be working on creating a transition plan to a new standard as international developments progress.

13. We have previously had discussions with the parliamentary office regarding referencing ISO in the proposed standard. We will review the conclusions reached to make sure we do not inadvertently create a standard that might be in breach of a law or best practice.

14. Does the Board agree with staff recommendations to continue with the approach of the temporary standard with reference to both ISAE 3410 and ISO 14064-3, with an explicit end date?

15. Does the Board have views of what should be included in the transition plan?

Sufficiency of Ethics and Quality Management requirements

16. Strong support for principles-based approach by those practitioners who are not traditionally involved in financial statement audits. (Tonkin and Taylor, ACE, CEP, Toitū)
17. Concern from others that the PESs are not required to be applied (or some questions around how this will work in practice where some practitioners will be required to comply with these requirements regardless) from assurance practitioners, academia, regulator and professional bodies. (KPMG, PWC, EY, Deloitte, AFAANZ, OAG, CA ANZ and CPA)
18. For ethics, professional bodies, assurance practitioners, regulator and academia have requested more guidance on the familiarity risk and how this should be addressed including whether rotation would be applied. (Deloitte, PWC, OAG, AFAANZ)
19. Majority of submissions also included detailed comments what should be added or clarified on a range of topics: safeguards, breaches, non-compliance with laws and regulations, request of clarification on some specific circumstances relating to self-interests threat, self-review threat, and more.
20. For quality management, there have been many concerns raised that the proposed standard does not have sufficient requirements (CA ANZ and CPA, AFAANZ). Other submissions agreed with the principles included in the proposed standard, however recommended more application guidance to enable consistent application by all assurance practitioners (OAG, EY). Some more specific comments related to:
 - more details required on the independent review (who can perform the role, competencies, what should be reviewed, documentation, timeliness) (PWC, Deloitte, OAG). On the other hand we have heard some concern that requiring an independent reviewer on all engagements will add cost and limit the market.
 - A recommendation to include more regarding documentation principles (PWC).
 - A recommendation to include requirements on monitoring and inspection of completed engagements on cyclical basis (Deloitte)

Staff preliminary recommendation:

21. The decision to include principles rather than PES 1, 3 and 4 has been considered in detail in developing the exposure draft. Staff do not recommend revisiting this decision however, based on the concerns raised we do recommend adding more to either the final standard or in guidance to assist address concerns raised.

22. We recommend that the standard could be clearer on which professional and ethical standards apply and when. One option would be to require compliance with:
 - PES 1, PES 3 and PES 4 or
 - ISO equivalent standards: ISO 14065, ISO 17029in addition to the principles that we have included in the exposure draft.
23. We recommend also adding to the principles in the final standard to address:
 - Safeguards
 - Switching roles between assurance practitioner and client.
24. We recommend developing a standalone ethics guide that could identify threats and safeguards as explored in detail in PES 1 (and other various ethical standards) in the context of sustainability assurance engagements as an alternative to adding all the detail in the temporary standard to promote consistency in practice. This approach also means that we can add to the guidance over the period of the temporary standard, as we learn more from the international projects on sustainability ethical considerations.
25. We recommend adding the following to quality management part in the final standard:
 - Expand section on an independent reviewer: definition, competencies, timeliness of the review and documentation of the review (but only at a principles level – not by replicating all the requirements of PES 4 or ISO). This may be linked to the recommendation to comply with either PES 3 and 4 or the equivalent ISO, as by making this change we will not have to replicate requirements that are found in both standards.
 - Add more descriptions to clarify the components of quality management system for those who are not familiar with PES 3.
 - Confirm what requirements are relevant at the organisation level.

26. Does the Board agree with staff recommendations on ethics and quality management?
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Competency and capability of those who perform GHG assurance engagements

27. Submissions from organisations not traditionally involved in the audit of financial statements were supportive of proposed skills and competencies for those who perform GHG assurance engagements (Toitū, CEP).
28. Some also commented on the fact that GHG measurement area is evolving at fast speed therefore more focus in our standard should be put on continuous learning (Toitū).
29. Submissions from financial audit practitioners and accounting professional organisations suggested more weight should be placed on assurance skills and competence. CA ANZ and CPA considers that assurance skills and competence should be fundamental in our standard. Others argued that the same weight should be given to assurance and GHG measurement skills (KPMG). Other comments included:

- Suggestion to add experience in the exercise of professional scepticism and documentation of audit evidence (Deloitte)
 - Need to be more prescriptive, for example team member hours, number of assurance engagements, participation in continuing professional development, relevant tertiary qualification, technical experience (EY)
 - More clarification needed on what “sufficient” means in relation to assurance skills and competence (CA ANZ, Deloitte) and if it is required for the engagement leader or the team as a whole and preference that it is defined as in ISAE (NZ) 3410 that the skills and competence relate to engagement leader. (Deloitte)
30. Informal feedbacks suggested an additional requirement that both the assurance organisation and engagement leader should also assess whether “the auditor has sufficient time available to perform its obligations under the standard when accepting an engagement”.

Staff preliminary recommendation:

31. Our intent was that the proposed requirements replicate the requirements of ISAE (NZ) 3410, recognizing the need for competence in both assurance and GHG emissions (without changing the balance between those competencies). We will analyse the current wording in the proposed standard to ensure we do not inadvertently change the meaning of the requirements taken from ISAE (NZ) 3410.
32. Reflecting on the comments regarding the need of continuous learning and sufficient time to complete the engagement, we recommend addressing these principles in the final standard.

33. Does the Board agree with the staff recommendations on competency and capability of those who perform GHG assurance engagements?

Communication tools, including Key Matters, in the assurance report

34. There has been wide support for the inclusion of key matters and other communication tools in the assurance report. (CEP, T+T, Toitū, KPMG, EY, PwC, OAG, AFFANZ, IGCC)
35. OAG recommends that key matters are mandatory for all engagements for consistency purposes and to avoid confusion why only some assurance reports include key matters.
36. AFAANZ supports key matters as they believe it may enhance perceived confidence in assurance work done by wider range practitioners from different backgrounds. However, AFAANZ recommends removing the reference from our standard that key matters improve users’ understanding and communicative value of the assurance report (because this role of key matters is not reflected in the research evidence).
37. Some submissions suggested more guidance to support consistent use of key matters. (OAG, AFAANZ, IGCC)

38. CA ANZ and CPA submission supports optional inclusion of key matters, however they doubt that the requirements in the proposed standard “will result in output equivalent to that under” ISAs.
39. Concerns raised regarding key matters included:
 - Inclusion of key matters in limited assurance engagements may be misleading to the users of the assurance report and they might put more confidence that they should on limited assurance (Deloitte)
 - key matters may become repetitive and boiler plate and may become too technical and not very useful for the users of assurance reports.
40. Some submissions discussed the inherent uncertainty paragraph in the assurance report. Overall, there was a degree of support (Deloitte, PwC, Toitū, T+T). However, some submissions noted that inherent uncertainty should be primarily addressed by preparers (CA ANZ and CPA, IGCC). Some noted that inherent uncertainty in the assurance report can lead to undermining the value of the assurance report.
41. Some submissions noted that more guidance or clarification should be added regarding “Other Matters” paragraph. (OAG, PwC, Deloitte)

Staff preliminary recommendation

42. We recommend that the final standard retain the requirements for key matters and other communication tools.
43. We intent closely monitor how key matters are used by the assurance practitioners. We recommend the role of key matters is reviewed as part of our post-implementation review.
44. In developing the proposed standard, we intentionally have not included illustrative examples and detailed guidance on key matters. Our aim was to avoid a situation that the same key matters wording is replicated for all assurance engagements. Our intent is to learn and explore what assurance practitioners identify as key matters in the GHG context before we decide on further steps regarding possible guidance.
45. We will review the definition and requirements relating to “Other matters” and consider what additional guidance can be provided to assurance practitioners.
46. The inclusion of the inherent uncertainty statement is required by ISAE (NZ) 3410. We proposed the inclusion of this statement to promote compliance with the underlying standard and consistency in the assurance report. How this interacts with the additional reporting tools of key matters and emphasis of matter will be somewhat dependent on what judgment the assurance practitioner makes in adding paragraphs to the report. Our preliminary view is that the uncertainty statement may be included with one of the other paragraphs but may be also standalone so will explore if this can be clarified in the standard or guidance.

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| <p>47. Does the Board agree with staff recommendations regarding key matters and other communication tools included in the proposed standard?</p> |
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Differences in wording of ISO conclusion vs ISAE conclusion for the forecast information

48. Financial statement Assurance practitioners and professional bodies raised concerns that this could lead to a two-tiered system and confusion in the marketplace. (EY, PWC, CA ANZ and CPA, Deloitte)
49. This theme was also raised in our conversations with directors and users.
50. Non-accounting professional bodies raised that ISO forecast information is a higher bar than limited assurance. (CEP)
51. Some recommended that uniform terminology be used for the assurance opinion to limit confusion of users. (AFAANZ, OAG)

Staff preliminary recommendation

52. We acknowledge the comments regarding the potential confusion in the marketplace. We propose the following:
 - We will reach out to ISO practitioners to confirm whether validation (assurance of forecast information) should be performed within the assurance of an organisation's historical GHG emissions.
 - We propose developing awareness raising material targeted at users to make it clear that these two opinions will result in the same limited assurance opinion to avert muddying the waters in a really complicated space.

53. Does the Board agree with staff recommendations regarding the differences in wording of the ISO conclusion vs ISAE conclusion?

Use of experts and/or reliance on other assurance practitioners

54. Academia, regulator and professional accounting firms have raised concerns that the guidance included in the standard may not be sufficient. (AFAANZ, OAG, PWC)
55. Submissions from the organisations not traditionally involved in the audit of financial statements felt the guidance was sufficient. (Toitū, CEP)

Staff preliminary recommendation

56. The mandatory inclusion of Scope 3 emissions means that this is an area for which experts are likely to be used. We recommend adding additional application material in the final standard to cover reliance on a management expert, reliance on an assurance expert and reliance on the work of another assurance practitioner to clarify expectations. We also recommend developing a separate guidance piece covering the more practical scenarios that might arise.

57. Does the Board agree with staff recommendations regarding the use of experts?