



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Basis for Conclusions

New Zealand Standard on Assurance Engagements 1 (NZ SAE 1)

Assurance Engagements over Greenhouse Gas Emissions Disclosures

August 2023

This document relates to, but does not form part of, NZ SAE 1, which was approved by the NZAuASB¹ in July 2023.

It summarises the major issues raised by respondents to Exposure Draft NZ SAE 1 Assurance Engagements over GHG Emissions Disclosures and how the XRB has addressed them.

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¹ The NZAuASB is responsible for developing and issuing auditing and assurance standards. The NZAuASB operates under delegated authority from the XRB Board. References to ‘the XRB’ in this document refer to the External Reporting Board as an organisation.

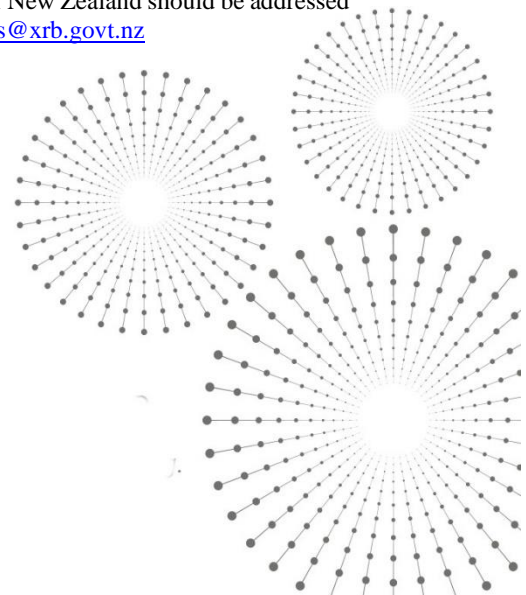


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Basis for Conclusions on NZ SAE 1 Assurance Engagements over Greenhouse Gas Emissions Disclosures

This Basis for Conclusions (BC) accompanies, but is not part of, NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures*.

Introduction

BC1. This Basis for Conclusions summarises the External Reporting Board's (the XRB's) considerations in finalising NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures* (NZ SAE 1).

Reasons for issuing NZ SAE 1

BC2. The XRB issued three Aotearoa New Zealand Climate Standards in December 2022. Mandatory reporting on climate-related risks and opportunities is now required to be prepared by climate reporting entities. This includes mandatory reporting in relation to Greenhouse Gas (GHG) emissions.

BC3. The Financial Markets Conduct Act 2013 (as amended by the Financial Sector (Climate-related Disclosures and Other Matters) Amendment Act 2021) requires assurance over the parts of the climate statements that relate to GHG emissions from 1 October 2024. Assurance is required to be in accordance with the XRB's assurance standards. The XRB has developed NZ SAE 1 to enable assurance over the GHG disclosures, as required by law.

Development approach

BC4. NZ SAE 1 has purposefully been developed as a temporary, narrowly scoped standard addressing assurance required by legislation. It is temporary, recognising that a transition period is needed to move from a voluntary to a regulated regime, acknowledging that a regulatory assurance oversight scheme is not yet established.

BC5. This will allow for the XRB to consider the longer-term approach, as the market and international considerations develop. The XRB is encouraging the establishment of climate reporting environment, rather than setting the "perfect standard" from the beginning. The goal is to establish guiding principles in the first instance that can be refined and enhanced as the system matures.

BC6. NZ SAE 1 has been developed to allow for all competent, independent assurance practitioners to provide assurance as the GHG assurance regime begins. This is intended to build capacity in this specialised field. Allowing competent practitioners from financial and non-financial assurance backgrounds, and using two international GHG assurance standards, is intended to encourage learnings between practitioners and enhance the quality of assurance over GHG emissions.

BC7. The XRB is clear that our approach is not a permanent solution to evolving assurance over GHG disclosures, climate statements or sustainability reporting and NZ SAE 1 has specifically been developed as, and labelled, a temporary standard.

BC8. This temporary standard only covers requirements for the assurance of the GHG disclosures contained within the climate statement. Some entities may voluntarily seek assurance over other parts of, or the entire, climate statement, NZ SAE 1 has not been designed to be applied for an assurance engagement over the full climate statement. ISAE (NZ) 3000 (Revised) is an existing

XRB assurance standard that might be helpful for a voluntary assurance engagement over other parts of the climate statement.

BC9. As described in our consultation document in December 2022, our project followed the design principles of trust and confidence, temporary and agile, accountability and clarity, ethics and quality, and transparency. It is important that a robust standard is developed to support strong assurance work over such an important and developing area of reporting. These principles have been the foundation for all of the XRB's decisions.

BC10. NZ SAE 1 includes principles which assurance practitioners are required to apply to an assurance engagement, rather than strict rules of compliance. As a result, professional judgement will play a key role in applying these principles in practice to ensure that GHG assurance engagements are performed in an effective manner and result in quality assurance over the GHG disclosures.

BC11. The XRB took a consultative approach to develop the requirements, engaging with assurance practitioners of different backgrounds. An advisory panel was created. The panel consisted of experienced assurance practitioners currently using either the International Standard on Assurance Engagement (ISAE) 3410 or International Organization for Standardization (ISO) 14064-3: 2019 standards. The panel provided insights on the comparison of the two Standards and advised on additional requirements for inclusion into the new temporary Standard.

BC12. Given the public interest in GHG reporting and assurance, as part of developing NZ SAE 1, we held various online events and contacted targeted users/preparers. We met with various parties, to explore broader perspectives on GHG and climate statement assurance and collected informal feedback during discussions with stakeholders.

Exposure Draft and consultation process

BC13. As part of the due process for developing standards, the XRB has a statutory obligation to publicly consult with stakeholders before issuing a standard. In December 2022 we issued two documents for public comment including the Exposure Draft (ED) of this proposed standard, and the consultation document which contained our approach and consultation questions. We issued several Frequently Asked Questions (FAQs) that provided clarification on the most asked questions during the process of the development of the ED. A short video, with an overview of the proposed standard, was posted on the XRB website early February 2023.

BC14. The consultation closed on 24 March 2023, and we received 16 formal submissions in response to this public consultation. All submissions received together with all comments and feedback heard through outreach events were analysed and were considered in finalising the standard.

BC15. This BC summarises the key messages we heard in our consultation and explains the rationale for the key decisions made in finalising NZ SAE 1.

Allowance of two international based assurance standards

Background

BC16. The following international assurance standards are currently in use in New Zealand to perform assurance engagements over GHG emissions:

- a. ISAE 3410 *Assurance Engagements on Greenhouse Gas Statements* (which the XRB has adopted in New Zealand as ISAE (NZ) 3410); and
- b. International Organization for Standardization (ISO) 14064-3: 2019 *Greenhouse gases – Specification with guidance for the verification and validation of greenhouse gas statements*

(which is part of the ISO 14064 suite of Standards addressing Greenhouse gas emissions quantification, monitoring and reporting matters).

BC17. Many stakeholders expressed a preference for a single standard to ensure consistency by all practitioners. There was significant discussion on which underlying standard was the most appropriate for this GHG assurance regime. While some submissions were supportive of two standards, the majority were supportive of a single Standard.

BC18. We recognise the preference for having one standard but are of the view that having two standards is in the public interest for this temporary regime, particularly as both standards are currently in use in New Zealand and the mandatory GHG assurance regime is in its early stages. We consider that one standard will be necessary in the future, as a longer-term assurance regime develops, and will carefully consider this as the reporting and assurance landscape matures.

Rationale for allowing both existing standards

BC19. There is a shortage of practitioners. While the GHG assurance regime is still in its infancy and is expected to evolve rapidly over the next few years, it is fundamentally important that the assurance engagements remain open to all competent, independent practitioners, without unnecessary barriers to entry.

BC20. The XRB compared the requirements of these two standards to understand any differences and to explore opportunities to leverage existing requirements. Overall, XRB concluded that the Standards are substantively similar while noting that there are some differences, particularly in the terminology used.

BC21. We recognise that allowing two standards has been questioned by stakeholders. However, given the limited number of practitioners able to perform these engagements, we consider it is in the public interest to create a transparent and encompassing regime. It is not the XRB's intention to create unreasonable barriers to entry or develop standards which favour certain practitioners.

BC22. Instead of creating an extensive new standard to govern assurance over GHG disclosures and duplicate existing requirements, the XRB requires practitioners to apply either ISAE (NZ) 3410 or ISO 14064-3: 2019 and creates overarching principles which must be applied over and above the two individual standards. This should ensure there is an appropriate degree of consistency where there were some observed differences between the two underlying standards.

Cross-referencing to ISO Standards

Background

BC23. Throughout our consultation process, we heard concerns that the ISO standards are not available without cost. Submissions raised that this reduces transparency about this assurance work and might limit understanding about the extent of procedures performed. The XRB has been mindful of this concern throughout the development of NZ SAE 1.

BC24. Although the XRB has not previously cross-referenced an ISO standard, we are aware that other existing secondary legislation in New Zealand does cross-reference specific ISO standards. The XRB considers it appropriate to do so within NZ SAE 1, given both the temporary nature of the standard and that there is an existing market for GHG assurance in New Zealand that already uses this ISO standard to provide assurance over GHG emissions inventories.

BC25. Aligned to this concern, the XRB also heard questions about whether incorporating an ISO standard, by cross-reference, follows the principles of good law-making within New Zealand as

well as questions about the due process followed and whether including two standards now could lead to increased cost for practitioners in the long-term.

ISO referencing and availability

BC26. The XRB must meet the requirements of section 64 and Schedule 2 of the Legislation Act 2019. We will do this by:

- a. Giving public notice as part of the Gazetting notice and within this Basis for Conclusions document that the standard incorporates ISO 14064-3: 2019 by reference, and how ISO 14064-3: 2019 is publicly available² (clause 2(a)); and
- b. Provide information on the XRB's website and within the standard about how to purchase ISO 14064-3: 2019 at a reasonable cost (clause 3(1)(b)).

BC27. The ISO standards are publicly available for purchase and can be purchased by any interested party. Due to copyright, the XRB cannot publish ISO standards on our website.

Principles of good law-making

BC28. The XRB has reviewed the good law-making principles outlined in the Legislation Design and Advisory Committee's (LDAC) Legislation Guidelines (2021 edition). These guidelines note that incorporation by reference is, to a certain extent, considered to be inconsistent with fundamental principles of good law making. The LDAC guidelines note that incorporation by reference should be used only if there is a strong need, or benefit, from doing so or it is impracticable to do otherwise.

BC29. The XRB identified the following benefits from incorporating ISO 14064-3: 2019 by reference in a temporary standard:

- Allow for ISO 14064-3: 2019 to be applied by those who readily work with and understand its requirements, which will open the market to competent, independent assurance practitioners and improve the quality of GHG assurance;
- Facilitate convergence and consistency and promote learning across a broader range of assurance practitioners to improve the quality of GHG assurance services; and
- Increase the pool of assurance practitioners who are already competent and experienced to provide GHG assurance services.

Due process considerations

BC30. Some submissions queried whether due process had been followed by permitting an assurance practitioner to comply with an ISO standard in NZ SAE 1. These included questions about the due process followed to produce an ISO standard, including the transparency of the process and the degree of influence by stakeholders.

BC31. The XRB acknowledges these concerns, and that the development of this temporary standard is an exception to our usual standard setting process as described in EG Au2 *Overview of Auditing and Assurance Standard Setting Process*. This process states that the XRB issues standards based on those issued by the International Auditing and Assurance Standards Board (IAASB)

² ISO 14063-3: 2019 is available for purchase from the Standards NZ Website: website: <https://www.standards.govt.nz/shop/iso-14064-32019/>

and the International Ethics Standards Board for Accountants (IESBA), or issues domestic standards.

BC32. In developing NZ SAE 1, the XRB has treated ISO 14064-3: 2019 as an additional source for international standards. The XRB's policy reflects a desire to align with international standards where appropriate. Historically our source of international standard has been those issued by the IAASB and the IESBA. Given that mandatory assurance now covers a subject matter that carbon energy specialists have been working in for many years, we stood back to acknowledge that there are alternative, well recognised international sourced standards to draw from which were not issued by the IAASB and the IESBA.

BC33. Given an additional contributing source for international standards, we compared the requirements of ISO 14064-3: 2019 to those of ISAE (NZ) 3410. We found that these standards are substantively similar. We summarised the results of this comparison within the consultation document.

BC34. ISO is a private, non-government network of national standards institutes, and includes Standards New Zealand, who are part of the Ministry of Business, Innovation & Employment (MBIE), and represent the New Zealand public's interest in the development and application of ISO standards.

BC35. The ISO standards are developed using a robust process, albeit one that is different to that of the IAASB and differs from XRB's current process. While we have not participated in its development, other New Zealand stakeholders who are more familiar with the ISO have.

BC36. It is the existing ISO 14064-3: 2019 that will be cross-referenced within NZ SAE 1. Our analysis of its requirements led us to conclude that it is appropriate for the purposes of this regime now. If this ISO is revised in the future, then the XRB will determine whether the revisions continue to be suitable for use in this regime. We understand it is currently up for systemic review, with a vote due at the end of July 2023, in line with ISO's policy to review a standard every five years.

BC37. While the XRB has not historically influenced developing ISOs, this does not prevent us from assessing its suitability and allowing use of ISO 14064-3: 2019.

BC38. It is not our intent to allow use of multiple standards in the longer-term. This is a temporary measure, to address concerns regarding a shortage of assurance practitioners to allow inclusivity of all competent and independent assurance practitioners, as the mandatory assurance regime begins.

BC39. The XRB will closely monitor the impact of allowing two standards, as the mandatory GHG assurance regime matures, and will adjust NZ SAE 1, where necessary, if there are unintended impacts because of this.

Temporary Standard and End-date

Background

BC40. The XRB's intent is to create a proportionate response, recognising there is a transition from voluntary to mandatory assurance underway. NZ SAE 1 has been designed to allow all competent, independent practitioners to participate without unnecessary barriers to entry. This is essential in its infancy to build capacity in this specialised area.

BC41. NZ SAE 1 has deliberately been developed as a temporary standard. This will enable high-quality assurance, while allowing the XRB to evaluate the effectiveness of this standard over time, and incorporate other requirements, as considered appropriate, as the regime evolves.

BC42. The XRB cannot set a specific end date for the temporary standard at this time. Several factors, as outlined below, will determine if, and when, the temporary standard should be amended or withdrawn/replaced. The XRB will closely monitor the below identified factors which may impact on NZ SAE 1, as well as monitoring any issues and learnings as the temporary standard begins to be applied by practitioners, to determine if an amendment or withdrawal of the temporary standard is required.

BC43. It is not usual process for the XRB to issue a temporary standard, and this unique situation will not set precedents going forward in the development of future XRB Standards.

Ongoing Government consultations and International Standards developments

BC44. MBIE and MfE have consulted on proposals to expand the scope of assurance, as well as a potential GHG assurance licensing and monitoring regime. Any legislative changes which may result from these consultations may influence NZ SAE 1 and require the standard to be revised or revoked.

BC45. In addition, the International Auditing and Assurance Standards Board (IAASB) is currently developing the International Standard on Sustainability Assurance (ISSA) 5000: *General Requirements for Sustainability Assurance Engagements*. ISO is similarly developing ISO 14019, a Standard for the validation and verification of sustainability information.

BC46. The temporary nature of NZ SAE 1 allows for existing international GHG assurance standards to be used for the mandatory assurance regime, until the XRB knows more about the scope of assurance, any licensing regime, and whether the developing international standards will be locally relevant for the New Zealand regime. The temporary nature will allow for NZ SAE 1 to be aligned to international standards, in the future, if they are considered appropriate for New Zealand, by the XRB.

Future changes and transition

BC47. The XRB is monitoring developments in GHG, climate and sustainability assurance and will ensure that the regime has appropriate standards or guidance in place. As further developments occur, the XRB will use multiple outreach initiatives to ensure New Zealanders have their say.

BC48. The XRB will monitor whether NZ SAE 1 is fit for purpose through reviewing the first set of GHG assurance reports when these are released to assess how these are being used by assurance practitioners and holding discussions with stakeholders where necessary. This temporary standard means there is a potential for variability in the form and nature of GHG assurance engagements. Revisions to this temporary standard, or further explanatory guidance, may be made if unintended and undesirable impacts are observed.

BC49. When the XRB decides to revise or revoke the standard, this will be communicated as far in advance as possible. NZ SAE 1 will not be revoked until a more permanent standard is developed, consulted upon and ready to be effective, so that there are no disruptions in the assurance across periods.

Principles to align and build upon various professional and ethical standards

Background

BC50. Not requiring compliance with the XRB's existing Professional and Ethical Standards (PES standards) by all is a critical area of concern raised by many. Most submissions encouraged the

XRB to require compliance with existing PES standards. This would include PES 1³, PES 3⁴ and PES 4⁵, which cover requirements for ethics, independence, quality management and engagement quality reviews. The rationale for this view is that the PES are well known and form a robust foundation for all assurance work. Requiring compliance with PES will ensure consistency across assurance practitioners in these fundamental areas.

BC51. We recognise the importance of ethics and quality management and the benefits of consistency and understandability which would be created by requiring compliance with PES standards. Similarly, the XRB has considered the benefits of requiring compliance with the ethics and quality requirements embedded in ISO standards (including requirements decided by the ISO committee for conformity assessment (CASCO)⁶). These are well established, understood and applied internationally for assurance over many non-accounting matters, including GHG emissions.

Rationale for not requiring compliance with PES standards

BC52. Some assurance practitioners may have never applied XRB's PES standards before but as mentioned above, might be more familiar with other ethics and quality management requirements in ISO. It may be onerous for some GHG assurance providers to re-develop their business processes to comply with PES standards, in the short time frames to transition from voluntary assurance to a mandatory regime. We do not consider that it would be in the public interest to create barriers to entry, that exclude competent, independent practitioners in the early stages of the regime.

BC53. The concepts of ethics, independence, quality management and quality reviews transcend the accounting profession and there are other professionals that have strong ethical professional standards. These standards may look different from existing XRB's PES standards but cover the same principles.

BC54. We wish to promote continuous learning, so have kept an open mind, and encourage assurance practitioners to be curious about what they can learn from each other, as we work to bring multiple financial and non-financial professionals together. This learning environment is enabled through the temporary nature of the Standard and the use of two international assurance standards.

BC55. We recognise that XRB's PES will continue to be applied by a number of practitioners where they are already embedded in their policies and procedures, and as professional accounting bodies will require members to comply with PES standards to remain their membership. The Office of the Auditor-General will also require compliance with the Auditor-General's ethical and quality requirements for engagements within the public sector. For practitioners that comply with ISAE (NZ) 3410, there is a requirement to comply with the PES standards, or professional or ethical requirements that are at least as demanding as them.

Rationale for not requiring compliance with ISO ethics and quality requirements

BC56. The ISO standards are designed to be applied across multiple fields and deliberately address a broader range of conformity assessment activity, rather than assurance services. The ethical and quality management requirements are spread across multiple ISO standards, and these

³ Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including international Independence Standards) (New Zealand)*

⁴ Professional and Ethical Standard 3 *Quality Management for Firm's that Perform Audits or Reviews of Financial Statements or Other Assurance or Related Services Engagements*

⁵ Professional and Ethical Standard 4 *Engagement Quality Reviews*

⁶ <https://www.iso.org/search.html?q=ISO%20casco>

standards cover a range of other matters. We do not consider it appropriate to require compliance with all matters in those ISO standards for the purposes of this regime.

BC57. Some assurance practitioners may be part of an assurance or certification programme that is independently accredited. Assurance practitioners that have accreditations under ISO standards, will continue to apply the relevant ethical and quality requirements set in ISO standards and by the accreditation programme to maintain their accreditation. This may include ISO 9001: 2015⁷, ISO 14065: 2020⁸, ISO 14066: 2011⁹, ISO 17029: 2019¹⁰, and ISO 19011: 2018¹¹.

BC58. We have not mandated that assurance practitioners need to comply with these specific ISOs, as some specialised carbon professionals may not be part of an accredited programme, or a member of a profession, and we do not want to prevent these experienced practitioners from performing services under this mandatory regime.

BC59. We recognise the low risk of that not all practitioners who perform services under ISO 14064-3: 2019 will be required to comply with ISO ethical and quality requirements. We believe this risk to be low, due to existing GHG assurance practitioners being well established, and governance procedures in place at the climate reporting entities that are included within the mandatory regime, who will evaluate the professional ethics and quality processes of those who they appoint to provide their GHG assurance.

BC60. We require all assurance practitioners within this mandatory regime to comply with high-quality ethical and quality management principles, and in this case, these practitioners will be required to comply with the fundamental ethical principles and quality management requirements directly incorporated into NZ SAE 1 which are sufficient to ensure high ethics and quality requirements for these practitioners. We note further guidance may be issued, particularly around independence, to help these practitioners where they are unfamiliar with these principles.

BC61. The assurance practitioners are required to disclose standards applied to the assurance engagement, including professional and accreditation standards (paragraph 56). This will inform users of the assurance reports what ethical and quality management standards were followed by the assurance practitioners during the assurance engagement.

Need for transparency of professional standards

BC62. NZ SAE 1 outlines the fundamental principles of ethics and independence (paragraph 13), to allow for these to be complementary to existing professional standards in place for professions beyond accounting. We expect many, if not all, practitioners will already have established policies and processes in place.

BC63. The various professional standards that have already been applied by practitioners, will continue to be applied by those practitioners. Given this could be PES standards, or ISO standards, depending upon the practitioner, NZ SAE 1 requires assurance practitioners to report which standards have been applied within their assurance reports, to provide transparency to users of the assurance report (paragraph 56).

⁷ ISO 9001: 2015: *Quality management systems – Requirements*

⁸ ISO 14065: 2020: *General principles and requirements for bodies validating and verifying environmental information*

⁹ ISO 14066: 2021: *Greenhouse gases — Competence requirements for greenhouse gas validation teams and verification teams*

¹⁰ ISO 17029: 2019: *Conformity assessment — General principles and requirements for validation and verification bodies*

¹¹ ISO 19011: 2018: *Guidelines for auditing management systems*

BC64. These are new disclosures that XRB considers are necessary in the context of GHG assurance. It is important users are aware which standards have been applied by the practitioner to ensure complete and transparent information is available to allow for appropriate decision-making.

Ethics and independence

BC65. The XRB recognises the importance of ethics and independence to enhance trust and confidence for users and this was noted in most submissions. The XRB has developed the ethical and independence requirements through a principles-based approach tailored to the emerging GHG assurance profession. NZ SAE 1 builds upon common ethical principles understood by all assurance practitioners and includes requirements to identify and address threats to independence (paragraph 14-15). Where threats cannot be reduced to an acceptable level, NZ SAE 1 notes the assurance practitioner will need to withdraw from the engagement.

BC66. Stakeholders pointed out the importance of independence in appearance of assurance practitioners, rather than only independence in fact. The XRB has included this important concept in (paragraph 17) to ensure all practitioners understand the need to evaluate perceived threats to independence in a manner which a reasonable and informed third party would consider to be appropriate.

BC67. NZ SAE 1 includes application material about safeguards, to promote consistency in reducing threats to independence and other fundamental principles to an acceptable level (paragraph A10-A13). It includes examples of safeguards which could be applied, and actions if safeguards are not available. These examples are not intended to be exhaustive to address all situations but will provide guidance to enable practitioners to identify, and address matters consistently.

BC68. NZ SAE 1 outlines those threats to independence, which are so significant, that safeguards will not be able to reduce the threats to an acceptable level. This includes circumstances in relation to self-review threats (paragraph 18), assuming management responsibilities (paragraph 19), and financial interests (paragraph 20-21).

BC69. NZ SAE 1 emphasises specific matters for consideration by the assurance practitioner when assessing their independence, including familiarity threats arising from long association (paragraph 22), and consideration of any other business or personal relationships (paragraph 17), as these would be common situations which many practitioners should be evaluating, as this mandatory assurance regime begins.

BC70. Practitioners may have several other personal or business relationships with the reporting entity. It is important that the existence of these relationships is disclosed to users in the assurance report, so that users can understand all relationships between the practitioner and entity, in case this impacts on their decision-making. NZ SAE 1 requires the disclosure of other relationships which practitioners may have with the entity within the assurance report (paragraph 57).

BC71. Several respondents asked for more guidance in this area. To assist in promoting a consistent understanding of the principles, we have developed non-authoritative guidance on independence, which outlines factors practitioners should be considering when assessing independence in common practical situations.

BC72. We may add to this guidance over time. We will continue to monitor application of principles and will adjust NZ SAE 1 as needed as the GHG assurance profession matures, even during its temporary life,

Non-assurance services Transitional Provision

BC73. Transitional provisions are common practice when new standards are implemented. For example, similar transitional provisions were incorporated into PES 1 as part of the recent revisions made around non-assurance services.

BC74. NZ SAE 1 includes a robust requirement to prevent any other services that might create a self-review threat. NZ SAE 1 notes that safeguards would not be able to mitigate self-review threats to an acceptable level (paragraph A15), and that services provided in the past may create “possible” self-review threats (paragraph A18).

BC75. The XRB is not permitted to develop retrospective legislation. For this reason, a transition provision has been included to clarify that the independence requirements in paragraph 18 to 19 are not applicable to non-assurance services provided for reporting periods ending on or before 31 December 2023 (paragraph 5).

BC76. The transitional provision permits assurance organisations and practitioners to complete work that has already commenced if arrangements were entered into before the applicable date of NZ SAE 1. This provision is limited to non-assurance services provided for reporting periods ending on or before 31 December 2023, and therefore only relates to GHG information for periods where assurance is not legally mandated (although this may be voluntarily performed).

BC77. The transitional provision does not automatically mean practitioners can always accept assurance engagements if they have provided non-assurance services in the past to the prospective assurance client. Practitioners need to use their professional judgement to assess independence threats created by these services and take actions to address any threats to an acceptable level. The evaluation and response to the threats will need to be documented and discussed with those charged with governance. Additionally, the services provided will need to be disclosed in the assurance report in accordance with paragraph 57. Where actions cannot be taken, the assurance practitioner shall not accept the assurance engagement (paragraph 6).

BC78. The XRB acknowledges that services may already be underway that cannot be subject to the independence requirements of NZ SAE 1, as practitioners have entered into those services in good faith, following the independence requirements at the time. We do not intend to potentially exclude practitioners from this new regime based on previous practices. Rather we intend to be clear that from the first year of mandatory assurance there is a robust requirement that we expect will significantly restrict any other services related to GHG information being provided to GHG assurance clients.

Quality Management

BC79. Quality management processes play a key role in enhancing trust and confidence. NZ SAE 1 includes a principles-based quality management approach to enhance quality based on risk (paragraph 62-65). These principles have been developed with reference to PES 3, and relevant quality management ISO standards (as noted in BC57).

BC80. Many submissions requested more guidance and specific examples be included within NZ SAE 1 to ensure robust quality management processes are in place for all assurance practitioners. The XRB recognises that GHG assurance practitioners from various backgrounds already have systems of quality management in place. These systems may look different and be described differently in various professional standards.

BC81. In accordance with the principle behind the temporary nature of the standard, and so as not to create unnecessary barriers to entry, the standard includes fundamental principles that are

common across a range of quality management systems that are already in place (paragraph 65).

BC82. We will continue to monitor application of the quality management principles and may develop non-authoritative guidance and/or adjust NZ SAE 1 as necessary. The XRB will review the first set of GHG assurance reports when these are released to assess what quality management standards are being applied by assurance practitioners. We plan to engage with stakeholders as part of outreach following the release of NZ SAE 1.

Competence

BC83. NZ SAE 1 includes principles regarding the competency requirements for assurance practitioners and the engagement leader. Competency in both assurance and in GHG measurement are equally important. The standard and application material includes examples of skills required in both these areas (paragraph 24 and A27-A30).

BC84. Some submissions raised questions as to what level of competence would be satisfactory for GHG assurance engagements, highlighting variation in the complexity of the engagement. NZ SAE 1 has been developed to require sufficient competence by the engagement leader to accept responsibility for the GHG assurance conclusion (paragraph 24). As noted above, future regulatory oversight within this assurance space is currently being consulted upon by MBIE. We anticipate that regulatory oversight will aid in ensuring the competence of engagement leader.

BC85. The XRB considers that it important for assurance practitioners to keep up to date with developments in GHG emissions and ensure that their knowledge continues to improve to support the ongoing ability to perform assurance engagements, as emission measurement techniques are developed and evolve over time. As such, this focus on continuing education has been included within NZ SAE 1 (paragraph A30).

BC86. Stakeholders also raised concerns around allowing for sufficient time to complete the assurance engagement over GHG disclosures. This may be due to the measurement of certain GHG emissions, including Scope 3 value chain emissions, being complex in some sectors. These will require time for the assurance practitioner to be able to understand the measurement processes to form an appropriate conclusion. As a result of these comments, we have included additional application material into NZ SAE 1 to encourage practitioners to consider and assign additional time for required tasks, where necessary (paragraph A31).

Quality Reviewer

BC87. The standard requires an independent quality reviewer on each assurance engagement within this regime, to enhance the quality of individual engagements (paragraph 73). This independent quality reviewer should consider the key aspects of the assurance engagement, and the assurance conclusion, from a quality perspective. The requirement to have a quality review for these engagements is not explicitly required by PES 4.

BC88. Some stakeholders raised concern regarding the scalability of this requirement. This concern arises in the context of the relatively small number of experienced practitioners who can effectively perform these types of engagements or the quality reviewer role, and the potential for this to limit the number of engagements which can be performed.

BC89. The XRB acknowledges this concern, however, given the importance of high-quality assurance, we consider it is paramount that quality is maintained on each individual engagement. We have retained the requirement for a quality review, recognising that GHG emission disclosures may

include a high level of inherent uncertainty, we anticipate that there will be data availability issues, or other matters, that require the exercise of significant professional judgement.

BC90. We acknowledge queries related to the competence and independence required by the quality reviewer. NZ SAE 1 has been developed to ensure that the quality reviewer has sufficient competence and capability to perform that specific role, and is as independent as the engagement leader, and has sufficient time and authority to complete their review (paragraph 76).

BC91. In response to feedback received around the importance of quality assurance engagements throughout all stages of the assurance engagement, we have made this principle more explicit within NZ SAE 1 (paragraph 77).

Assurance Reporting and Conclusions

Background

BC92. The assurance report is the only visible output of the assurance engagement. The assurance report is an opportunity to communicate the results of the assurance work and overall assurance conclusion to users.

BC93. Several stakeholders raised concern about the risk of confusion due to inconsistency in wording arising from allowing use of two different standards.

BC94. The approach is to require compliance with either the ISAE (NZ) 3410 or ISO 14064-3: 2019. Both these standards are prescriptive as to how to word the assurance opinion/conclusion.

BC95. The ISOs make a clear distinction for any emissions that have not yet been emitted (relevant for products sold today that will continue to emit carbon into the future). As these emissions are to occur in the future, these must be “forecasted” at the time of reporting, and the assurance is specifically described by ISO as “validation”. ISO 14064-3: 2019 restricts assurance over these types of emissions to limited assurance only, in relation to the reasonableness of the assumptions and methodology, and not over the emission disclosures themselves.

BC96. We acknowledge that there may be some confusion for users comparing ISAE (NZ) 3410 and an ISO 14064-3: 2019 assurance reports. The additional reporting tools included in the Standard provide a range of communication techniques. The temporary nature of the standard provides an opportunity to explore the best way to communicate with users. We will monitor assurance reports throughout the regime and may develop guidance to address key areas, where further consistency would aid users understanding of assurance reports.

Communication tools

BC97. To enhance the communicative value of the assurance reports, various communication tools have been included within NZ SAE 1. These include “Key Matters” (paragraph 48), “Emphasis of Matters” (paragraph 51) and “Other Matters” (paragraph 53).

BC98. Many submissions were supportive of including key matters, however some queried the appropriateness of Key Matters for limited assurance engagements. They saw a potential for confusion as some users may interpret them to be equivalent to Key Audit Matters used in audit reports for financial statements.

BC99. NZ SAE 1 requires the key matters section to outline what the assurance practitioner has done to address the matter (paragraph 49(d)). The assurance practitioners may consider including a description of the procedures performed and to explain how the work effort was linked to the level

of assurance obtained during the assurance engagement. Reporting of key matters is consistent with our objective of promoting a learning environment and providing more transparent and useful information to users. We believe the benefits of assurance practitioners being able to communicate matters in a more fulsome and transparent manner to users will result in more useful assurance reports to users.

BC100. NZ SAE 1 has been written to allow for assurance practitioners to use their professional judgement in deciding which matters to report, and how these are worded, so that tailored messages can be communicated, rather than standardised “boilerplate” language.

Other assurance report disclosures

BC101. Some queried whether the standard should require rather than encourage transparency relating to materiality and competence of the assurance practitioner. While we consider these disclosures would be useful in the assurance report, through an ‘other matter’ paragraph, these have been included as optional disclosures (paragraph A55), as we recognise there may be some occasions where including these disclosures would not be useful to users (for example: when materiality judgements are complex and impacts on users understanding of the assurance approach).

BC102. We have heard questions on the role of disclosures related to inherent uncertainty of emissions and whether this would contradict with potential assurance conclusions, undermine GHG disclosures made by management and cause confusion to users. Given the complex subject matter, it important this inherent uncertainty is recognised by the profession and communicated to users. A mandatory requirement for this disclosure has been included in NZ SAE 1 (paragraph 54) to allow for such an important fact to be in the forefront of user’s minds when making decisions based on GHG assurance reports.

BC103. We have heard concerns around the publication of the engagement partners name within the assurance report, and potential risks and safety concerns which may arise from this obligation. For transparency purposes, the XRB considers the disclosure of the engagement partner’s name is valuable within the assurance report.

BC104. However, to ensure that NZ SAE 1 does not require engagement partners to disclose information which endangers themselves, safe harbour provisions have been added (paragraph 58).

Illustrative assurance reports

BC105. We noted respondents raised questions over the illustrative assurance report included within the exposure draft, and requested further illustrative reports are included to cover other different circumstances. We recognise the need for more guidance in this area and we will develop non-authoritative guidance to provide an illustration of a way to form an assurance report under this Standard. As a result, we have removed illustrative assurance reports from NZ SAE 1.

Other Information

Approach to other information

BC106. NZ SAE 1 requires an assurance practitioner to read other information included in the documents containing GHG disclosures and respond where material inconsistencies with the GHG disclosures are identified (paragraph 37). The extent of what other information an assurance practitioner would need to consider is directly related to how the reporting entity presents its GHG disclosures and what surrounding information is included.

BC107. We recognise this may create differences in the extent of information which needs to be considered by the assurance practitioner on each individual engagement. It is important, however, that climate reporting entities have the freedom to report what information they consider to be useful to users, and assurance practitioners work effort responds in kind.

BC108. The requirement to read other information, and to undertake further action as appropriate, is needed to ensure assurance practitioners comply with ethical obligations to avoid being knowingly associated with information that contains false or misleading statements.

BC109. Some stakeholders requested more guidance regarding what constitutes other information, for example where documents containing GHG disclosures include hyperlinks and references to other external documents. Feedback asked for more guidance regarding work effort required if material inconsistencies are identified.

BC110. We recognise that there may be many ways entities report their GHG disclosures, and an assurance practitioner's response would differ under different scenarios. It is important that the Standard remains principles-based so that practitioners can use their professional judgement to perform appropriate procedures based on their circumstances. The XRB may develop non-authoritative guidance to assist and promote consistency, if any unintended impacts are identified.

Comparative Information

Background

BC111. Comparative GHG information plays an important role in inter-period comparisons and communicating trends. Comparative information does not however have a direct impact on the GHG emissions reported in the current reporting period that the assurance relates to. This is a significant difference to the audit of financial statements, where the closing balances of comparative information form the opening balances for the current year's financial information.

BC112. Comparative information may be included for several periods, particularly to allow for trends to be easily determined by users. While two preceding years of comparative information is required to be disclosed¹², entities may want to voluntarily report many more years of emission disclosures, so a longer-term trend can be determined.

BC113. An entity may change what it discloses in the current reporting period for several reasons. For example, to correct a material error, change a method, more reliable data being available, use more current estimates or reflect changes in the nature of the activities of an entity. Where this occurs, this may result in misstatement in the comparative information. Where these misstatements are material to the comparative information, the Aotearoa New Zealand Climate Standards requires the comparative information to be restated.¹³

BC114. Mandatory Assurance of GHG disclosures is only required in the second year of reporting. As a result, there will be a range of circumstances where some, or all, of the disclosed comparative GHG information may or may not have been assured.

BC115. It is important that the users of the assurance report understand the assurance practitioner's responsibilities regarding comparative information and the differing levels of assurance comparative information may have (none, limited or reasonable). NZ SAE 1 has been developed to require assurance practitioners to disclose this within their assurance reports.

¹² Paragraph 40 of NZ CS3: *General Requirements for Climate-related Disclosures*

¹³ Paragraph 45 of NZ CS3: *General Requirements for Climate-related Disclosures*

BC116. NZ SAE 1 requires assurance practitioners to include an Other Matter paragraph in the current year's assurance report, to highlight when:

- a. Comparatives were not assured in previous years (paragraph 35), or
- b. Comparatives were assured by another assurance practitioner, and if so, the type of conclusions expressed, and the date of their assurance report (paragraph 36).

Work effort

BC117. Some stakeholders questioned the work effort over comparative information, particularly when these have not been assured previously by any assurance practitioner.

BC118. The scope of the assurance engagement covers the current year emissions only, and NZ SAE 1 sets minimal requirements regarding comparative information. They include evaluating whether comparative information presented in the GHG disclosures agrees with the disclosures presented in the prior periods, and if these have been restated, that the restatement is disclosed (paragraph 34). Assurance practitioners are not required to perform the same assurance procedures on both the current and comparative disclosures.

Material misstatements in comparative information

BC119. A climate reporting entity must restate comparatives to correct material misstatements within those comparatives. An assurance practitioner might become aware of a material misstatement in the comparative information, while performing the engagement year's engagement. Questions have arisen as to what obligations an assurance practitioner has if they are aware of a material misstatement in the comparative information.

BC120. When material misstatements in comparative information are identified, NZ SAE 1 requires an assurance practitioner to perform additional work, as appropriate (paragraph 35(a)).

BC121. Given the importance of emission trends being used to evaluate the impact of an entity's climate strategy, the XRB considers it is important for assurance practitioners to be able to communicate material misstatements in comparative information to users. NZ SAE 1 has included principles to guide assurance practitioners to consider the impact on their assurance report where material misstatements in comparative information have come to their attention (paragraph 35(b)). This may include an Other Matter paragraph in the audit report, or a qualified conclusion.

BC122. The XRB may issue guidance to further explain or provide examples about what an assurance practitioner could consider when comparatives are unassured or if a material misstatement is identified in comparatives, if unintended or inconsistent approaches are identified.

Specific GHG assurance related matters

BC123. The nature of GHG assurance, and the differing levels of certain procedures currently being performed under ISAE (NZ) 3410, and ISO 14064-3: 2019, meant there were specific considerations which needed to be made in the context of the GHG assurance regime.

Use of the work of others

BC124. The XRB anticipates that a broad mix of skills will be needed to undertake GHG assurance engagements. We proposed requirements in relation to using work of others expecting that assurance practitioners will look to rely upon the work of others to support critical judgements (paragraph 26).

BC125. Many submissions asked for more requirements regarding the use of the work of others, including a distinction between internal experts, external experts, management experts and assurance experts. We understand that using the work of others may be complex, for example, distinguishing between different experts and determining when and how to rely on their work.

BC126. We recognise the requests made by respondents, however, to avoid adding complexity to NZ SAE 1 and attempting to cover every possible situation where an assurance practitioner may use experts, the XRB has not included definitions of different types of experts. Instead, the work performed by any other party has been named “use of the work of others” and follows similar overarching principles around considerations which should be made by the assurance practitioner before using external work prepared by others as assurance evidence (paragraph 26).

BC127. NZ SAE 1 has been developed to include requirements for an expert being engaged directly by an assurance practitioner. Application material clarifies that these requirements apply to any other experts and any other engagements terms (paragraph A35). In these differing situations, the extent of considerations will need to be adjusted as appropriate. If an assurance practitioner uses work of other experts that have been engaged directly by the entity, for example, more objectivity considerations will need to be made.

BC128. Some stakeholders noted that assurance practitioners may rely on other assurance practitioners. NZ SAE 1 provides for the situation when an assurance practitioner uses the work of another assurance practitioner, including when that practitioner performs their assurance activities under a different system of quality management (paragraph 27).

BC129. NZ SAE 1 sets requirements to ensure the signing assurance practitioner has appropriate involvement and review of the underlying procedures performed. This is to allow for the engagement partner to have sufficient understanding and evaluation of the evidence, to allow for the work to be used to support the assurance conclusion.

Management bias, fraud and non-compliance with laws and regulations

BC130. Submissions recognised that management bias, fraud and non-compliance with laws and regulations is an important area in relation to GHG assurance engagements, particularly due to the heightened public interest in climate disclosures and potential for “greenwashing”.

BC131. The XRB has incorporated relevant principles-based requirements for assurance practitioners to maintain professional scepticism and consider the risks of management bias, fraud and non-compliance with laws and regulations (paragraph 28-33). Assurance practitioners will need to tailor their procedures to respond to material risks in these areas and exercise professional judgement to ensure that sufficient work is performed on each individual engagement.

Documentation

BC132. Submissions raised questions on the documentation requirements for GHG assurance engagements, and the timing of such documentation, given the complexities in measuring GHG emissions in certain industries. NZ SAE 1 requires assurance practitioners to prepare and maintain sufficient documentation to support their assurance report (paragraph 60), and that documentation is prepared on a timely manner basis (paragraph 61).

BC133. The XRB does not consider the documentation of GHG assurance engagements should be at a different level to other assurance engagements.

Written Representations

- BC134. The XRB identified a difference in ISAE (NZ) 3410 and ISO 14064-3: 2019 around obtaining representations from management or Those Charged with Governance (TCWG). While ISAE (NZ) 3410 requires written representations from management, ISO 14064-3: 2019 does not.
- BC135. A principles-based requirement to require written representations from TCWG has been included in NZ SAE 1 (paragraph 39-43). Written representations are not a substitute for assurance evidence, and this is reinforced in NZ SAE 1 (paragraph 41). However, we consider obtaining representations from TCWG would enhance clarification of the roles of TCWG and the assurance practitioner, promote good governance practices, and complement other assurance evidence. This is especially important where significant judgements are made by the entity in setting out methodologies, data collection, etc.
- BC136. We recognise that some assurance practitioners may be comfortable to issue an assurance report without any written representations. Other practitioners may request extensive representations. We consider an approach, where practitioners are required to obtain a representation, is appropriate to this new assurance regime. We acknowledge that specific representations will vary from engagement to engagement.
- BC137. The XRB considered which member of the entity it would be appropriate to request written representations from. While management would be in a useful position to provide detailed representations on certain matters, TCWG have ultimate responsibility and accountability for the appropriateness of the GHG disclosures and the reasonableness of underlying assumptions.
- BC138. As assurance practitioners will be dealing with management and obtaining oral representations regularly throughout the assurance engagement, NZ SAE 1 requires written representations from TCWG (paragraph 39). This will encourage TCWG to reflect upon the appropriateness of the representations made and help them discharge their responsibilities.

Other matters relevant to NZ SAE 1's development

Harmonisation with Australia

- BC139. The approach to NZ SAE 1 is different to the GHG assurance approach adopted in Australia. The Auditing and Assurance Standard Board (AUASB) in Australia has adopted ISAE 3410, and the IAASB's quality management requirements and has no intent to depart from aligning with the IAASB's standards.
- BC140. The principles of convergence and harmonisation¹⁴ agreed with the AUASB set out our approach to harmonisation with the AUASB. These principles acknowledge the benefits of achieving harmonisation and that in seeking harmonisation, the standards should be consistent or compatible to the extent that they do not result in barriers for users of the standards in the Trans-Tasman environment. Reasons for differences include where there are different principles or practices which are appropriate, having regard for the public interest in New Zealand.
- BC141. We understand that the AUASB intend to continue to converge with the IAASB standards. Given that NZ SAE 1 allows use of the IAASB standards, we do not consider that this temporary approach will result in significant barriers or disruption for Trans-Tasman practitioners.
- BC142. The XRB is conscious that New Zealand climate reporting entities which are dual listed in Australia, or have parent entities within Australia, may appoint an assurance practitioner that can comply with both the Australian and New Zealand requirements. Corporations in Australia that

¹⁴ [NZAuASB and AUASB agreed Principles of convergence and harmonisation July 2014](#)

meet specified thresholds around carbon emissions, energy production or consumption are required to report GHG information under the National Greenhouse and Energy Reporting (NGER) Scheme. We will continue to monitor developments in Australia if the mandatory reporting or assurance scope changes.

Re-exposure of NZ SAE 1

BC143. The XRB considered whether NZ SAE 1 should be re-exposed for public comment based on feedback received and the changes made in response to those submissions. All feedback received has been carefully considered by the XRB, and the XRB has determined that the amendments made are appropriate.

BC144. Where amendments were not made to address common themes and issues, particularly in relation to the allowance of both ISAE (NZ) 3410 and ISO 14064-3: 2019, and not requiring compliance with PES standards, the rationale behind these decisions have been outlined in this document.

BC145. Mixed views from varying perspectives were contained in the feedback we heard, and it is not expected that re-exposure would produce new or more information that had not already considered.

Use of NZ SAE 1 before it is applicable

BC146. The XRB has considered whether it would be appropriate for assurance practitioners to apply NZ SAE 1 before the mandatory regime commences in 2024. We believe it is, as some climate reporting entities may voluntarily seek assurance in 2023.

BC147. However, in line with other XRB standards, NZ SAE 1 has been developed for the mandatory regime (that is, for practitioners who are required to apply the standard from the application date). Practitioners who chose to early adopt will need to consider how they can comply with the requirements of NZ SAE from an earlier period.