



Marje Russ
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By email: assurance@xrb.govt.nz

24 March 2023

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.

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.

Friday, 24 March 2023

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Dear Marje

Assurance over greenhouse gas emissions disclosures

As the representatives of over 300,000 professional accountants globally, Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia welcome the opportunity to provide a submission on the Consultation Document on Assurance Engagements over GHG Emissions Disclosures ("the CD") and the Exposure Draft: Assurance Engagements over Greenhouse Gas (GHG) Emissions Disclosures ("the ED"). We make this submission on behalf of our members and in the public interest.

Given the significance of these proposals, we have greatly appreciated the opportunity to engage regularly with the External Reporting Board (XRB) throughout the development phase of the ED. We have consulted widely with our members and other stakeholders in developing this submission.

The accounting profession has been at the forefront of developments in sustainability reporting and assurance for several decades. CA ANZ and CPA Australia are both long-standing members of the Accounting for Sustainability (A4S) Accounting Bodies Network (ABN) which was launched in 2008 by HM King Charles III, while he was HRH The Prince of Wales. We continue to be advocates for, and supporters of, a just transition to a net zero economy. There is a critical role for independent external assurance to enhance the credibility of the GHG emissions disclosures included in the climate statements of climate reporting entities, which have an important role in decisions about the allocation of capital to achieve a just transition to a more sustainable and low-emissions economy.

Overarching comments

This is the first example of which we are aware, where a public consultation on an external assurance standard has been conducted and many key stakeholders are unable to access the requirements of the standard being proposed or all the underlying analysis. The requirements and other material that are part of ISO 14064-3:2019 *Specification with guidance for the verification and validation of greenhouse gas statements*, which is one of the options proposed as a standard for adoption, has not been included as part of this consultation.

We see this departure from accepted best practice and due process as a major risk and urge caution when assessing submissions and in undertaking further deliberations on the proposals, as it is imperative that:

- a) all stakeholders, including investors, can fully understand the basis of assurance being proposed, and

- b) all assurance practitioners and other stakeholders can identify and provide feedback on potential gaps and shortcomings, and unintended consequences, with what is being proposed.

Unrestricted access to all the requirements of the standard being proposed, and the underlying analysis in developing the ED, must be a key part of this public consultation.

Investor expectations

Investor groups (for example, the New Zealand Shareholders' Association (NZSA)) expect that, in time, sustainability reporting will be subject to investment-grade assurance¹. Consequently, investors expect to be able to attain a level of confidence and robustness in the assurance of sustainability reporting comparable to that which they attain in the audits of financial statements, which are used when making their investment decisions.

Achieving this expectation demands a comparable level of robustness in governance and oversight arrangements for assurance over sustainability reporting, including the governance and oversight of the related standard setting, as there is for financial statement audits. The cornerstones of such robust arrangements include consistent, comprehensive independence standards and ethical and quality management requirements being established in standards that are set according to a rigorous due process focused on the public interest.

In our view, the proposed requirements in the ED do not provide a comparable level of robustness that is present in the existing International Auditing and Assurance Standards Board (IAASB) assurance framework (see our response to Question 1) and standard setting process.

Comprehensive global baseline and collaboration

We support a global approach to the development of overarching sustainability assurance standards and are supportive of the IAASB as the global body to issue these standards. We believe the goal should be a globally consistent, comparable, and reliable assurance framework for sustainability reporting. We recommend a coordinated approach to the development of sustainability assurance standards to avoid fragmentation and duplicative efforts.

In our view, the IAASB's upcoming consultation on a new profession-agnostic overarching standard for assurance on sustainability reporting; ISSA 5000, *General Requirements for Sustainability Assurance Engagements* (ISSA 5000), expected by September 2023, is the critical next step towards a global baseline² for assurance on sustainability reporting. ISSA 5000 will build upon existing IAASB standards and guidance, namely:

- ISAE 3000 (Revised) *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (ISAE (NZ) 3000)
- ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements* (ISAE (NZ) 3410).

¹ [Policy #22: Environmental Sustainability](#), see Par. 3.9(b)

² <https://www.iaasb.org/consultations-projects/assurance-sustainability-reporting>

This work is also underpinned by the International Ethics Standards Board for Accountants (IESBA) project to develop “ethics and independence standards for use and implementation by all sustainability assurance practitioners (i.e., professional accountants and other professionals performing sustainability assurance engagements)”³.

The International Organization of Securities Commissions (IOSCO) has issued a statement welcoming the Boards’ (IAASB and IESBA) plans to work towards high-quality, global assurance and ethics (including independence) standards that are profession-agnostic and can support assurance of sustainability-related information. It believes this work will serve to support the consistency, comparability and reliability of sustainability-related information provided to the market, enhancing trust in the quality of that information⁴.

Education

We recognise that establishing a comprehensive global baseline for sustainability assurance will take time and may be iterative. Building professional capacity and capability to support implementation, and ongoing collaboration globally between regulators, standards setters, policy makers, professional bodies, and other key players within the sustainability assurance ecosystem, will also be of key importance.

CA ANZ and CPA Australia are committed to supporting the work of the IAASB by developing relevant educational programs and resources that promote professional capacity and capability in sustainability assurance in our region.

For the reasons outlined above and in the **Attachment** to this letter, we strongly recommend that there should be one assurance standard in New Zealand for the assurance of GHG emissions disclosures, and that should be ISAE (NZ) 3410.

Our detailed responses to the questions raised in the CD are provided in the **Attachment** to this letter. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact either Zowie Pateman (CA ANZ) at zowie.pateman@charteredaccountantsanz.com or Tiffany Tan (CPA Australia) at tiffany.tan@cpaaustralia.com.au

Yours sincerely

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³ <https://www.ethicsboard.org/consultations-projects/sustainability>

⁴ <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD713.pdf>

Attachment

Design principles and key decisions

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

The ED proposes allowing a choice of the following two standards:

- ISAE (NZ) 3410 *Assurance Engagements on Greenhouse Gas Statements* (ISAE (NZ) 3410) issued by the XRB, which in turn requires compliance with:
 - ISAE (NZ) 3000 *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*,
 - PES 1 *Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, and
 - PES 3 *Quality Management for Firms the Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, or
- ISO 14064-3:2019 *Greenhouse gases—Part 3: Specification with guidance for the verification and validation of greenhouse gas statements* (ISO 14064-3) issued by the International Organisation for Standardisation (ISO).

For the reasons outlined below, where we have addressed each of the design principles in the CD, we recommend that there should be one assurance standard in New Zealand for the assurance of GHG emissions disclosures, and that should be ISAE (NZ) 3410.

Trust and confidence

Achieving integrity, robustness, and comparability in assurance of GHG emissions disclosures means ensuring that the prescribed requirements for assurance practitioners are set at an appropriate level that is equivalent for all practitioners. This baseline is needed for there to be trust and confidence in GHG emissions disclosures included in climate statements and to avoid confusion or misunderstanding about the assurance obtained, amongst investors and other stakeholders.

The CD says, “The proposed standard is intended to fill a gap”. However, we disagree that a gap exists. The IAASB assurance framework and standards are well-established with a long history of supporting and promoting high quality assurance engagements. They are already being used in many jurisdictions around the world for GHG emissions assurance engagements. The IFAC *State of Play in Sustainability Assurance*⁵ (February 2023) benchmarking study found that ISAE 3000 (Revised) (a profession-agnostic standard) remains the most widely used standard globally for sustainability assurance engagements.

In our view, the basis for developing a new standard has not been well articulated in the CD. Furthermore, given that there is an existing standard that is extensively used internationally, we do not believe that the case to depart from the IAASB standards has been made in the CD.

⁵ <https://www.ifac.org/knowledge-gateway/contributing-global-economy/discussion/state-play-sustainability-assurance>

Transparency

The ISO Standards are privately owned, and only available at a cost. As a result, it is difficult for us, or other key stakeholders, to form a view on the appropriateness of the ISO framework and the equivalence of the two standards proposed as options in the ED. Assurance engagements over GHG emissions disclosures is of significant public interest. However, given stakeholders have no ready access to the ISO Standards, they would be at a significant disadvantage in assessing or understanding those engagements performed under the ISO Standards. This is a departure from the robust transparency, public interest and public oversight principles that are generally taken as a given when it comes to external assurance and auditing standards setting.

It is unusual to respond to a consultation on an exposure draft of an external assurance standard where it is not possible to access or review the requirements of the standard being proposed, or all the detailed underlying analysis. This represents a departure from existing external assurance standard setting in New Zealand, and what is generally considered to be global best practice in standard setting. To date, in New Zealand, this has been reflected in the adoption of international auditing and assurance standards, including the professional and ethical standards, for assurance practitioners as noted in the *NZAuASB Policy and Process for International Conformance and Harmonisation of Standards*⁶.

Importance of ethics and quality

Having one standard for all practitioners ensures consistent independence, ethics, and quality management requirements. The option to choose between two very different standards means that the requirements to be met in the performance of an assurance engagement – and hence the quality of the assurance engagement – will not be the same nor comparable for all practitioners. We are concerned that this difference would result in a two-tier approach to assurance over GHG emissions disclosures, and that such disparity could lead to market inequity in terms of the information being reported. This is detrimental to the good public interest outcomes.

Accountability and clarity

A three-party relationship is one of the five elements of an assurance engagement required by ISAE 3000 (Revised). These parties are typically: the responsible party, intended users, and the practitioner, where the intended users must be other than the responsible party. In the context of this ED, intended users can be investors. Under ISO 14064-3 “users” can be the responsible party, that is, responsible for the reporting of the underlying subject matter. Therefore, the “verifier” (practitioner) could be reporting to management/those charged with governance of the entity and not investors. Accordingly, it is not clear that ISO 14064-3 is fit for purpose for an external assurance engagement that is aimed at satisfying investor information needs.

⁶ <https://www.xrb.govt.nz/dmsdocument/4198>

Temporary nature of the standard

The temporary nature of the proposed ED presents uncertainty with respect to its future status as a permanent standard. The narrow scope of the proposed ED also restricts its ability to be expanded into an integrated approach, which provides an assurance framework where assurance engagements are undertaken across multiple sustainability-related disclosures.

We also question the costs and benefits in developing a short-term assurance solution. The ED is proposing adoption of the existing well established ISAE (NZ) 3410 in addition to providing the option of applying ISO 14064-3, with additional requirements (e.g., ethics, assurance quality, competence etc) that are aimed at attempting to bridge the current requirement gaps between the two standards—that is, to ensure the quality outcomes that would result from the use of the ISO Standards. Most practitioners will have embedded ISAE (NZ) 3410 or ISO 14064-3 into their methodology. We expect the disruption and implementation costs associated with implementing the proposed ED would outweigh the perceived benefits, especially in the context of a short-lived standard.

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 being used in New Zealand to undertake GHG emissions disclosures assurance engagements.

Ethical requirements, including independence

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

Appendix B of the CD, Summary comparison of international assurance standards (XRB versus ISO requirements), says “More detailed ethical requirements are included in ISO 14066.” It does not elaborate further on those ethical requirements in ISO 14066.

Unlike ISAE (NZ) 3410, which requires compliance with PES 1, ISO 14064-3 does not appear to require compliance with ISO 14066 *Competence requirements for GHG validation teams and verification teams*. Therefore, it is unclear whether compliance with the more detailed ethical requirements in ISO 14066 is mandatory when applying ISO 14064-3.

From our outreach, and roundtables we have attended, regarding this project, we are aware of an existing practice where firms applying ISO 14064-3 to provide assurance, commonly also undertake extensive consulting engagements that directly impact the reported information being assured. Other examples of firms being directly involved in the preparation of the reporting were also noted. These examples are at odds with the independence requirements in PES 1 that prohibit an assurance practitioner from assuring their own work.

Although the ED proposes that the assurance practitioner is only required to comply with the ethical requirements included in the ED alone and that there is no further requirement to comply with PES 1, this is not true for assurance practitioners from the accounting profession. Members of professional accounting bodies, including CA ANZ and CPA Australia, are required to comply with PES 1 as issued by the XRB. We are concerned that this disparity could lead to market inequity and differing standards of independence and ethics.

Based on the proposed ethical requirements in the ED alone, we have significant doubts whether this would result in appropriate and meaningful independence for the engagements that is equivalent to that required under PES 1. For example, the fundamental principle of independence in paragraph 7(a) of the ED only refers to actual independence, it does not refer to perceived independence. However, application material of the ED in paragraph A6 covers both independence of mind and independence of appearance. We recommend that, at the very least, paragraph 7(a) be revised to also refer to perceived independence.

Furthermore, [paragraph NZ1.2](#) of PES 1 clearly states “The Code is intended to apply to all those who perform assurance engagements, even if they are not part of the accounting profession.” In addition to the increased resources and costs in creating and proposing another set of ethical requirements by selectively applying the high-level principles from PES 1, the approach may also lead to unintended consequences and risks such as there being in place a “lower” level (or at least, a perceived lower level) of independence requirements vis-à-vis the requirements in PES 1.

Investors expect consistent independence standards and ethical requirements to be able to rely on GHG emissions disclosures. Having one GHG emissions disclosures assurance standard and related ethics for all practitioners would ensure this expectation is met. In our view, investors are relying on the XRB to establish settings to achieve this end.

Therefore, we recommend that the XRB not depart from consistent and comprehensive ethical requirements for external assurance as contained in PES 1 for all assurance practitioners to ensure investors’ expectations around independence and ethics are met.

Quality management

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

Appendix B of the CD, Summary comparison of international assurance standards (XRB versus ISO requirements), says the “majority of quality management requirements sit in separate standards such as ISO 14065”. It does not elaborate any further on those quality management requirements in ISO 14065. Furthermore, “such as” indicates other standards should be used as a reference point. As such, they should also be specified.

Unlike ISAE (NZ) 3410, which requires compliance with PES 3, ISO 14064-3 does not appear to require compliance with ISO 14065 *Requirements for validation and verification bodies*. So, it is unclear whether compliance with the quality management requirements in ISO 14065 is mandatory when applying ISO 14064-3.

Although the ED proposes that the assurance practitioner is only required to comply with the quality managements requirements included in the ED alone and that there is no further requirement to comply with PES 3, this is not true for assurance practitioners from the accounting profession. Members of professional accounting bodies, including CA ANZ and CPA Australia, are required to comply with PES 3 issued by the XRB. We are concerned that this disparity could lead to a lack of consistency in the quality of assurance engagements. It creates disparity in terms of the credibility of the information being reported and on which users rely, as well as potential market inequity.

Based on the proposed quality management requirements in the ED alone, we have significant doubts whether this would result in a system of quality management that is equivalent to that required under PES 3. Investors expect a consistent high level of quality to be able to rely on GHG emissions disclosures. Having one GHG emissions assurance standard for all practitioners would ensure this expectation is met.

The ED effectively creates an alternate set of quality management requirements by selectively applying the high-level principles from PES 3 leading to additional costs even for firms already applying PES 3. The approach may also lead to unintended consequences and risks such as there being in place a “lower” level (or at least, a perceived lower level) of quality vis-à-vis that attained by complying with the requirements in PES 3.

Therefore, we recommend that the XRB not depart from the requirements of PES 3 for all assurance practitioners to ensure investors’ expectations around quality, consistency and comparability are met.

Assurance 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.

There is only one illustrative assurance report: Unmodified Limited Assurance Report, about which we have some concerns – refer to our comments in response to Question 6 below. More illustrative reports (for example reasonable assurance report, modified assurance reports) should be prepared and consulted on, to ensure that informed commentary and feedback is provided.

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?

We are concerned that the market will not understand the different terminology used to express the conclusion or opinion in the two proposed assurance standards. Moreover, report users may not understand the distinction between them. For example, it is not clear that “verification” under ISO 14064-3 has the same meaning as “assurance” under ISAE (NZ) 3410.

Furthermore, the assurance approach to certain categories of scope 3 emissions differs between ISAE (NZ) 3410 and ISO 14064-3. ISO 14064-3 treats some inputs to scope 3 emissions calculations as “projected” or “forecast” information. In such instances the term “validation” is used in the assurance conclusion in relation to such information as opposed to “verification”. Under ISAE (NZ) 3410 these inputs are treated as estimates and there is no differentiation in assurance approach.

It is challenging creating a new reporting and assurance regime that is responding to the evolving needs of stakeholders. However, creating multiple and different assurance standards, with differing terminology and differing underlying methodologies and approaches, is confusing, and potentially may undermine the success of the efforts being undertaken overall reporting climate-related disclosures.

Therefore, we reinforce our recommendation as detailed in our response to Question 1 that there should be one assurance standard in New Zealand for the assurance of greenhouse gas emissions disclosures, and that should be ISAE (NZ) 3410.

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 optional inclusion of Key Matter, Emphasis of Matter and Other Matter paragraphs in the assurance report. This is on the basis that they enhance the communicative value of the assurance report, especially given it is the only tangible output of the engagement.

However, we have significant doubts whether following the proposed requirements in the ED alone in relation to Key Matter, Emphasis of Matter and Other Matter paragraphs would result in an output that is equivalent to that under ISA (NZ) 701 and ISA (NZ) 706, as issued by the XRB.

We are aware of feedback indicating that the inclusion of Key Matters in a limited assurance engagement would be inappropriate, on the basis there is a risk that users could take more assurance than is warranted – key matters are only currently reported under a reasonable assurance engagement.

In our view, inherent uncertainty should be primarily addressed by the preparer. We also note that preparers are required to disclose GHG emissions methods, assumptions, and uncertainty under paragraphs 52–54 of NZ CS 3 *General Requirements for Climate-related Disclosures*. This may be appropriately dealt with using an Emphasis of Matter paragraph.

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.

If the XRB proceeds with a multi-standard/multi-tiered model, it is incumbent on the XRB to ensure that the assurance practitioner’s report is clear on the differences in work effort, and ethical and quality management requirements. In our view, paragraph 37, which requires the identification of the standards that have been applied, could be expanded to include a more fulsome explanation of the work performed, and the regulatory environment within which the practitioner operates, and importantly, the differences that result from using the standard chosen from the two options available.

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 ED gives equal weighting to competence in assurance, and GHG emissions. In our view subject-matter specific skills and knowledge are important, but in an assurance standard the fundamental skills and competence are those related to assurance.

There is also a lack of clarity in the level of assurance skills and competence required as set out in paragraph A21 of the ED, and the level of GHG emissions skills and competence required as set out in paragraph A23 of the ED. The complexity of assurance engagements with respect to GHG emissions can vary. In some cases, the engagement can be straight forward. In other instances, the engagement can be relatively complex, especially when dealing with assurance over disclosures related to scope 3 emissions.

In the case of a relatively complex engagement, which may focus largely on the system used to record and process the data, and arithmetical application of the specified emissions factor, specialist competence from other experts in areas such as information systems, scientific and engineering may be required. However, that does not mean the assurance practitioner does not have the skills and competence required to undertake the engagement – most audit and assurance engagements involve the use of experts as part of a multi-disciplinary team led by an assurance specialist. This is extensively covered in international assurance standards including ISAE (NZ) 3410.

We recommend that the XRB provides further clarification on what is expected of the engagement leader to be deemed to have “sufficient” competence, as proposed in paragraph 18 of the ED.

Ordinarily we would expect specific minimum requirements in relation to assurance practitioners' competence to be prescribed by the applicable regulatory body. The *Financial Markets Conduct Act 2013* currently requires assurance over GHG emissions disclosures in climate statements for reporting periods ending on or after 27 October 2024. The proposed climate-related disclosures (CRD) assurance practitioner licensing regime⁷ will not commence until 2027. We are concerned that there will be no regulatory oversight of the assurance of GHG emissions disclosures during this period. In our view, this poses a significant risk to the trust and confidence users can place on such disclosures. It is possible that some assurance practitioners who are currently performing GHG emissions assurance engagements would not meet the future licensing requirements.

⁷ <https://www.mbie.govt.nz/have-your-say/assurance-over-climate-related-disclosures/>

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?

Appendix B of the CD, Summary comparison of international assurance standards (XRB versus ISO requirements), says “Requirements in relation to use of the work of another practitioner/experts are included in ISO 14066.” It does not elaborate further on those requirements in ISO 14066. ISO 14064-3 does not appear to require compliance with ISO 14066 *Competence requirements for GHG validation teams and verification teams*. So, it is unclear whether compliance with requirements in relation to use of the work of another practitioner/experts in ISO 14066 is mandatory when applying ISO 14064-3.

However, as discussed in our response to Question 1, to comply with ISAE (NZ) 3410, assurance practitioners must also comply with ISAE (NZ) 3000. Together, ISAE (NZ) 3410 and ISAE (NZ) 3000 impose more requirements in relation to reliance on the work of others than is proposed in the ED.

Based on the proposed requirements in relation to the work of others in the ED alone, we have significant doubts whether this would result in an output that is equivalent to that which would result from the use of the ISAE (NZ) standards.

Other comments

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

- A written representation is required under paragraph 58 of ISAE (NZ) 3410, but there is no specific requirement for a written representation in ISO 14064-3. Furthermore, there is no specific requirement for a written representation proposed in the ED. This is an example of a difference between the two standards, specifically where ISAE (NZ) 3410 is more onerous. It is an example of where requirements from the existing standard have not been adopted as the baseline/minimum requirement in the ED.
- In our view there are some significant omissions from the ED. For example, the auditor's responsibilities relating to fraud, planning and materiality. Additionally, the only requirements in the ED around documentation are in relation to conclusions regarding compliance with the fundamental principles (paragraph 10) and the system of quality management (paragraph 47). We do not believe the ED provides a sufficient baseline/minimum requirement in these areas.
- For the avoidance of doubt, paragraph 52 should make clear that an independent review is required for every engagement.

We have identified several improvements needed to the definitions in paragraph 3, including:

- Assurance client – as currently drafted it could be taken to mean the whole population of climate reporting entities, as opposed to “a” climate reporting entity – being one single entity.
- Assurance organisation – it is unclear why the term “Firm” is not used here as defined in EG Au4 *Glossary of Terms*, as issued by the XRB.

- Assurance practitioner – embedding the requirement to be “competent and independent” within this definition could have unintended consequences from an enforcement perspective, particularly given the lack of a licensing regime for assurance practitioners at this time.
- Engagement leader – it is unclear how this is distinct from the term “assurance practitioner”. Furthermore, these two terms appear to be used interchangeably throughout the ED.
- “Financial interest” is defined in paragraph A16 in the application material, instead of paragraph 3, and has a different definition to that in PES 1.
- Several definitions are omitted completely, for example:
 - “Assurance team” and “engagement team” are not defined. Additionally, it is not clear what the distinction is between the two terms. They appear to be used interchangeably throughout the ED.
 - “Immediate family member” in paragraphs 14(c), 15(c) and A19 is not defined.
 - “Senior personnel” in paragraph 16 is not defined.



Investor
Group on
Climate
Change

Submission to XRB consultation on assurance over GHG emissions disclosures in New Zealand

March 2023

Submission to XRB consultation on assurance over GHG emissions disclosures in New Zealand

The Investor Group on Climate Change (IGCC) welcomes the opportunity to provide feedback to the External Reporting Board (XRB) consultation on its draft standard for assurance over greenhouse gas (GHG) emissions disclosures (proposed standard).¹

IGCC is a collaboration of Australian and New Zealand institutional investors focused on the impact of climate change on investments. IGCC represents investors with total funds under management of over \$3 trillion in Australia and New Zealand and \$30 trillion around the world.

Summary of key points

This feedback addresses questions from the perspective of institutional investors as end users of climate-related disclosures, and highlights support for:

- International alignment of standards to promote consistency and comparability.
- A robust assurance framework to promote confidence in reported information, similar to audited financial statements, including ethics, independence, and quality management requirements.
- Expanding assurance to the broader climate statement *over time*, allowing for capability building and taking advantage of learnings from a post implementation review.
- Assurance practitioners to have relevant qualifications and expertise, and be subject to ethical, independence and quality management requirements.
- End users to easily interpret and compare assurance outcomes, raising concern over the proposal to allow assurance practitioners to use different assurance engagement standards.
- Additional information in the assurance report which helps users to understand the assurance opinion and process, and inform decision making.

¹ [XRB, Assurance over GHG Disclosures consultation, closing 24 March 2023.](#)

About the proposed standard

The proposed standard responds to the legislative requirement² that assurance over GHG emissions disclosures be undertaken in accordance with the XRB's auditing and assurance standards. The XRB's objective is to develop a standard that contributes to high-quality assurance over GHG emissions disclosures made by climate reporting entities (CREs). The XRB is intentionally developing a temporary standard, recognising that the standard setting environment is rapidly evolving with international assurance standards for sustainability assurance engagements still in development, and that the scope of assurance may extend beyond GHG emissions disclosures to the full climate statement in the future. The development of an assurance practitioner licensing and oversight regime is under consideration by government.

Addressing user needs

IGCC supports the proposed standard's objective to enable competent and independent assurance practitioners to provide consistent, high-quality assurance over GHG emissions disclosures.

As in financial reporting, external assurance has a key role in contributing to reporting reliability and investor confidence over climate-related disclosures. A robust assurance framework is important to ensure investors and other stakeholders can rely on the integrity of information provided, similar to audited financial statements, including ethics, independence, and quality management requirements.

International alignment of approaches to reporting and assurance is a key priority for investors to promote consistency and comparability including across jurisdictions. Therefore, IGCC supports the XRB's proposal to review and update the assurance standard following the finalisation of international assurance standards currently under development, to promote international alignment and respond to evolving practice. Consistency with, and evolution of, existing and emerging assurance standards is important to promote common understanding, consistency and comparability of reporting within and across jurisdictions.

Importantly, we recognise end user needs are not uniform. For example, asset owners and fund managers are also required to produce climate-related risks disclosures under the XRB's Climate Standards, and are conscious that many end-users of these reports, as well as of company reports, are individual, everyday people seeking to understand whether their investments are being

² Under the *Financial Markets Conduct Act*, as amended by the *Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021*.

managed responsibly over the long-term. The XRB's approach to developing assurance standards and guidance needs to consider a range of end user needs and levels of sophistication.

How much assurance should there be, over what aspects and at what cost?

There is strong investor demand for robust and reliable information on climate-related risk and opportunity which is likely to increase over time. Assurance plays a key role in this. IGCC supports expansion of assurance coverage to the full climate statement over time.

Starting with assurance of greenhouse gas (GHG) emissions disclosures and subsequently expanding coverage will allow time for capability building and to identify any issues that arise following practical experience applying the climate-related disclosure and assurance standards. A comprehensive post implementation review including close consultation with stakeholders will be valuable to inform this process, and to promote alignment with emerging international standards.

Signalling the direction of travel and timing for expansion of assurance requirements from GHG emissions disclosures to broader coverage of climate statements provides an important market signal and helps stakeholders to adequately prepare, including establishing the wider assurance framework and ecosystem. It will be beneficial for the XRB to encourage early voluntary assurance beyond the mandated requirements.

Who should undertake the assurance?

Ensuring suitably qualified assurance practitioners while minimising the cost burden is an important priority for investors.

Assurance should be carried out by experts with relevant qualifications and expertise, who are subject to ethical, independence and quality management requirements. Governance and oversight arrangements should be in place to a similar level as for financial reporting.

Investors are interested to understand expectations of assurance practitioners and how consistency of assurance will be promoted. To that end, we note the XRB's proposal to allow assurance practitioners to comply with one of two international assurance standards.³

³ International Standard on Assurance Engagements 3410 Assurance Engagements on Greenhouse Gas Statements (ISAE 3410) issued by the IAASB; or ISO 14064-3:2019 Greenhouse gases —Part 3: Specification with guidance for the verification and validation of greenhouse gas statements (ISO 14064-3) issued by the ISO.

Allowing this option for assurance practitioners to choose from multiple standards raises concerns regarding consistency and comparability of assurance approaches. We suggest the XRB review this proposal and consider allowing one consistent approach, rather than multiple options.

How is the assurance report used – specifically what will make the report meaningful to users?

The assurance report is a valuable source of information for investors. Assurance can help sharpen user understanding of the information to ensure it is reliable, consistent and comparable.

Beyond the assurance conclusion, additional information on key matters can provide important context and insights for investors, for example on where the assurance practitioner has spent their time, areas of most risk etc. We support the proposal to allow assurance practitioners to include information on key matters, areas that the assurance practitioner considers should be highlighted, areas of inherent uncertainty and other matters which provide valuable context and information for users to understand the assurance opinion and inform decision making and stewardship. This information can also be valuable for standard setters and regulators to understand common key issues identified in the assurance process. Some of these matters, such as inherent uncertainty should also be primarily addressed by the preparer, with assurance practitioner comments focused to the assurance process.

Additional information must follow established principles for what should be included, making clear the link to the assurance process and activities, and avoiding any perceived risk of straying into subjective personal belief. Robust processes for managing quality and independence and supporting guidance will help to promote confidence in professional judgement and expertise of assurance practitioners.

We appreciate the opportunity to provide feedback on this important consultation. For further information and to discuss any matters within this submission, please contact:

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24 March 2023

Submission on Consultation Document - Assurance Engagements over GHG Emissions Disclosures

Dear Sir / Madam

Ernst & Young New Zealand (EY) welcomes the opportunity to comment on the Consultation Document, *Assurance Engagements over GHG Emissions Disclosures* (exposure draft), issued by the External Reporting Board (XRB).

Our view is that non-financial disclosures, particularly significant Environment, Social and Governance (ESG) disclosures, should have the same level of integrity to users as financial statements. We believe independent assurance is a key contributor in ensuring this objective is met and so that users have high level of trust and confidence in non-financial disclosures. The ultimate goal of ESG assurance standards (including greenhouse gas (GHG) emissions assurance standards) should be to align with financial reporting assurance expectations. Over time, there should be desire to move towards an "integrated assurance" approach, reflecting the importance of both financial and ESG information to users in assessing an entity's overall performance and the interconnected nature of this information.

While we understand the purpose behind the exposure draft, it has inadvertently allowed for differing requirements (and lower than financial statement audit requirements) in certain areas, such as ethics, quality management, management representation, selection of assurance criteria, fraud inquiries and independence. The upcoming *International Standard on Sustainability Assurance ISSA 5000, General Requirements for Sustainability Assurance Engagements* (ISSA 5000) to be issued by the International Auditing and Assurance Standards Board (IAASB), which is expected to be the international leading practice, is unlikely to permit differing/lower requirements.

We acknowledge the need to introduce a mechanism that enables a wide range of practitioners to provide GHG assurance when assurance over GHG emissions becomes mandatory in October 2024. We also recognise that ISSA 5000 may not be finalised by then and that "pre-assurance" using the same or similar standards as those which will be used for the required assurance is desirable. Given this, a short-term and more immediate GHG assurance framework is needed.

In our view, the most appropriate existing standards are *International Standard on Assurance Engagements (New Zealand) 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000) and *International Standard on Assurance Engagements (New Zealand) 3410: Assurance Engagements on Greenhouse Gas Statements* (ISAE 3410) given these have the same foundations as the financial statement assurance standards. These foundations are the result of many years of experience, as well as regulatory and market requirements, to ensure that high quality assurance is provided and that trust and confidence in the relevant reporting and assurance is maintained.



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If attaining the quality management and similar standards is not possible in the short term, we strongly believe that the XRB should set a clear timeframe in which all practitioners are required to apply assurance standards equivalent to those of financial statements assurance. We believe that any approach which does not seek alignment and consistency, at an appropriately high standard, will lead to a complex assurance landscape that users do not understand and will likely undermine the credibility of assurance over ESG information. We are also concerned that any assurance failures over ESG reporting as a result of having inconsistent and transitional requirements compared to financial confidence, could erode the public confidence in the audit of financial statements as they won't understand the differing requirements and will consider "an audit to be an audit". We are mindful that the existing Professional and Ethical Standards (PES) series and financial statement assurance standards have been developed and strengthened over time as a result of regulator and market demands and that such requirements are needed to ensure robust and consistent quality assurance. Given current and emerging concerns with "greenwashing" and the increased reliance on GHG emissions and other ESG disclosures by statement users, we see no reason to believe that the market and regulators will not demand equivalent rigour and standards in the assurance GHG emissions and (in time) other ESG disclosures.

We welcome the opportunity to contribute to the improvement of assurance over climate-related disclosures that will continue to drive the quality, consistency, and integrity of such disclosures in New Zealand. We would be pleased to discuss our comments with members of XRB and its staff. Should you wish to do so, please contact Pip Best (pip.best@nz.ey.com or on +64 27 263 9045) or Simon O'Connor (simon.oconnor@nz.ey.com).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon O'Connor'.

Simon O'Connor
New Zealand Managing Partner

A handwritten signature in black ink, appearing to read 'Pip Best'.

Pip Best
Partner
Climate Change and Sustainability Services



Building a better working world

XRB Consultation - Assurance GHG standard
<i>Consultation Questions Respondents are asked to consider the following specific questions and to respond to the XRB by 24 March 2023:</i>
Design principles and key decisions
Question 1. Do you have any comments on the design principles or key decisions?
<p>We broadly agree with the design principles that have been identified, however we do not agree with all the identified implications and key decisions. We have set out where our views differ by design principle below. From here on, we use the following abbreviations throughout our response:</p> <ul style="list-style-type: none">- International Standard on Assurance Engagements (New Zealand) 3000: Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000)- International Standard on Assurance Engagements (New Zealand) 3410: Assurance Engagements on Greenhouse Gas Statements (ISAE 3410)- Greenhouse gases - Part 3: Specification with guidance for the validation and verification of greenhouse gas assertions (ISO 14064-3, ISO)- Professional and Ethical Standards (PES Series)<ul style="list-style-type: none">o Professional and Ethical Standard 1: 1International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1)o 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)o Professional and Ethical Standard 4: Engagement Quality Reviews (PES 4) <p>Trust and confidence - It is paramount to build trust and confidence in ESG assurance. The consultation document suggests that both of the specified international assurance standards are fit for purpose for undertaking assurance over GHG disclosures within climate disclosure statements. Given the current global position, we are unclear as to how this conclusion (ISO and ISAE are both fit for purpose) has been reached since there are clear differences between the standards, as highlighted in Appendix B of the consultation document.</p> <p>Differences in the extent of testing procedures, materiality and reporting is likely to lead to user confusion about the extent of assurance provided and work performed to reach the respective conclusions, as well as ethical and quality management standards underpinning the work.</p> <p>Whilst the proposed standard has attempted to bridge the difference between the ISO and ISAE standards, there are still holistic discrepancies which cannot be addressed by an additional standard. We note that the ISO standard is not publicly available and accordingly, there is a lack of transparency around its requirements to meet a specified level of assurance. This presents a challenge for the public to have trust and confidence in the ISO assurance. ISAE 3410 and ISAE 3000 are publicly available.</p> <p>Temporary nature of the standard - Acknowledging that mandatory assurance over GHG emissions will become effective in October 2024 and the ISSA 5000 is not expected to be finalised until end 2024, it is important that an interim standard is in place before the XRB adopts or aligns to ISSA 5000 (or any alternative standard). While the proposed interim standard may be acceptable as a compromise in the short-term, the identified gaps between ISO and ISAE</p>



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standards need to be appropriately addressed so that users can place trust and confidence in the assurance provided. Additionally, a transition plan must be defined and clear to all practitioners who intend to provide assurance in the medium/longer term. We believe that any approach which does not seek alignment and consistency, at an appropriately high standard, will lead to a complex assurance landscape that users do not understand, and if the ethical and quality management standards are lower than financial statement assurance, this will likely undermine the credibility of assurance over ESG information.

Accountability and clarity - We have nothing further to add to this design principle.

Importance of ethics and quality - The proposed standard offers a high level and principles-based approach for the quality management and ethics elements. However, unless practitioners are already operating in accordance with the PES Series or equivalent requirements, we suspect this level of detail and guidance provided is insufficient to explain what is required from the practitioners to ensure high quality assurance is consistently delivered. We are concerned this will lead to the development of a perceived two-tiered system in the assurance of ESG disclosures. Regulated practitioners (i.e. those registered with NZICA to perform financial statement audits) will still be required to apply the PES series, which further adds to the variations that will develop in the assurance market. The PES series has been formulated over time to develop a robust quality management and ethics standards, as demanded by regulators and other stakeholders. Moving away from this well-established framework risks opening ESG assurance to scrutiny and causing a loss of trust and confidence in the climate disclosures (which has the potential to taint the confidence in audited financial statements as well).

Transparency - We agree that transparency is fundamental to enhance the communicative value of climate assurance reports to users and we are supportive of the identified communicative tools. However, the ISO standards (reporting and assurance) are not publicly available to the users of the assurance report. We consider it highly preferable that the standards used be readily available to ensure transparency of the assurance engagement.

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. Whilst these two standards are the basis for the current assurance market in New Zealand, and the differences between them may seem small/inconsequential, practical implementation suggests that these differences can lead to variations in the nature of the work performed in terms of the application of ethical and quality management practices and in the form of the assurance report. For instance, the application of the principle of independence and the naming conventions of different levels of assurance and different categories of emissions sources.

Users may not understand the difference between the two standards being applied and this could lead to lack of understanding and confidence in GHG emissions disclosures and assurance as well as perceived integrity issues with GHG emissions disclosure assurance. It would help users and increase confidence if one standard was to be used by all practitioners and the same quality and risk management standards were adhered to as for financial assurance.



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<p>Ethical requirements, including independence</p> <p>Question 3. Do you consider the proposed ethical requirements are appropriate? If you disagree, please explain why.</p>
<p>While we believe the overarching ethics and independence principles included in the exposure draft are appropriate, greater guidance should be provided given not all practitioners will be familiar with the PES series and so may not appropriately apply these principles in practice. We are concerned the current principles-based approach is open to wide and varying interpretation, and that this is particularly likely given previous practical implementation of the principles and differing experience/mindset of practitioners who will use the standard. Such variation would be concerning to users and in a yet-to-be regulated environment, may not easily be identified or moderated.</p> <p>IESBA are developing profession-agnostic ethics and independence standards for sustainability assurance, which is expected to be international leading practice, and plans to issue final standards by end of 2024. IESBA has already determined that "...certain sustainability assurance engagements must be underpinned by the same high standards of ethical behaviour and independence that apply to audits of financial information. ...". This would suggest more than the currently proposed principles will be required to meet these standards.</p>
<p>Quality management</p> <p>Question 4. Do you consider the proposed quality management requirements are appropriate? If you disagree, please explain why.</p>
<p>The purpose of this exposure draft is to ensure high quality assurance over GHG emissions is being provided by practitioners. This is to support the overarching objective to ensure climate change disclosures are reliable and trusted and enhance market confidence. Therefore, quality management requirements should be explicitly stated, so that they can be consistently applied by all assurance practitioners. The requirements on quality management set out in the exposure draft may be appropriate. However, because they are principle based and not explicit, they are open to interpretation and could lead to quality concerns and issues from users and regulators, similar to those that have been seen in that past under the previous, less rigorous PES standards (which also led to them being revised over time to their current state). The main concern is that practitioners who are not familiar with the PES standards will not obtain sufficient guidance from the proposed standard. If there is concern in the market that not all practitioners will be able to meet the PES standards immediately, the interim standard should allow for a short/time-lined transition period only, in which time assurance practitioners can establish compliance against appropriate standards akin to the current PES requirements.</p>
<p>Assurance Practitioner's Report</p> <p>Question 5. Do you consider the proposed requirements in relation to the assurance practitioner's report are appropriate? If you disagree, please explain why.</p>
<p>The exposure draft permits either the ISAE 3410 or ISO 14046-3 to be used for GHG emissions assurance and the resultant reporting. This includes the use of different language and terminology in the assurance statement e.g. "verification", which is a result of different assurance practices being applied. As previously identified, we are concerned that the development of an assurance standard which allows different methods of reporting will lead to market confusion and will likely lead to a perceived two-tiered system.</p>

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Our longer-term view is that integrated assurance will become the leading practice and the non-financial assurance subject matter will expand and become increasingly interlinked to financial information, therefore the standards used by assurance practitioners should have consistent language, integrity and reporting expectations across financial and non-financial subject matters. There are already very different expectations as to what “verification” means in non-financial reporting (such as in the sustainable finance market) and use of terms such as this will increasingly drive integrity concerns if not aligned with the expectations of assurance in financial reporting.

Our overall view is that ISAE3410 and ISAE3000 standards should be the basis for GHG emissions and non-financial assurance before ISSA 5000 is issued by IAASB (which from our understanding is also basing their standard on ISAE3410 and ISAE3000 standards). If the understanding is that ISO standards are of the same/similar quality and risk management and ethical standards to ISAE standards (which we are not convinced is the case), there should be limited challenge for practitioners in implementing the ISAE standards.

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?

Please refer to our response to the question above.

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

Yes, these are appropriate in order to highlight matters of consideration and importance to the user as and when required. However, we also believe that illustrative report examples should be developed for the assurance statement which all assurance practitioners must adopt to ensure consistency and that users are gaining understanding, trust and confidence in the disclosures made. The current template appears appropriate overall and appears to include all possible elements of the standard assurance report e.g. OM, EoM, KMs.

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.

We believe the following additional elements should be considered for inclusion:

- Mandatory disclosure to describe the basis of materiality that has been used by the practitioner to ensure complete transparency over the assurance provided, and in particular whether the materiality used for scope 1 and 2 emissions differs to that for scope 3.
- A statement on the subjective interpretation of the standard depending on the different stakeholder groups. This will provide further clarity and context, allowing for better understanding of the assurance statement for the user.
- Specification of the users of the assurance report in order to ensure the report is used by the appropriate people and in the appropriate manner.



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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 requirements included in the exposure draft contain high-level subjective requirements. In order to enhance confidence in GHG emissions disclosures, minimum requirements/qualifications should be required, and given the level of maturity in this area, these requirements will likely need to be prescriptive. The subjective nature of the proposed requirements opens this up to interpretation and hence practitioners will need more guidance to ensure compliance. However, this is something we would expect to see addressed by the licensing regime rather than the assurance standard, but if the intention is to capture this within the standard, then we suggest adding in further clarification on these requirements.

We believe the requirements to be an effective and appropriately qualified assurance practitioner for the purposes of GHG emissions should be clearly specified. These requirements do not necessarily have to be the same requirements as for financial assurance, however, should have similar level of qualification(s) and appropriate experience.

In our opinion, the XRB should consider, and where possible, build on the minimum competency standards for GHG emissions assurance practitioners set by other international regulators of GHG emissions assurance, such as the Clean Energy Regulator in Australia. Requirements such as team member hours, number of assurance engagements, participation in continuing professional development, relevant tertiary qualification and technical experience in the underlying legislation should be made relevant to GHG emissions assurance providers.

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 the relying on the work of others requirement is necessary given the nature of the subject matter. We also agree that 'others' need to be appropriately evaluated for their qualifications, competence and objectivity. However, the requirements in ISAE standards are more prescriptive; detailing that 'others' can be internal or external which is an important clarification missing from the suggested requirements, and hence we recommend these be included.

Other comments

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

No further comments to add.

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

From: no-reply@xrb.govt.nz <no-reply@xrb.govt.nz>

Sent: Friday, March 24, 2023 3:33 PM

To: External Reporting Board Enquiries <enquiries@xrb.govt.nz>

Subject: XRB Open For Comments Submission



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

FirstName	Jacqueline
LastName	d'Ath
Organisation	Individual
Email	jacquelinedath12@gmail.com
Comments	<p>I agree with the need to have a temporary standard during a period of rapidly developing international sustainability assurance standards.</p> <p>Consultation document Q3 I support the need for independence and the separation of assurance providers from those organisations providing GHG preparation, advice, or other work to or for the assurance client (paragraphs 11 and 12 of the draft standards). This is in line with traditional financial auditing requirements, which have sound bases for separating audit and advice functions.</p> <p>Consultation document Q9 I agree with the competency requirements.</p>
Consultation Page URL	https://www.xrb.govt.nz/consultations/assurance-standards-in-development/open-for-comment/assurance-over-ghg-emissions-disclosures/