

February 26, 2010

Mr. James Gunn

Dear Mr. Gunn:

We appreciate this opportunity to comment on the Consultation Paper, *Assurance on a Greenhouse Gas Statement*, as developed by the International Auditing and Assurance Standards Board (IAASB).

Within this document are our recommendations and comments. These comments are provided at an overall "Consultation Paper" level, and as responses to specific questions from the Consultation Paper.

**CONSULTATION PAPER-LEVEL COMMENTS:**

We believe that a background section should be included in the application guidance that provides additional clarity as to what types of engagements are within the scope of the standard and those that are not. For example, we do not believe that practitioners should apply the standard to either GHG footprints for products, which are based on lifecycle assessments, or carbon credits. Although a practitioner might find certain aspects of the standard useful for such engagements, it may not provide an adequate framework. The standard also may not address all aspects of a specific regulatory compliance framework and the practitioner may need to assess whether other procedures are necessary.

**RESPONSES TO SPECIFIC QUESTIONS:**

***The Engagement Partner and the Team; Skills, Knowledge and Experience of the Engagement Partner***

**1. Would the requirements of paragraphs 12(a) and (b) of the working draft preclude any competent group that accepts the authority of the IAASB to set standards that apply to that group from adopting the standard? If so, which group would be precluded? Please provide suggestions of how the ISAE should deal with this.**

We believe that a practitioner who performs an engagement under the proposed standard should adhere to the IFAC competency requirements, quality control policies and procedures, and Code of Ethics. We believe that the issue of whom these standards are written for and who can use them is an issue which is broader than a proposed standard

on Greenhouse Gas Statements, and accordingly should be addressed as part of the revision to ISAE 3000 on Assurance Engagements. We encourage the IAASB to continue discussion of this issue, which we plan to comment on further as part of the exposure of ISAE 3000.

**2. Is the ISAE an appropriate place to provide benchmarks or further guidance regarding the skills, knowledge and experience an engagement partner should possess with respect to:**

- (a) Assurance concepts and processes; or**
- (b) GHG quantification and reporting?**

**If so, please provide examples of suitable benchmarks or guidance.**

The practitioner should possess sufficient competence and knowledge to challenge management's approach and assumptions; accordingly, the IAASB might consider clarifying the extent of knowledge required of the engagement partner/leader.

### ***The Engagement Partner and the Team; Multidisciplinary Teams***

**3. Given that engagements, in particular complex engagements, are ordinarily undertaken by a multidisciplinary team, does the working draft adequately reflect how multidisciplinary teams should operate? For example, does the working draft adequately address the collective competence and capabilities of the team? What further improvements could be made?**

Yes, we believe that the standard sufficiently addresses the collective competence and capabilities of a multidisciplinary team. If necessary, ISAE 3000 can be referred to for additional guidance on these aspects.

**4. Is there a need for additional guidance regarding the measure of objectivity that should be applied with respect to external experts?**

We believe the objectivity considerations included in the working draft are sufficient.

**5. Should external experts be required to be independent? If so:**

- (a) In what circumstances should an external expert be required to be independent?**
- (b) What measure of independence should be applied (for example, which elements of the IFAC Code, which has been written for application to accountants and accounting firms only, should be applied to external experts)?**
- (c) What would be the effect on practice (for example, the availability of experts) and the relevant cost and benefit considerations of requiring external experts to be independent?**

No, we believe that the external experts should be evaluated for objectivity, not independence (as is the case in a financial statement audit).

## ***Number and Nature of Requirements, and Cost and Benefit Considerations***

**6. What would be the likely impact on the cost of a reasonable assurance GHG engagement if the ISAE included requirements of a similar number and nature as the working draft? Is this cost likely to be proportionate to the benefit to be derived?**

Currently, practitioners are reporting on reasonable assurance GHG engagements using ISAE 3000. As the working draft is based on ISAE 3000, we would not expect significant incremental costs, and we believe the cost is proportionate to the benefits.

**7. In your judgment, are there any requirements that:**

**(a) Have not been included in the working draft that should have been? If so, why?**

**(b) Have been included in the working draft that should not have been? If so, why?**

We believe it would be appropriate to move some of the more generic requirements (for example, those on engagement management and quality control) into ISAE 3000, and only retain the subject-matter specific requirements in the proposed standard. Additionally, we believe a more in-depth discussion in the application guidance regarding the differentiation between “estimates vs. uncertainties and errors” and related assurance considerations would be helpful, as well as explaining the difference between assurance and verification.

## ***Relationship with Regulatory Requirements***

**8. Are there any additional matters the IAASB should take into account with respect to engagements conducted in accordance with local laws or regulations?**

The IAASB standard should take into account compatibility with the EU ETS verification and accreditation rules. Considerations such as ensuring that one ton of GHG is measured consistently across different domestic/regional schemes would enable the linkage between different emission trading schemes.

We recommend that the IAASB provides guidance on how a practitioner who is both required to comply with the law and also to comply with the standards promulgated by the IAASB, can meet their professional and legal obligations if the form of the report under the law does not meet the requirements of the form of the report under the standard.

**9. Should any aspects of the requirements written to apply only to voluntary reporting (see WD, paragraphs 15(b)(i)-(ii), 15(c), and 106(d)) also apply in other circumstances?**

We believe the requirements in paragraphs 15(b)(ii), 15(c) and 106(d) should apply in situations beyond voluntary reporting.

For example, the practitioner should still be required to obtain a written acknowledgement from management of its responsibility for the preparation of its GHG statement in accordance with the applicable criteria regardless of whether the reporting is voluntary or mandatory.

ISAE 3000 states that if a practitioner is reporting using established criteria, for example those embodied in law or regulation, then the criteria will ordinarily be deemed suitable. However, we believe the practitioner should still assess whether the criteria is suitable for its intended purposes when accepting the engagement, both when reporting under a regulatory environment or on a voluntary basis.

However, for the requirement in paragraph 15(b)(i), some regulators have mandatory reporting requirements which may preclude disclosing the applicable criteria the entity has used. In these situations, we believe the report would be a special purpose report using the regulatory requirements. With voluntary reporting, the proposed standard can enforce the additional disclosures described in paragraph 15(b)(i).

### *The Assurance Process, Analytical Procedures*

**10. Does the working draft appropriately reflect the specific characteristics of analytical procedures used in practice on GHG engagements? In particular, are paragraphs 59-60 appropriate, for example, with respect to the reliability of data on which analytical procedures are based?**

Yes

### *The Assurance Process, Internal Control*

**11. Is the approach to internal control adopted in paragraphs 45-46 of the working draft appropriate? If not, please provide details and suggestions for elaboration or modification of the working draft.**

Yes

### *The Assurance Process, Assertions*

**12. Is it appropriate to require practitioners to perform risk assessment procedures at the assertion level for GHG engagements? If not, why not? If so, do the assertions identified in paragraph A49 of the working draft provide an appropriate basis for the identification and assessment of the risks of material misstatement in a GHG statement?**

Yes, risk assessment procedures should be performed at the assertion level; requirements in A49 are appropriate.

**13. As well as referring to the risks of material misstatement at the assertion level, paragraphs 39 and 47 of the working draft refer to risks at the GHG statement level. In your experience, what are commonly the most significant risks at the GHG statement level?**

- Presenting statements covering more than one year that are not comparable because the boundaries or measurement methodologies differ each year
- Omitting a source of emission, inadvertently or purposely
- Miscalculation (at source level or during roll-up / presentation)
- Invalid / inaccurate data source
- Invalid measurement methodology
- Data transposition / data handling / data interface errors (e.g., using an unsecure reporting system such as Excel)
- Inadequate documentation of data sources, methodology, measurement plan, and quality control.

### *The Assurance Process, Materiality*

**14. Do the requirements and guidance in the working draft with respect to materiality need modification or elaboration? If so, please provide details. For example:**

- (a) The requirements and guidance refer to materiality in terms of intended users' economic decisions. Is it appropriate for materiality with respect to a GHG statement to be limited to economic decisions, or are there other forms of decision made by various users that should be taken into account? If so, how can those decisions best be categorized? Please provide examples.**
- (b) In light of the fact that GHG statements often deal with different types of emissions, is the determination of materiality in the aggregate and for particular types of emissions in the way set out in paragraph 36 of the working draft appropriate?**
- (c) Does paragraph A39 of the working draft provide the practitioner with an appropriate frame of reference when the applicable criteria do not discuss the concept of materiality? If not, which elements of paragraph A39 are inappropriate, and why; or which other elements should be added, and why?**
- (d) Are the assumptions about intended users stated in paragraph A41 of the working draft appropriate? If not, which assumptions are inappropriate, and why; or which other assumptions should be added, and why?**
- (e) When the engagement covers many but not all of the component elements of a GHG statement, should materiality be based on the total emissions or on assured emissions only (WD, paragraph A44)?**
- (f) Is the guidance regarding quantitative and qualitative factors in paragraphs A42-A46 of the working draft appropriate? If not, which aspects of that guidance are inappropriate, and why; or which other aspects should be added, and why?**

- (a) Appropriate to limit to economic decisions
- (b) Yes
- (c) Yes
- (d) Yes
- (e) Materiality should be based on the portion of the GHG statement that is covered by the assurance engagement.

### *The Assurance Process, Estimates and Uncertainty*

**15. Is the manner in which the working draft has treated assurance with respect to estimates, for example, paragraphs 43(c), 62-63, 89(d), 106(d), and A52-A53 appropriate? If not, please provide details and suggestions for modification or elaboration of the working draft.**

Yes we believe that the working draft has treated assurance with respect to estimates appropriately.

However, we do not believe that all sub-bullets of paragraph 106(d) should be confined solely to voluntary reporting (see our answer to Question 9). For example, regardless of the form of presentation (e.g., in a prescribed form) and the fact that the criteria is specified in a regulatory requirement, the practitioner should still evaluate the matters in paragraph 106(d)(ii)-(iv). Additionally, while the regulatory prescribed form may not contain a requirement for disclosures, the practitioner should still evaluate whether there are matters that should be disclosed (e.g., 106(d)(i)). Further, if the prescribed form includes space for disclosures, the practitioner should also evaluate whether appropriate disclosures were actually made. Additionally, we believe that the practitioner should evaluate whether the terminology used in the GHG statement is appropriate, even in regulatory reporting, because the practitioner may conclude that it is appropriate only for the use of the regulator and, accordingly, determine that the report should be restricted as to use.

**16. Should the role of disclosures in the GHG statement with respect to estimates be further emphasized in the working draft, particularly the disclosure of any uncertainty related to particular estimates, the factors that affect that uncertainty, and how those factors have been dealt with?**

No, we do not believe the role of disclosures should be further emphasized. The document should not identify disclosure requirements but rather should address the need for the practitioner to consider the adequacy of disclosures in the GHG statement, which is already covered in paragraphs 43(c) and 106(d).

### *The Assurance Process, Fraud*

**17. Are the definition of fraud, the requirements of paragraph 30 of the working draft, and the discussion of fraud throughout the application material sufficient and**

**appropriate? If not, please provide details and suggestions for modification or elaboration of the working draft.**

Yes

### ***Reporting, The Assurance Report***

**18. Is the example report of a suitable length, and structured and worded appropriately, to meet the needs of users with respect to, for example:**

- **Restrictions on scope?**
- **The practitioner's independence, quality control and expertise?**
- **The relative responsibilities of the entity and the practitioner?**
- **The wording of the practitioner's opinion?**
- **Uncertainties in the quantification and reporting of emissions?**

Yes; however, we recommend that the practitioner should be afforded flexibility in how identification of information not covered by the practitioner's report is addressed. The practitioner may be able to suitably describe what is covered without also being required to state what is not covered, although best practice might be to address both.

**19. Should the ISAE include requirements with respect to Emphasis of Matter paragraphs and Other Matter paragraphs adapted from ISA 706,17 or are these concepts not particularly relevant to GHG engagements? If so, what are the circumstances in which it would be appropriate to include an Emphasis of Matter paragraph or an Other Matter paragraph in an assurance report on a GHG statement?**

Yes, the IAASB should consider including such matters as application guidance. Matters that might be disclosed by the entity that the practitioner might want to draw the reader's attention to through an Emphasis of Matter paragraph include uncertainty in measurements, or change in boundaries from prior years.

**20. Should a distinction be made between long-form GHG assurance reports that are provided to certain groups of users (for example, regulators in some schemes) and short-form reports that are made publicly available? How would this impact on the content of the report?**

If such a distinction is to be made, this document should provide more background, detailed definitions, and requirements of the long-form reports vs. short-form reports.

**21. The working draft actively discourages including recommendations in the assurance report (see WD, paragraph A89). Are there circumstances in which it is appropriate to include recommendations in the assurance report? If so, please provide details.**

No, we believe that including recommendations should be discouraged.

## ***Reporting, Fair Presentation versus Compliance Frameworks***

**22. Is it appropriate for the ISAE to be written primarily for compliance criteria? Is there a common understanding of what fair presentation with respect to GHG statements means (for example, in what circumstances might adherence to regulatory criteria not yield fair presentation)? Are the criteria used in jurisdictions with which you are familiar compliance criteria or fair presentation criteria? Please provide examples of such criteria.**

We believe the standard should allow for both compliance and fair presentation as some regulators may deem their criteria to be fair presentation. However, in voluntary reporting situations, it is more challenging to assert that criteria used is fair presentation criteria.

**23. Should the ISAE provide requirements and guidance for cases where special purpose criteria are used? If so, how would it differ from the working draft? Are criteria in jurisdictions with which you are familiar special purpose or general purpose criteria? Please provide examples of such criteria.**

No, we are not aware of any such situations that would warrant the use of special purpose criteria at this time.

## ***Emissions Deductions***

**24. Is the manner in which the working draft has dealt with deductions appropriate? If not, please provide details and suggestions for modification or elaboration of the working draft.**

Yes, we believe that the deductions are appropriately dealt with at this time. However, as this area develops more, additional guidance might be needed.

**25. Some purchased offset are accompanied by an assurance report. How, if at all, should this be reflected in the content of the ISAE; for example, to what extent and in what circumstances, if at all, would the practitioner who assures the GHG statement be able to rely on assured offsets and provide an opinion on the net of emissions less offsets?**

We believe that it would be very difficult to operationalize how responsibility could be divided in this area, particularly as it is most likely that professionals other than accountants will be reporting on offsets. If the offsets are to be evaluated, then this guidance should be modified to allow for the use of the work of a third party, however use of this work should be subject to considerations similar to those in Group Audits (ISA 600).

**26. Where the GHG statement contains emissions deductions, is the treatment required by paragraph 111(d) of the working draft appropriate? If so, where in the**

**assurance report should the required wording be situated? Would wording along the lines of that in paragraph 52 above be appropriate?**

Treatment is appropriate; we do not consider it necessary to designate where the language regarding deductions should be placed in the practitioner's report. We do not believe that the language in paragraph 52 of the forepart should be used.

### ***Scope 3 Emissions***

**27. Is it appropriate for the ISAE to include cautionary language with respect to Scope 3 emissions (such as that in paragraphs A29-A31 of the working draft)? If not, please provide details and suggestions for modification or elaboration of the working draft.**

Yes, cautionary language should be included.

**28. What additions, if any, to the assurance report may be required when the GHG statement contains Scope 3 emissions? Would wording along the lines of that in paragraph 56 above be appropriate to include in the statement of uncertainties required by paragraph 111(k) of the working draft? If so, should such wording be included regardless of whether or not disclosed Scope 3 emissions are covered by the assurance engagement?**

We have no recommendations for additions to the report re: Scope 3. Paragraph 56 language is appropriate; such language should be included regardless of whether or not disclosed Scope 3 emissions are covered by the assurance engagement.

### ***Types of Assurance Engagements, Direct Reporting Engagements***

**29. Are you aware of jurisdictions in which direct reporting engagements are common in practice, or are required by law or regulation? If so:**

- (a) Please provide details, including example reports where available.**
- (b) Are restrictions placed on the work allowed to be done by the practitioner with respect to quantifying the entity's emissions; or obligations placed on the entity with respect to, for example, having a reasonable basis for representations made to the practitioner?**

We do not believe that, for the purpose of this standard, it is appropriate for the practitioner to both evaluate the subject matter information (SMI) and provide the SMI to intended users by inclusion of the SMI in the practitioner's report without any evaluation/measurement by the responsible party.

### ***Types of Assurance Engagements, Level of Assurance***

**30. How should a limited assurance engagement on a GHG statement be differentiated from a reasonable assurance engagement, for example:**

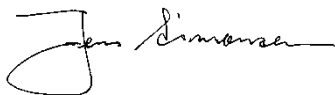
- (a) How should the practitioner determine the procedures to be performed?**
- (b) What is the role of risk assessment in a limited assurance engagement?**
- (c) To what extent, if any, should the practitioner consider the effectiveness of control?**
- (d) Should evidence be primarily obtained through inquiry and analytical review?**
- (e) Which procedures that ordinarily are performed in a reasonable assurance engagement would you not expect to be performed in a limited assurance engagement?**

The question being posed for limited assurance versus reasonable assurance engagements is broader than GHG statements, and should be considered as part of other revisions to ISAE 3000 and ISRE 2400, most specifically related to the extent of understanding of and testing of internal control required for a limited assurance engagement.

Additionally, we recommend that the limited assurance (review level of service) be addressed in a subsequent project for GHG statements, given that some regulations have requirements for such level of assurance. One item in particular that needs to be addressed in the limited assurance standard is that a practitioner should not accept a limited assurance engagement if the practitioner believes there are limitations in available information that would have prevented a practitioner from accepting a reasonable assurance engagement.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Nick Main +44 20 7303 2486, Eric Hespeneide +1 313-396-3163, or Jens Simonsen at +1 212-492-3689.

Very truly yours,



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