

Staff Guidance

Applying the transitional provision in NZ SAE 1

November 2023

What is the transitional provision?

NZ SAE 1, paragraphs 5 and 6, includes a transitional provision in relation to both the assurance organisation's and assurance practitioner's independence.

The transitional provision states that if the following circumstances apply before NZ SAE 1 takes effect:

- (a) The assurance organisation and practitioner has been engaged to provide non-assurance services that relate to the GHG information of the assurance client, and
 - (b) Work on the non-assurance services has already commenced, and
 - (c) The non-assurance services are provided for reporting periods prior to, or ending on, 31 December 2023,
- then those services can continue to be provided in accordance with the original engagement terms for those non-assurance services until completed.



What does the transitional provision mean?

If non-assurance services are provided in line with the transitional provision, then these services will not necessarily prevent assurance organisations or practitioners from performing the GHG assurance engagement under NZ SAE 1 for accounting periods ending 31 December 2024 onwards. This means the assurance organisation and practitioner may be able to provide GHG assurance under the mandatory assurance regime.

Assurance organisations and practitioners still need to assess whether those non-assurance services create independence threats. If independence threats are identified, then they shall:

- Apply safeguards to eliminate or reduce those threats to an acceptable level, and
- Document their considerations of threats and safeguards, and
- Discuss the threats and safeguards with those charged with governance of the client, and
- Disclose the existence of these services in their assurance report.

The transitional provision does not automatically mean the GHG assurance engagement can be accepted if non-assurance services have been provided in the past to prospective clients. Assurance organisations and practitioners still need to use their professional judgement to evaluate whether they are independent to perform the GHG assurance engagement.



For staff guidance around independence considerations under NZ SAE 1, refer to the External Reporting Board's [website](#).

Why does NZ SAE 1 include a transitional provision?

Transitional provisions are common practice when standards introduce or change independence and ethical requirements. NZ SAE 1 is not designed to preclude assurance organisations and practitioners from the mandatory assurance regime, due to other services provided prior to knowing that those other services may have impacted on their ability to provide assurance services under the mandatory assurance regime.

Timing of non-assurance services

Assurance organisations and practitioners are required to apply the independence requirements set in NZ SAE 1, which prohibits performing the assurance of GHG information if there might be possible self-review threats associated with that information.

The transitional provision is designed to help transition into these requirements, rather than creating different requirements itself, and is only relevant to services provided in the lead-up to the mandatory GHG assurance regime (that is for accounting periods ending on, or before, 31 December 2023).

Remember

- **If assurance organisations and practitioners cannot mitigate threats to an acceptable level, at both an organisational and individual level, they cannot accept or perform the GHG assurance engagement.**
- **Non-assurance services relating to reporting periods beginning on, or after, 1 January 2024 are outside the scope of the transitional provision. If the provision of those services might create a possible self-review threat, then they are prohibited under NZ SAE 1.**

Self-Review Threats

Examples of the types of non-assurance services that might be provided in the lead up to the mandatory assurance regime, and cause a possible self-review threat are:

Non-assurance services which need to be evaluated further



Advice on how to measure particular emissions, including methodologies to use, and how to capture source data or on appropriate disclosures to meet the standards requirements.

It is not the XRB's intention to prohibit advice, however assurance practitioners need to be cautious that they do not assume a management responsibility when providing advice, which is prohibited under NZ SAE 1.

Provision of IT tools such as a database of emissions information that categorises and quantifies emissions from pre-loaded factors.

Design and implementation of IT systems to capture source data and calculate emissions.

Developing bespoke emission factors to quantify the emissions.

Calculating financed emissions across the full value-chain.

There are many different scenarios which assurance organisations and practitioners may encounter when transitioning into the mandatory GHG assurance regime. Assurance organisations and practitioners must use their professional judgement to ensure the transitional provision principles are appropriately applied.





It is important that assurance organisations and practitioners stand-back and evaluate their independence from a reasonable and informed third party perspective. This is to ensure independence in fact and appearance is appropriately considered.

Assurance organisations and practitioners should also be guided not merely by the words of the transitional provision, but by the spirit of the principle of independence. They should ensure they act in ways that maintain trust and confidence in their assurance conclusion.

Example

The assurance organisation has provided an IT tool which aids management in calculating their GHG emissions. The tool utilises a pre-determined methodology and calculates emissions by applying factors to inputs entered by management, for the 31 December 2022 and 31 December 2023 reporting periods. An assurance practitioner, within the same assurance organisation, intends to provide assurance over GHG emission disclosures for the period ending 31 December 2024, and wants to apply NZ SAE 1.

Thought process to illustrate how the transitional provision might apply

Apply professional judgement to evaluate independence threats arising from the non-assurance services provided in the past

1. Consider the nature of the IT tool and how it will impact on the current year GHG disclosures. In particular, how significant the tool is to management's reporting and underlying record-keeping.
2. Identify independence threats resulting from the IT tool provided in previous reporting periods. For example: self-review, self-interest, and familiarity threats.
3. Evaluate the threats identified. Considerations may include:
 - The materiality of the emissions which are calculated through the IT tool.
 - The fees charged for the IT tool in the past and whether this impacts on the assurance organisations ability to make objective judgements.
 - The level of reliance management places on the IT tool for the current year emission disclosures, including whether these form part of the entity's record-keeping, and whether there have been changes in management's processes since the IT tool was provided.
 - Whether management has the appropriate skills, competence, and experience to take responsibility for the current year GHG disclosures and that unintentional reliance is not placed on the IT tool provided in the past.
 - Which members of the assurance organisation performed the IT tool (including their seniority and authority within the organisation), and whether the assurance team could objectively challenge the outputs from that tool.
 - Whether the prior year disclosures prepared by the IT tool, had been voluntarily assured by an independent third-party and if so, the type of conclusion expressed.

Stand-back assessment

- Consider how a reasonable and informed third-party would assess the situation, and what independence threats they would perceive.
- Evaluate whether performing the assurance engagement in this situation is in line with the spirit of the fundamental principle of independence.

<p>Apply professional judgement to apply safeguards to eliminate or reduce identified threats to an acceptable level</p>	<ol style="list-style-type: none"> 4. Determine safeguards to reduce identified threats to an acceptable level or eliminate the identified threats to both the assurance organisation's, and individual assurance practitioner's, independence. Example of a combination of safeguards which may be appropriate could include: <ul style="list-style-type: none"> • Using an external expert on the assurance engagement, who has not been previously involved, to specifically challenge historical judgements made through the IT tool which are relevant to the current year emission disclosures (<i>organisational level threats</i>). • Holding a pre-issuance panel of experts and assurance practitioners to review the assurance conclusion and to evaluate how safeguards have been implemented (<i>individual level threats</i>). 5. Implement those safeguards and monitor that these are effective throughout the engagement. All independence threats must be appropriately mitigated to an acceptable level to allow for the practitioner to remain independent. <p>Stand-back assessment</p> <ul style="list-style-type: none"> • Consider how a reasonable informed third-party would assess the safeguards applied and whether they would consider the assurance practitioner to be independent. • Evaluate whether performing the assurance engagement in this situation, is in line with the spirit of the fundamental principle of independence.
<p>Prepare documentation around independence considerations</p>	<ol style="list-style-type: none"> 6. Document considerations around independence, including threats created from the non-assurance services, and the nature and timing of the safeguards applied. 7. Retain documentation on the GHG assurance file and show how the assurance practitioner has evaluated a reasonable informed third-party perspective of the threats and safeguards.
<p>Discuss these threats, and actions, with those charged with governance of the assurance client</p>	<ol style="list-style-type: none"> 8. Discuss the independence considerations, including identified threats and safeguards, with those charged with governance of the climate reporting entity in a timely manner. Sufficient information should be provided to those charged with governance to enable them to make an informed assessment about the assurance organisation's, and practitioner's, independence. 9. Respond to any questions raised by those charged with governance and update documentation to address any additional threats and safeguards which were considered, before concluding on whether to accept the GHG assurance engagement.
<p>Disclose the services with the assurance client in the assurance report in accordance</p>	<ol style="list-style-type: none"> 10. When preparing the assurance report for the GHG assurance engagement, disclose the nature and timing of historical non-assurance services provided within the assurance report. <p><i>All non-assurance services which were evaluated under the transitional provision, including a summary of which accounting period they were provided for, should be disclosed.</i></p>

It is important that assurance organisations and practitioners take sufficient time to evaluate whether they are independent, and to consider whether they are seen to be acting independently by third parties. If there are any doubts around independence, then further analysis should be performed before the assurance engagement is accepted and performed.



Contact us

✉ assurance@xrb.govt.nz

🌐 xrb.govt.nz

🌐 [xrb www.linkedin.com](https://www.linkedin.com/company/xrb)

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