



Assurance of GHG Emissions Questions & Answers

FAQs on NZ SAE 1 : Assurance Engagements
over Greenhouse Gas Emissions Disclosures

February 2024



Contents

Introduction	4
---------------------	----------

1. Scope of the Standard	5
1.1 Why is the NZ SAE 1 temporary?.....	5
1.2 Who can undertake a greenhouse gas assurance engagement?.....	5
1.3 How can I assure the other part of the climate statements?.....	5

2. Requirements of the Standard	6
2.1 How should I determine materiality for GHG disclosures?.....	6
2.2 What are the requirements around using an expert?.....	6
2.3 When should I report non-compliance with laws and regulations?.....	6
2.4 When should written representation letters be used?.....	7
2.5 What do I need to know about fraud for GHG assurance engagements?.....	7
2.6 What are the requirements for externally sourced data used by a CRE?.....	8

3. Independence	9
3.1 How does the financial interest prohibition apply to different organisation structures?.....	9
3.2 How does the financial interest prohibition impact on investments held through fund managers?.....	10



Contents (Continued)

4. Other Information	11
4.1 What are the other information requirements for financial statement auditors who are also assuring the GHG disclosures?.....	11
4.2 What are the other information requirements for GHG assurance practitioners who are not the financial statement auditor?.....	11

5. Quality Reviews	12
5.1 When should a Quality Reviewer be involved?.....	12
5.2 What skills may Quality Reviewers need?.....	12
5.3 What is the difference between a Quality Review and a consultation?.....	13
5.4 What factors should be considered when resolving differences in opinion between the Quality Reviewer and Engagement Leader?.....	13
5.5 What are the documentation requirements around the Quality Reviewer?.....	14
5.6 How can smaller assurance organisations meet the Quality Reviewer requirements?.....	14
5.7 What processes can be established around the Quality Reviewer to add value to the assurance organisation?.....	15



Introduction

NZ SAE 1 *Assurance Engagements over Greenhouse Gas Emissions Disclosures* is a temporary 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.

This document outlines answers to Frequently Asked Questions (FAQs) on the NZ SAE 1 standard. This document may be updated as new FAQs are received, and the latest version will be available on the External Reporting board's website.

The purpose of FAQs is to provide clarity to certain matters when applying the principles contained within NZ SAE 1. It is not intended to answer specific questions on any individual GHG assurance engagement and does not replace the assurance practitioners need to exercise judgement.

These FAQs are not intended to be an exhaustive list and are not a substitute for reading NZ SAE 1.





1. Scope of the Standard

1.1 Why is NZ SAE 1 temporary?

The XRB's intent is to create a proportionate response to the current legislative requirements around GHG assurance, recognising there are several factors (including ongoing Government consultations and development of International Standards) which may impact on the transition from voluntary to mandatory assurance over sustainability related information.

As such, NZ SAE 1 has deliberately been developed as a temporary standard and designed to allow all competent, independent practitioners to participate without unnecessary barriers to entry. The XRB believe this is essential to build capacity in this specialised area. 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.

1.2 Who can undertake a greenhouse gas assurance engagement?

NZ SAE 1 has been developed to allow for all competent, independent assurance practitioners to provide assurance. This means the GHG assurance provider can, but does not need to be, the same as the financial statement auditor and may be from a non-financial background.

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.

1.3 How can I assure the other part of the climate statements?

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.

The XRB has existing assurance standards that apply to such engagements, such as ISAE (NZ) 3000 (Revised). In 2021, we published the IAASB's comprehensive guidance to support application of ISAE 3000 (Revised) to Sustainability and Other Extended External Reporting (EER) Assurance Engagements along with a tool to help users navigate the relevant chapters and illustrative examples



2. Requirements of the Standard

2.1 How should I determine materiality for GHG disclosures?

There are many different considerations that should be factored in when determining materiality for GHG disclosures. ISAE (NZ) 3410, ISO 14064-3: 2019 and Aotearoa New Zealand Climate Standard 3 includes guidance on what some of these considerations may be.

2.2 What are the requirements around using an expert?

General requirements have been included in NZ SAE 1 which underpins how assurance practitioners should use the work of others when performing the GHG assurance engagement. These have been designed to be tailored depending upon the type of expert being used, and for what purpose. Assurance practitioners will need to use their professional judgement to ensure they perform appropriate procedures for the specific expert and work they are looking to use.

In all instances, it is important the assurance practitioner ensures the work they are relying upon is independently and competently performed, and that they evaluate the adequacy of the work performed for the purpose of the GHG assurance engagement.

2.3 When should I report non-compliance with laws and regulations?

NZ SAE 1, paragraph 33, requires assurance practitioners who have identified matters in relation to non-compliance with laws and regulations to:

- Gain an understanding of the matter and discuss this with the assurance client;
- Depending on the nature and significance of the matter, perform additional assurance procedures to evaluate the impact on the GHG disclosures; and
- Consider the need to report this matter to other internal and external parties, in line with relevant laws and regulations.

As such, GHG assurance practitioners do not have any direct obligations under NZ SAE 1 to report suspected non-compliance with laws and regulations with any external parties. However, assurance practitioners may be required to report matters in line with other legislation or professional standards and accreditation requirements which they are subject to.



2. Requirements of the Standard (Continued)

2.4 When should written representation letters be used?

NZ SAE 1, paragraph 39, requires all assurance practitioners to obtain written representations from those charged with governance of the Climate Reporting Entity as part of the GHG assurance engagement. These should be obtained as close as practicable to, but not after, the date of the assurance report.

NZ SAE 1 does not prescribe what types of written representations are needed for each engagement, and practitioners should use their professional judgement to request the representations which are necessary for their purposes.

Assurance practitioners may obtain written representations from those charged with governance to confirm that they have fulfilled their obligations under the Financial Markets Conduct Act 2013 around GHG emissions reporting, and that they are not aware of any other material information relevant to the GHG emissions reporting which they have not communicated to the assurance practitioner.

Other assurance practitioners may obtain written representations from those charged with governance to confirm the basis of certain significant assumptions which are highly sensitive to the GHG emissions, or to confirm the process which was used to engage any management experts or consultations if they are critical to the GHG reporting.

2.5 What do I need to know about fraud for GHG assurance engagements?

Specific requirements have been included in NZ SAE 1 for assurance practitioners to maintain professional scepticism throughout the engagement, and obligations around considering fraud within the GHG disclosures and responding to identified fraud risks.

Assurance practitioners should be aware of the risk of fraud within a Climate Reporting Entity's GHG disclosures. They should perform a risk assessment to understand how management may commit fraud within the GHG disclosures and respond to any identified risks. The assurance practitioners may not identify fraud risks for every assurance engagement, as this will be entity specific and will depend upon the pressure, opportunities and rationale for fraud within each Climate Reporting Entity.

It is not the assurance practitioners' responsibility to prevent fraud within the climate statement. Assurance practitioners should maintain a sceptical perspective to claims made by the Climate Reporting Entity as part of their assurance engagement and respond to these where potentially misleading claims are identified. Assurance practitioners should be clear in their engagement letters with Climate Reporting Entities around their responsibilities to fraud.



2. Requirements of the Standard (Continued)

2.6 What are the requirements for externally sourced data used by a CRE?

Some Climate Reporting Entities may use externally sourced data as part of their GHG quantification. This may include published information intended to be suitable for use by a broad range of users and not subject to influence by the Climate Reporting Entity, such as Government issued emission factors, or general information from other sources. These are often referred to as “external information sources”.

In other instances, Climate Reporting Entities may commission bespoke datasets from a data provider for specific purposes. These will often be performed through contractual arrangements and often referred to as “Management Experts”.

Assurance practitioners should apply the requirements around using the work of others within NZ SAE 1 and consider the relevance and reliability of information obtained from an external information source and based on that assessment, determine whether further assurance procedures are needed.

For example:

- Generalised information from a credible source – When the information is from a credible authoritative source, like a government agency, the extent of the assurance practitioner’s further procedures may be less extensive, such as corroborating the information to the source’s website or published information.
- Generalised information from a less credible source – In other cases, if a source is not assessed as credible, the assurance practitioner may determine that more extensive procedures are appropriate. In the absence of any alternative independent information source against which to compare, the assurance practitioner may consider whether performing procedures to obtain information directly from the external information source, when practical, is appropriate to obtain sufficient appropriate evidence.
- Bespoke specific information – Where a Climate Reporting Entity commissions a data provider to provide bespoke information, this would require assurance practitioners to perform further procedures, in line with the requirements around using the work of others. Depending upon how the external party was engaged to provide those services, the nature of procedures may be difference. This could depend upon whether management’s experts, service organisations, or assurance practitioner’s experts are used.

For the avoidance of doubt, when information has been provided by an individual or organisation acting in the capacity of a management’s expert or a service organisation, the individual or organisation cannot be considered an external information source with respect to that information.



3. Independence

3.1 How does the financial interest prohibition apply to different organisation structures?

The financial interest prohibitions within NZ SAE 1 have been developed to include all individuals who are part of the assurance team who may have influence over the assurance engagement. This applies regardless of how the assurance organisation is legally structured.

The individuals who have influence include:

- the engagement leader,
- assurance practitioners, and
- those who recommend the compensation, or provide direct supervisory, management or other oversight, of the engagement leader and assurance practitioners, in connection with the performance of the assurance engagement (paragraph 9(d)).

All assurance organisations will need to consider who is involved in recommending the compensation of the engagement leader or involved in the direct supervision, management and other oversight of the engagement leader, as these individuals will also be subject to the financial interest prohibitions. Depending upon how the assurance organisation is structured (partnership or company), and relevant the policies, responsibilities and voting rights, this may include all partners, shareholders, directors and senior management or be limited to certain individuals only.

Assurance organisations should ensure their quality management processes evaluate the structure of their organisation and determine which individuals would be in scope of the prohibitions to ensure the assurance organisation's independence is maintained.



3. Independence (Continued)

3.2 How does the financial interest prohibition impact on investments held through fund managers?

The financial interest prohibitions apply to any direct interests, and material indirect interests, where an individual may receive financial benefits, either through financial returns or capital appreciation. An indirect financial interest is defined in NZ SAE 1, paragraph A21 as a financial interest owned through an intermediary over which an individual or entity has no control or ability to influence investment decisions.

Where an assurance practitioner holds units through a managed fund and has no control or ability to influence investment decisions, this will be an indirect financial interest. The assurance practitioner will need to evaluate whether this interest is material to them when evaluating their independence.

Assurance practitioners may seek further information from fund managers to understand the nature and value of investments to help inform their materiality assessment, however this may not be necessary in all situations if a materiality assessment can be made without listings of managed fund investments.

It is important that assurance practitioners ensure they are independent in mind and appearance and ensure they do not hold financial interests where a reasonably informed third party may perceive the practitioner to not be independent.



4. Other information

4.1 What are the other information requirements for financial statement auditors who are also assuring the GHG disclosures?

Section 461ZJ of the Financial Markets Conduct Act 2013 requires a Climate Reporting Entity's annual report to include a copy of the climate statement, or the address of a link to the internet site where a copy of the climate statements can be accessed.

As a result, financial statement auditors will need to consider the climate statement as other information, given this information will be included, or linked from, the annual report, and is likely to be relevant to their audit of the financial statements.

If a Climate Reporting Entity uses an exemption around including the climate statement within their annual report, then the auditor would need to identify this other information within their auditor's report, in line with paragraph NZ22.1(b)(ii) of ISA (NZ) 720.

4.2 What are the other information requirements for GHG assurance practitioners who are not the financial statement auditors?

Under NZ SAE 1, for GHG assurance practitioners who are not the financial statement auditor, the way the Climate Reporting Entity reports their climate statement will impact on the extent of other information relevant to the GHG assurance engagement.

- Where the climate statement is included within the annual report, the other contents of the annual report, including the financial statements, would be other information for the purposes of the GHG assurance engagement.
- Where the climate statement is reported separately from the annual report, the other information will be limited to the information published in conjunction with the climate statement.
- Where the climate statement is reported separately from the annual report but voluntarily includes a links to the annual report, then the annual report, including the financial statements, would be other information for the purposes of the GHG assurance engagement.



5. Quality reviewers

5.1 When should a Quality Reviewer be involved?

A quality reviewer should be involved throughout the GHG emissions engagement to evaluate whether:

- The assurance engagement has been planned and designed appropriately;
- The significant judgements made are reasonable;
- Sufficient and appropriate evidence was obtained to support the assurance conclusions; and
- The GHG disclosures and assurance report are appropriate.

This may require the quality reviewer to have regular discussions with the engagement team around significant or judgemental areas of the engagement (for example: more involvement may be needed when there are highly material judgements made by management around quantifying scope 3 emissions).

5.2 What skills may Quality Reviewers need?

Quality Reviewers need to be independent, have sufficient competent and capabilities to perform the quality review, and have appropriate authority to challenge the engagement leader.

Quality Reviewers should consider whether they have the following:

- Technical skills in both assurance and measurement and reporting of GHG emissions;
- Industry specific knowledge and awareness of significant judgements and emissions-related challenges which are relevant to the industry;
- Knowledge of the requirements of NZ SAE 1 and the assurance organisation's methodology in relation to performing GHG assurance engagements;
- Awareness of what makes a high-quality GHG assurance engagement and knowledge of different types of assurance approaches which could be used in different situations;
- Ability to review assurance working papers and examine assurance evidence and how this may be used to form a conclusion;
- Ability to challenge peers/colleagues effectively and constructively and be able to respond to challenges; and
- Communication skills to be able to highlight quality concerns and resolutions to senior and junior assurance team members, both verbally and in writing.



5. Quality reviewers (Continued)

5.3 What is the difference between a Quality Review and a consultation?

A quality reviewer should evaluate the quality of the assurance evidence obtained and the conclusion which is formed. The quality reviewer is focused on the quality of the assurance engagement. They are not involved in performing the assurance engagement. The outputs of a quality review would not form part of the evidence that supports an assurance conclusion.

A consultation is advice. This could be on a specific piece of work or aspect of GHG emissions. The individual providing the consultation does not perform the work used for the engagement, but typically performs a technical assessment of the appropriateness of the matter. The consultation is focussed on the correct outcome on the specific matter being consulted upon. It does not concern the engagement as a whole or the quality of the assurance engagement. The outputs of a consultation would typically form part of the evidence which supports an assurance conclusion.

A quality reviewer may review and question a consultation performed on an assurance engagement, including how the engagement team has responded to and adjusted their assurance approach following the outcome of a consultation.

5.4 What factors should be considered when resolving differences in opinion between the Quality Reviewer and Engagement Leader?

Where an engagement leader and quality reviewer have differences in opinions on a particular matter, discussions should occur to resolve these differences and to agree whether additional assurance procedures should be performed to allow for a conclusion to be formed.

Consideration from both the engagement leader and quality review should be made to:

- The materiality of the matter being discussed and how significant this is to users understanding of the GHG emission disclosures;
- The level of judgement involved in the matter being discussed, and whether there may be a range of reasonable outcomes, or whether there are clear misstatements which should be addressed; and
- Whether any additional assurance procedures would add to the quality of the audit evidence obtained for the engagement.

Where there are significant differences which cannot resolved directly between the engagement leader and quality reviewer, another senior individual within the assurance organisation who has not been involved in the engagement, may be called upon to provide a “second-opinion” on the work performed.



5. Quality reviewers (Continued)

5.5 What are the documentation requirements for the Quality Reviewer?

The engagement leader should ensure that the quality reviewer has access to the full engagement file throughout the engagement. They should be able to review any workpaper that they consider necessary as part of performing the quality review.

The quality review should be documented on the assurance file, and include:

- A list of workpapers, or other documents that were reviewed;
- The key comments that were raised as part of the review of those workpapers, and how the engagement team has resolved these comments;
- Minutes of key discussions between the quality reviewer and engagement team throughout the engagement; and
- How any differences in opinions between the quality reviewer and engagement team were resolved.

Relevant workpapers may be marked as “reviewed” directly by the quality reviewer on the assurance engagement file, to evidence when they completed their review.

5.6 How can smaller assurance organisations meet the Quality Reviewer requirements?

An independent quality reviewer is required for each individual GHG assurance engagement. Smaller organisations such as sole practitioners, may need to arrange other assurance organisations to provide quality reviewer services, and incorporate this cost into the fees charged to the CRE.

It is important that the assurance organisation ensures any external quality reviewer is independent to the same level as the engagement leader, has sufficient competence and capabilities to perform the quality review, and has appropriate authority to challenge the engagement leader. The quality review must be documented on the assurance engagement file. Arrangements between assurance organisations should allow for these procedures to occur, without restriction or conditions.



5. Quality reviewers (Continued)

5.7 What processes can be established for the Quality Reviewer to add value to the assurance organisation?

It is important that the quality reviewer focuses on evaluating the quality of the GHG assurance engagement and does not become a routine process or compliance review. Assurance organisations and engagement leaders should embrace quality reviewers as a value adding function to enhance the quality of their assurance engagements.

Assurance organisations may look to implement additional processes to foster an environment which allow quality reviewers to remain alert around quality issues. This may include providing specific training to quality reviewers around issues within the assurance organisation, sharing previous assurance inspection and monitoring results (where relevant), arranging for formal debriefs and root-cause analysis of issues identified, and rotating quality reviewer regularly on engagements to maintain a fresh perspective.



Level 6, 154 Featherston Wellington
PO Box 11250 Manners St Central
Wellington 6011 New Zealand

www.xrb.govt.nz