



Staff Guidance

Independence Considerations for GHG Emissions Assurance Practitioners

Non-Authoritative Guidance to NZ SAE 1 Assurance
Engagements over Greenhouse Gas Emissions Disclosures



November 2023



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Purpose of this Independence Guide

Introduction

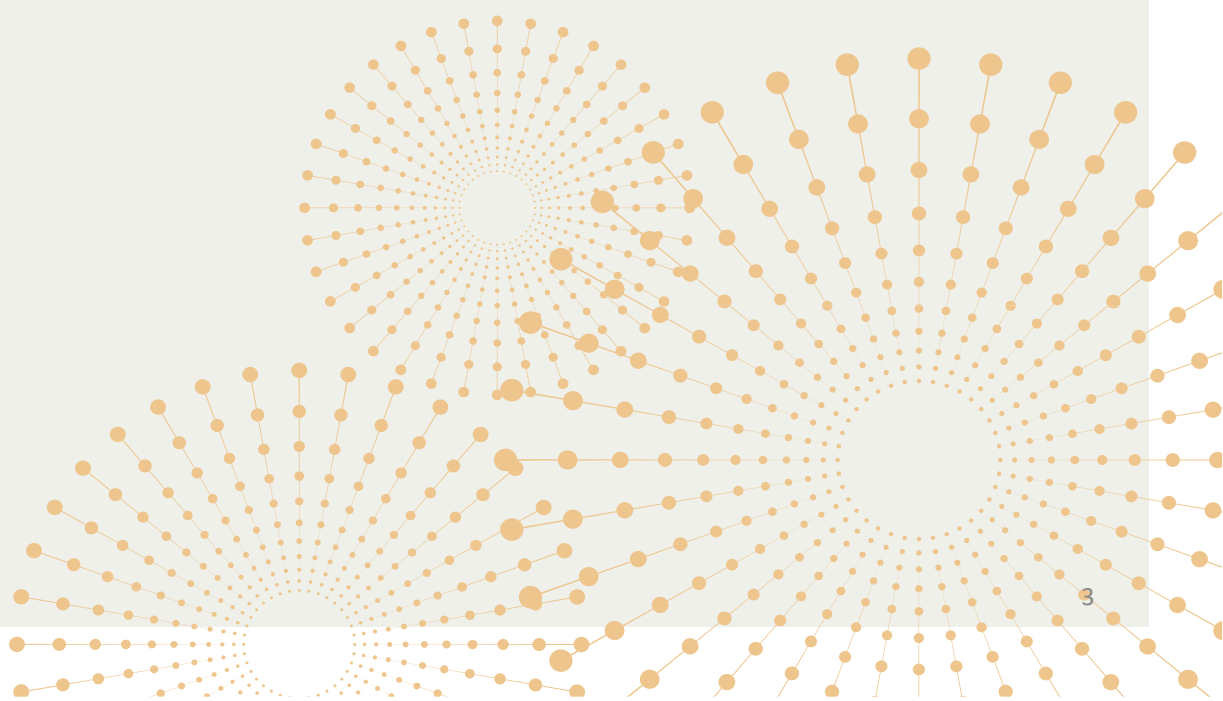
NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures* is a new standard covering the mandatory assurance of Greenhouse Gas (GHG) disclosures. Independent assurance plays a key role in building trust and confidence and is essential to the provision of high-quality GHG assurance services.

The provision of GHG assurance services is open to all competent and independent practitioners. The External Reporting Board acknowledges that the independence terminology used in NZ SAE 1 may not be familiar to all assurance practitioners. Different professions may use differing terminology around independence (for example: in some professions certain NZ SAE 1 independence concepts may be similar, but not identical, to the concept of “impartiality”).

This non-authoritative guidance provides an overview of the fundamental principles, threats to independence and includes examples of how independence principles can be applied to certain situations. GHG assurance practitioners are encouraged to look past specific words and focus on applying the principles of independence required by NZ SAE 1, and the spirit of this guidance. They should ensure they act in ways that maintain trust and confidence in their assurance conclusion.

This guidance focuses on the assessment of threats to independence before they compromise independence and does not address how practitioners should respond to breaches. Assurance organisations and practitioners should take steps to ensure they do not perform assurance services when they are not independent.

This guidance is not intended to be an exhaustive list and is not a substitute for reading NZ SAE 1.





Purpose of this Independence Guide (continued)

Fundamental Principles

NZ SAE 1 requires assurance organisations and practitioners who provide GHG assurance services to comply with the following fundamental principles:

Independence

- *Freedom from conditions or relationships which would compromise, or could be seen to compromise, integrity or objectivity.*

Integrity

- *To be straight forward and honest; complying with the spirit as well as the letter of applicable principles.*

Objectivity

- *To be impartial, to be free from bias, conflict of interest or influence from others.*

Professional Competence and Due Care

- *To attain and maintain knowledge and skills necessary to perform the GHG assurance engagement and act diligently and in accordance with applicable Standards, laws and regulations.*

Confidentiality

- *To respect the confidentiality of information acquired as a result of undertaking the assurance engagement.*

Professional Behaviour

- *To comply with relevant laws and regulations, behave in a manner consistent with the responsibility to act in the public interest, and avoid any conduct that the assurance practitioner knows, or should know, might discredit the assurance profession.*

While each of the above fundamental principles are inter-related and important for high quality assurance engagements, **independence in both mind and appearance**, is paramount. GHG assurance organisations and practitioners may encounter situations or relationships which could threaten their ability to act independently, or be seen to threaten independence, which may impact on compliance with the fundamental principles.

Assurance organisations and practitioners need to continuously evaluate their independence throughout the assurance engagement. This is one of the most important judgements that will need to be made before accepting, and while performing, an assurance engagement.



Overview of Independence Threats



Common types of independence threats

Independence threats typically fall into one or more of the categories outlined below. One situation may result in multiple threats, and some threats may not be immediately obvious. It may require personal reflection, or discussions with those charged with governance or third parties, to identify and understand how a situation may threaten independence.



One threat alone may compromise independence, and assurance organisations and practitioners should evaluate each threat individually, as well as in combination with other similar threats.

Independence in mind and appearance

Independence threats may be present where a condition or relationship creates:

- An actual conflict for assurance organisations and practitioners (independence in mind); or
- A perceived conflict for assurance organisations and practitioners (independence in appearance).



Assurance organisations and practitioners must act in ways that maintain trust and confidence in their assurance work. It is important that assurance organisations and practitioners use their professional judgement to evaluate whether a reasonable and informed third party would consider their independence to be threatened.

A third-party perspective is critical in all stages of evaluating independence, as third parties may perceive the same threats differently to assurance practitioners.

Overview of Independence Threats (continued)



Other assurance services may impact on independence

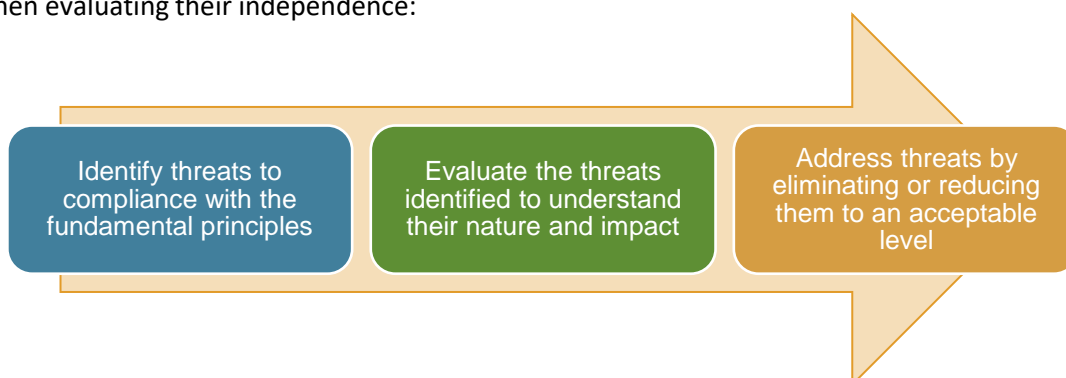
NZ SAE 1 has been developed to allow all competent independent practitioners to provide GHG assurance services. Climate reporting entities may engage their financial statement auditor or may appoint another practitioner who specialises in GHG assurance, to assure their GHG reporting. The audit of financial statements is a separate engagement from the assurance of GHG emission disclosures. As a result, performing the audit of financial statements does not, in itself, cause a threat to the provision of GHG assurance services to the same client.

Where assurance organisations and practitioners provide other assurance services to the client, this may require different considerations compared to standalone GHG assurance engagements. In particular:


- **Assurance organisations and practitioners may perform the audit of the financial statements** – Assurance organisations and practitioners who perform the audit or review of financial statements must comply with International Independence Standards (New Zealand), as set out in Part 4A of Professional and Ethical Standard 1 (PES 1). Users expect GHG assurance practitioners, who also audit or review the financial statements, to comply with the most stringent independence requirements across both engagements.
- **Assurance organisations and practitioners may be engaged to assure other aspects of the climate statement** – Assurance organisations and practitioners who are also engaged to assure other aspects of the climate statement should be mindful of potential threats when evaluating independence. Additional independence threats may be created if services have been provided which impact on the client’s climate reporting (for example: services around preparing climate scenarios). Assurance organisations and practitioners should carefully evaluate potential threats in the context of the scope of their assurance engagement.

Independence Assessment Framework

NZ SAE 1 is underpinned by a framework for assurance organisations and practitioners to follow when evaluating their independence:



How individual threats can be addressed will differ based on the facts and circumstances of each situation.



Overview of Independence Threats (continued)

Safeguards which apply in one situation may not be appropriate for another, and certain situations may not have any effective safeguards which could be implemented. The facts of each situation will be different and will inform how assurance organisations and practitioners respond to identified threats. In some cases, a combination of safeguards may be necessary.

Some situations create threats to independence that cannot be eliminated or reduced to an acceptable level through safeguards. Examples of such situations are taking on management's responsibilities or possible self-review threats created through non-assurance services.

The timing of non-assurance services may impact how possible self-review threats can be addressed. For example:

- **Where non-assurance services are planned to start after the GHG assurance engagement has been accepted, then threats could be eliminated by not performing and ending those non-assurance services.**
- **Where non-assurance services have already started before accepting the GHG assurance engagement, then the threats cannot be eliminated and the GHG assurance engagement cannot be undertaken.**

Documentation

Assurance practitioners should document their judgements, along with supporting evidence and consultations, when arriving at their independence conclusions. It is of equal importance for assurance organisations and practitioners to demonstrate that they have maintained their independence, as well as obtained sufficient evidence to support their assurance conclusions.

All documentation should be retained on the individual assurance files and cover the full thought process around the identification and evaluation of threats and how threats are addressed, including the determination and implementation of safeguards.

Additional Guidance

Assurance organisations and practitioners may look toward ethical and independence guidance in other relevant professional standards where appropriate where a matter is not covered by NZ SAE 1. This may include:

- Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*; or
- International Organization for Standardisation (ISO) Standards relevant to independence, including but not limited to:
 - ISO 9001: 2015 *Quality management systems – Requirements*.
 - ISO 14065: 2020 *General principles and requirements for bodies validating and verifying environmental information*.
 - ISO 17029: 2019 *Conformity assessment — General principles and requirements for validation and verification bodies*.
 - ISO 19011: 2018 *Guidelines for auditing management systems*.

Overview of Independence Threats (continued)

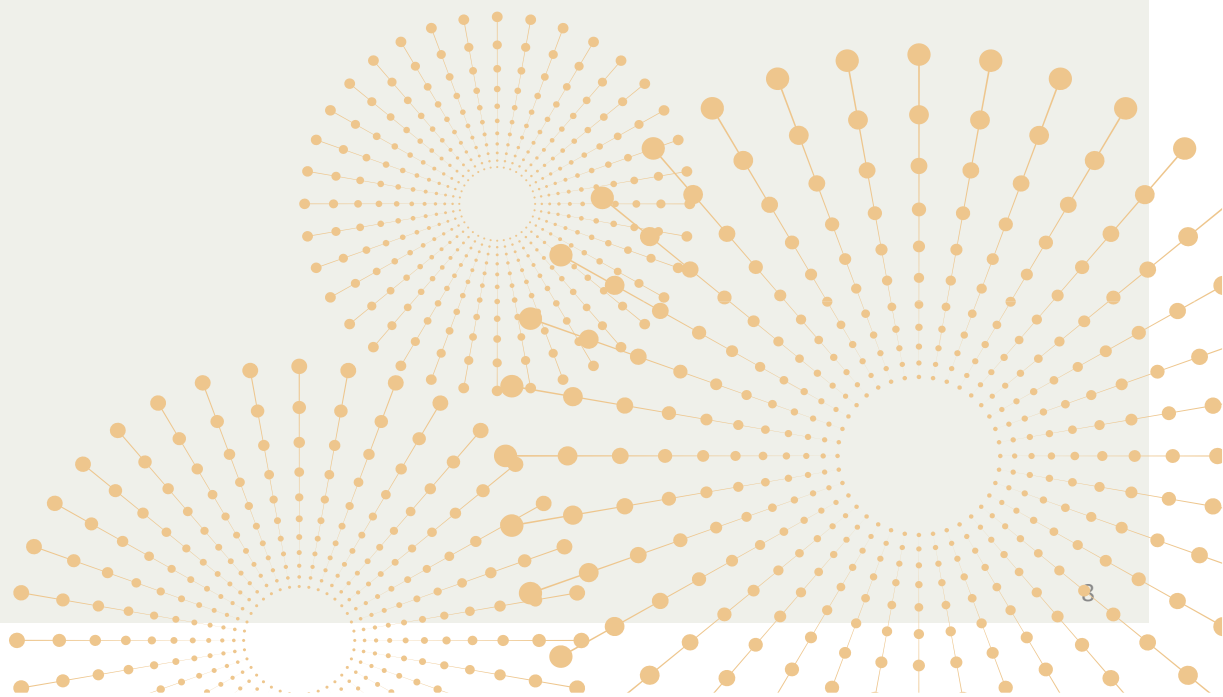


Transparency

NZ SAE 1 requires the assurance report to disclose a statement as to the existence of any relationships (other than undertaking the GHG assurance engagement) which the assurance organisation, and assurance practitioners involved in the engagement, have with the reporting entity.

This may include details of any non-assurance services provided to the entity, services provided in previous periods which are included in the scope of the transitional provision, or personal relationships which assurance practitioners involved in the engagement have with management or those charged with governance of the entity. Transparency about other relationships should enhance users trust and confidence in the GHG assurance regime, however personal details and confidential information should not be included.

Assurance organisations and practitioners should ensure independence is at the forefront throughout the engagement. To assist in ensuring the disclosures in the assurance report are complete and accurate, personal and business relationships should be identified and evaluated throughout the assurance engagement.





Self-Review Threats



Marking your own homework – Self-review threats are risks that an assurance practitioner may not appropriately evaluate the results of a previous judgement made, or an activity performed by the assurance practitioner, or by another individual within the assurance organisation, on which the assurance practitioner will rely when forming a judgement as part of performing a current activity.

Self-review threats compromise independence and cannot be mitigated

NZ SAE 1 includes a prohibition on assurance organisations and practitioners, or components thereof:

- Preparing GHG information and then assuring GHG disclosures derived from that work,
- Providing any other services which might possibly create a self-review threat in relation to the GHG disclosures, or
- Assuming a management's responsibility in relation to GHG disclosures.

A self-review threat which might impact the mandatory GHG disclosures cannot be eliminated, or reduced, by applying safeguards, even if the assurance work and non-assurance work is performed by different teams within the assurance organisation for the same client.

The self-review prohibition is designed to capture a broad range of non-assurance services which might possibly impact on the GHG disclosures. Non-assurance services which might possibly create a self-review threat may include services which produce source data, assumptions or methodologies, tools, systems, or controls that are used by a climate reporting entity to prepare GHG disclosures.

Before accepting a GHG assurance engagement, or a non-assurance engagement which may impact on GHG information, it is critical that assurance organisations and practitioners evaluate the nature of the non-assurance service, what period they relate to, and how the outputs are utilised by clients, to evaluate whether any services might create possible self-review threats.

The External Reporting Board recognises that this prohibition is a higher requirement than the principles in Part 4B of PES 1 and/or in other professional and ethical standards. This may necessitate significant changes to some assurance organisations, as this prohibition covers all possible self-review threats, and cannot be safeguarded against.

This prohibition is important to ensure that reasonable informed third parties see assurance organisations and practitioners to be acting independently and without bias.

It is essential that all climate reporting entities and assurance organisations and practitioners understand the self-review threat prohibitions, and recognise that previously provided non-assurance services, which may never have been questioned or caused concerns previously, may be prohibited under NZ SAE 1.

Self-Review Threats (continued)



Examples of circumstances which may cause possible self-review threats

Below are some examples of circumstances which might create possible self-review threats. Assurance organisations and practitioners will need to use their professional judgement to identify whether situations create possible self-review threats based on their circumstances and not perform GHG assurance engagements where these threats are present.

- **Emission factor calculations** – The assurance organisation or practitioner assists in calculating GHG emission factors, by providing underlying source data, which is not publicly available, based on their experience and knowledge of other entities within the same industry.
- **IT tools and implementation services** – The assurance organisation or practitioner provides IT services around a new system which can be used to measure and quantify emissions. This may involve using an advisory team, to assist in implementing the software and integrating into the client's other existing systems.
- **Climate statement preparation** – The assurance organisation or practitioner prepares other climate related disclosures which are included within the client's climate statement and directly impact on their GHG disclosures and the overall presentation and understanding of the GHG emissions.
- **Preparation services to the supply chain** – The assurance organisation or practitioner provides preparation services to entities within the same GHG emissions supply chain, where the assurance client's scope 3 GHG emissions are heavily dependent upon the source information from these other entities.
- **Previous preparation services** – The assurance organisation or practitioner has provided GHG preparation services in previous periods, and the previous services continue to form the basis of the client's current year GHG reporting and used in trend assessments.

Remember

Assurance organisations and practitioners should not provide non-assurance services that might possibly create a self-review threat to the mandatory GHG disclosures. Such threats cannot be reduced to an acceptable level through any combination of safeguards.

For staff guidance around the transitional provisions within NZ SAE 1, which is also relevant to independence considerations, refer to the External Reporting Board's [website](#).



Self-Interest Threats



Getting personal benefits – *Self-interest threats are the risk that a financial or other interest may inappropriately influence an assurance practitioner's judgement or behaviour.*

Self-interest threats can significantly impact independence and need to be considered

NZ SAE 1 prohibits any direct financial interest, or a material indirect interest, to be held by assurance organisations, assurance practitioners or their immediate family members, within the assurance client, or the parent entity of the assurance client. The existence of these financial interests creates an unmanageable independence threat.

Assurance organisations and practitioners should be aware of their financial interests (including investments held through trusts where the practitioner is a trustee, collective investment schemes and pension schemes) to ensure that all direct and indirect financial interests are identified and evaluated in a timely manner before GHG assurance engagements are accepted or performed.

It is also important to be aware of the level of fees being earned from clients, and where these fees represent a substantial level of revenue for the assurance organisation, considering whether this creates any threats to independence, and the assurance practitioner's ability to challenge management effectively.

Familiarity Threats



Being cosy with clients – *Familiarity threats are the risk that due to a long or close relationship with a client, an assurance practitioner may be too sympathetic to their interests or too accepting of their work.*

Familiarity threats may be common and should be actively considered

NZ SAE 1 requires assurance organisations and practitioners to address familiarity threats that arise due to long associations with clients. Individuals may have a long-standing history with a client through services provided prior to the start of the mandatory GHG assurance regime. It is important that assurance organisations and practitioners evaluate the length and nature of their previous dealings with the client, to ensure they can be objective and sceptical in their decision-making.

Furthermore, given the relatively small number of individuals with expertise around GHG measurement, assurance organisations and practitioners may have had previous dealings with GHG experts used by clients. It is important that familiarity threats are considered against both the client, and any experts which clients may use.



Advocacy Threats

Promoting your clients – Advocacy threats are the risk that an assurance practitioner may promote a client's position to the point that the assurance practitioner's objectivity is compromised. This can occur when the client and the assurance practitioner have multiple business relationships, beyond just the GHG assurance engagement.



Advocacy threats may be present and require careful consideration

Assurance organisations and practitioners should ensure they do not promote their client's position, as this may cause actual or perceived threats that they cannot act objectively when subsequently assuring the client's position.

NZ SAE 1 also prohibits assurance organisations and practitioners from assuming management's responsibilities. It is critical that assurance organisations and practitioners evaluate whether management have the appropriate ability to discharge their responsibilities. Where there are doubts over management's competence, this may increase the risk of advocacy threats, if third parties believe practitioners are making decisions on management's behalf.

As GHG reporting and measurement processes are rapidly changing, there may be new types of advocacy threats which emerge, due to new subject matter. It is important that clients and assurance practitioners openly communicate and learn from each other, to ensure independence is maintained throughout the assurance engagement.

Intimidation Threats

Being pressured by clients – Intimidation threats are the risk that an assurance practitioner may be deterred from acting objectively because of actual or perceived pressures, including attempts by others to exercise undue influence over the assurance practitioner.



Intimidation threats may occur due to the nature of GHG measurement

Intimidating actions may range from passive and subtle, to explicit and aggressive. As GHG reporting becomes more prominent, there may be heightened intimidation risks as those charged with governance, management and their experts may consciously or unconsciously pressure assurance organisations and practitioners to ensure their GHG reporting is a positive reflection of the entity.

Assurance organisations and practitioners should remain aware of the risks around management bias, greenwashing and fraud in GHG reporting, and the potential for management to be reluctant to include information which unfavourably impacts on their reporting. There may also be risks of management potentially pressuring assurance organisations and practitioners to avoid any non-standard assurance conclusions.



Applying the principles to scenarios

Applying the principles of independence to each scenario is fundamental

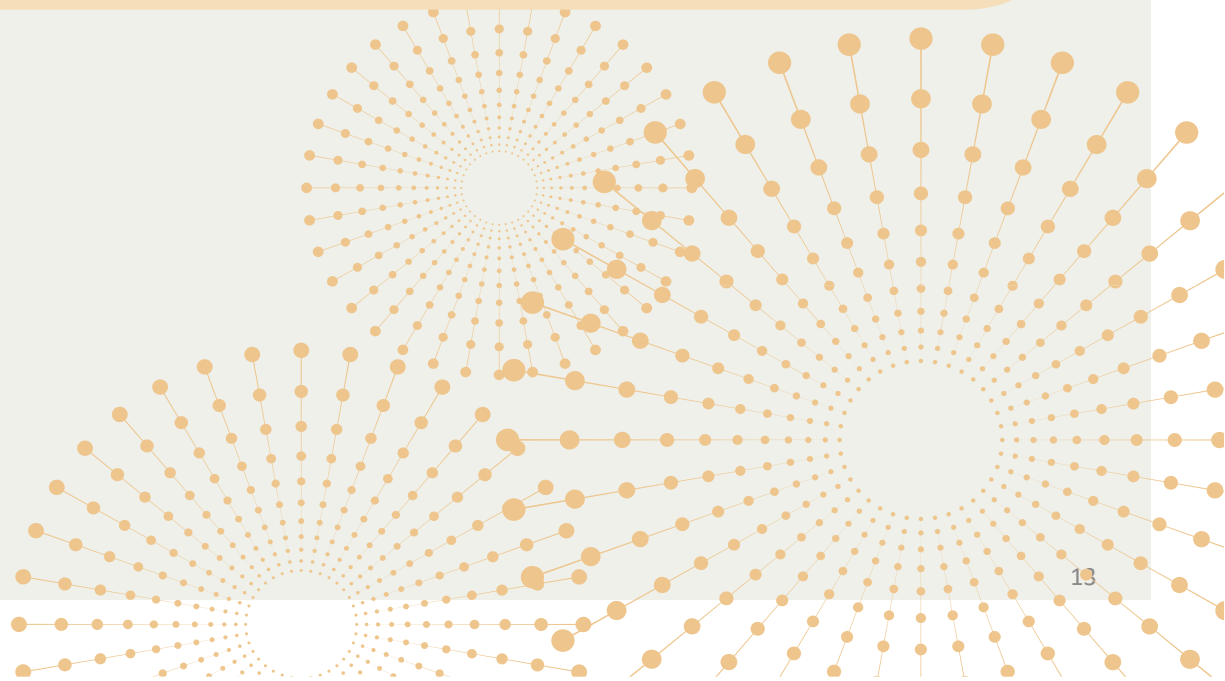


The unique circumstances of each individual situation will inform the types of independence threats assurance organisations and practitioners may identify, how they are evaluated and how they can be addressed. The need for professional judgement, and sufficient time and resources to consider independence, before accepting an assurance engagement, and throughout the assurance engagement as circumstances change is paramount.

The following pages outline some considerations which may be relevant for assurance organisations and practitioners, when applying the independence principles of NZ SAE 1 to specific situations.

Remember:

- **While the independence principles should be applied consistently in similar situations, it is important that assurance organisations and practitioners use their professional judgement to identify and evaluate threats to independence which are relevant to them.**
- **Assurance organisations and practitioners should be cautious of taking the same actions as other organisations or practitioners, or actions they have done previously, without carefully evaluating the threats relevant to their current situation. Assurance organisations and practitioners who appear to be in similar situations may reach different conclusions, based on the facts and circumstances of their specific situation.**
- **Assurance organisations and practitioners should stand back throughout the independence assessment and consider whether there are any other independence threats which a reasonably informed third-party may identify in this situation, and whether they would consider the actions taken to address each threat to be reasonable.**





Applying the principles to scenarios (continued)

Example 1 – Personal financial interests by assurance practitioner

The assurance practitioner, and their spouse, are trustees of a trust which holds investments in several listed entities, which includes the GHG assurance client.

<p>IDENTIFY Considerations when identifying threats to independence</p>	<ul style="list-style-type: none"> • Self-Interest threats – The assurance practitioner’s judgement and behaviour may be inappropriately influenced if they are more concerned with obtaining information to understand the value of their financial interests, compared to providing objective assurance to stakeholders over GHG emissions. • Advocacy threats – The financial interest may result in the assurance practitioner being deterred from acting objectively and promoting the client’s position to better their own financial interest.
<p>EVALUATE Factors to consider when evaluating threats to independence</p>	<ul style="list-style-type: none"> • Direct interest or indirect interests – Direct interests (including where a beneficial owner has control over an intermediary, or ability to influence its investment decisions) are prohibited and cause an independence breach. Where indirect interests are identified (where individuals do not have control or ability to influence investment decisions), practitioners need to evaluate how personally material that interest is. This may involve significant judgements, considerations of an individual’s net worth, and discussions with other individuals. • Timing of investments – Where financial interests are created part way into the assurance engagement, assurance practitioners need to evaluate these threats in real-time and assess whether there are any self-interest threat impacts on their independence, before significant assurance work is completed.
<p>ADDRESS Possible actions to address threats to independence</p>	<ul style="list-style-type: none"> • Decline or end engagement - If the assurance organisation and practitioner cannot eliminate the circumstances creating the threats and no sufficient safeguards are not available to reduce the threats to an acceptable level, then the organisation and practitioner should resign from, or not accept, the assurance engagement. • Apply safeguards to reduce threats to an acceptable level – No safeguards can be applied in a situation where a financial interest is directly held, or where an identified indirect financial interest is material. For an immaterial indirect interest, safeguards to address self-interest threats may include a combination of: <ul style="list-style-type: none"> - Having an appropriate reviewer who was not involved in the assurance engagement, to review the assurance work completed by the assurance practitioner who holds an immaterial indirect interest. - Restructuring the responsibilities of individual members on the assurance team, so that those individuals are not involved in significant judgements on the assurance engagement. • Eliminate circumstances – Disposing of the financial interests, as soon as practicably possible, may remove the self-interest threat. However, if the GHG assurance work has already commenced, then replacing the engagement leader with an individual who does not have any financial interests throughout the entire engagement process, and re-performing any assurance work which was already performed, may eliminate the circumstances.



Applying the principles to scenarios (continued)

Example 2 – Gifts or hospitality provided from client

The engagement leader, and certain long-standing members of the assurance team are invited by those charged with governance of the client to attend a corporate box for an upcoming event. The cost of the corporate box will be paid for by the assurance client.

<p>IDENTIFY Considerations when identifying threats to independence</p>	<ul style="list-style-type: none"> • Self-Interest threats – The engagement leader and assurance team’s judgement and behaviour may be inappropriately influenced given the hospitality which has been offered. • Familiarity threats – The hospitality offered may create a perception of the assurance practitioner is being too familiar with and sympathetic to the client, impairing professional scepticism and objectivity. • Intimidation threats – The hospitality may also come with conditions, or an expectation of reciprocation which may intimidate or unduly influence the engagement leader and assurance team’s behaviour.
<p>EVALUATE Factors to consider when evaluating threats to independence</p>	<ul style="list-style-type: none"> • Value of gifts and hospitality – The value of any gifts and hospitality may impact on extent of familiarity and self-interest threats, as higher valued items, may create more significant threats, while lower valued hospitality (like a cup of coffee), may not create any threats. • Timing of gifts and hospitality – The timing of potential gifts and hospitality may impact on the nature of the threats. Gifts and hospitality received during the engagement may create more significant threats than those after the assurance engagement is completed.
<p>ADDRESS Possible actions to address threats to independence</p>	<ul style="list-style-type: none"> • Decline or end engagement - If the assurance organisation and practitioner cannot eliminate the circumstances creating the threats and no sufficient safeguards are not available to reduce the threats to an acceptable level, then the organisation and practitioner should resign from, or not accept, the assurance engagement. • Apply safeguards to reduce threats to an acceptable level – Safeguards to address familiarity and self-interest threats may include a combination of: <ul style="list-style-type: none"> - Informing the assurance organisation’s leadership of the level of hospitality which is expected to occur with clients, to ensure hospitality does not impact on independence and is pre-approved before being offered/accepted. - Engaging another assurance practitioner, or an external expert, who was not included in the hospitality, to perform work on specific areas of the assurance engagement, based on professional judgement, to provide an objective assessment of management’s judgements and disclosures • Eliminate circumstances – The assurance practitioner declining all hospitality and paying for their own expenses, may help prevent and eliminate self-interest, familiarity and intimidation threats caused by client gifts/hospitality.



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