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By email

Dear James

IAASB CONSULTATION PAPER: ASSURANCE ON A GREENHOUSE GAS STATEMENT

ICAEW is pleased to respond to your request for comments on the *IAASB Consultation Paper: Assurance on a Greenhouse Gas Statement*.

Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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ICAEW REPRESENTATION

IAASB CONSULTATION PAPER ASSURANCE ON A GREENHOUSE GAS STATEMENT

Memorandum of comment submitted in February 2010 by ICAEW, in response to the IAASB Consultation Paper: Assurance on a Greenhouse Gas Statement published in October 2009

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the consultation paper *Assurance on a Greenhouse Gas Statement* published by IAASB.

WHO WE ARE

2. ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.
3. Our members provide financial knowledge and guidance based on the highest technical and ethical standards. They are trained to challenge people and organisations to think and act differently, to provide clarity and rigour, and so help create and sustain prosperity. We ensure these skills are constantly developed, recognised and valued.

MAJOR POINTS

Support for the initiative

4. We welcome the IAASB's initiative to address market needs for an internationally consistent assurance standard on Greenhouse Gas emission statements. The project is also timely as there are increasing regulatory and voluntary developments in this area. These include the Copenhagen Accord, the UK Carbon Reduction Commitment Efficiency Scheme and guidance from the United Kingdom's Department of Environment, Food and Rural Affairs and Department of Energy and Climate Change on greenhouse gas statements.

Importance of robust reporting

5. We support the drafting of the proposed ISAE Assurance on a Greenhouse Gas Statement (the ISAE) so as to be applicable to entities of all sizes with an appropriate level of detail. The difficulty for practitioners is that, in order to conduct an assurance engagement in accordance with the ISAE, there needs to be widely accepted, preferably international, reporting criteria. However, these do not currently exist for Greenhouse Gas (GHG) emission reporting. While we support companies developing their own methodology and framework for suitable criteria, it would nevertheless be helpful if the ISAE provided examples of existing robust reporting frameworks. This would help dissemination of best practice across the world in the long term and would contribute to the enhancement of GHG emission reporting.

Communication with preparers and users

6. While primary users of the ISAE will be professional accountants engaged to issue an assurance report on a GHG statement, there will also be preparers and users of GHG statements who may be interested in the standard with a view to understand how practitioners perform engagements to reach a professional opinion. Unfortunately, the ISAE is unlikely to be drafted with sufficient clarity for such stakeholders.
7. For an assurance engagement to be meaningful for stakeholders, it is important that appropriate explanations of the nature of assurance engagements and the processes involved are available to such stakeholders. Should this be unachievable in the ISAE itself, other, supplementary documents may need to be issued. The ICAEW will soon be issuing guidance material entitled *Sustainable Assurance: Your Choice* to explain the nature of assurance engagements and the processes carried out by professional accountants in a plain language. We will be pleased to make this available to you. The IAASB may wish to consider issuing a

similar document. It will also help practitioners to differentiate their service and compete in the market.

Relationship between the ISAE and existing pronouncements (eg, the Assurance Framework, ISAE 3000 and ISAs)

8. In general, it would be preferable if ISAE 3000 contained all general requirements for assurance engagements and individual ISAEs only contained requirements specific to the related subject matter. However, we recognise that this is currently not possible as ISAE 3000 is being revised. Consequently, the proposed ISAE refers to both ISAE 3000 and ISAs which is unhelpful as it makes the status of the ISAE unclear. Furthermore, practitioners will need to be familiar with all the ISAs and ISAE 3000 in order to understand the proposed ISAE, which may not always be the case (see paragraph 14).
9. In the short term, we suggest that the ISAE could contain all requirements, including those that would be covered by the future revised ISAE 3000. While the resultant ISAE would be lengthy initially, the issue may be resolved by removing duplicated materials from individual ISAEs, including this ISAE, once the revised ISAE 3000 becomes available. We recommend that the ISAE should include related requirements rather than referring to ISAs (eg, on the use of experts.)

Reasonable assurance

10. It is proposed that an engagement carried out under the ISAE will be a reasonable assurance engagement. Existing practice indicates, however, that many assurance engagements on GHG statements are based on limited assurance. In particular, where entities produce GHG statements on a voluntary basis, they appear to consider that the rigour associated with limited assurance is sufficient for the perceived needs of users.
11. As the number of entities producing GHG statements and the interest among users increases, the demand for reasonable assurance engagements may increase. Regulatory requirements and carbon trading schemes may also increase demands for reasonable assurance engagements on GHG statements. However, it is important for the IAASB to recognise the prevalent use of limited assurance today.
12. Notwithstanding that ISAE 3000 is currently under revision, it would be unrealistic to expect the generic description of limited assurance in ISAE 3000 to be directly applicable to specific subject matters such as GHG statements. We therefore believe that it is very important for the IAASB to consider limited assurance within the scope of the GHG project now, rather than waiting for the ISAE 3000 revision to be completed.

Assertion-based engagements

13. We support the ISAE being written to deal only with assertion-based engagements. Not only is this the most common form of existing engagement, we also believe that assertion-based engagements clarify the preparer's responsibilities for the evaluation or measurement of subject matter and subject matter information.

Risk-based approach and substantive work

14. We believe that the combination of risk-based work and substantive procedures in the ISAE is appropriate and suitable for practitioners familiar with other assurance engagements and, in particular, audits of financial statements.
15. We agree that it is essential for practitioners to understand the entity's internal controls in order to assess the risks of material misstatement at the assertion level and to design procedures in response to identified risks. In some areas, tests of controls would be carried out to gather appropriate evidence. This does not mean that all controls need to be tested or that

practitioners can rely solely on controls. However, the judgement about the nature, timing and extent of other procedures would depend on the operating effectiveness of controls.

Development of best practice

16. Standard setting in emerging areas is challenging as best practice which may be codified into new standards continues to develop. This applies to assurance standard setting concerning GHG statements and other non-financial information. For this reason, to be meaningful, we believe that it is important for the IAASB to commit itself to monitor and learn from existing and new practices, including piloting the standard and committing to revisit the standard, once issued, in a few years' time to incorporate the latest best practice (see also our response to Question 6).

RESPONSES TO SPECIFIC QUESTIONS

Q1: 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.

17. Yes. There may be other competent groups who do not satisfy the requirements of paragraphs 12 (a) and (b) of the ISAE, primarily because they are not professional accountants in public practice. However, we believe that this is appropriate because the role of the IAASB is to develop standards for competent practitioners who satisfy the Fundamental Principles. These requirements include the professional competence and due care required by the Code of Ethics and other requirements of IFAC member bodies.
18. It is however unlikely for the IAASB to effectively prevent the use of the ISAE by other groups and experts. It would also be inappropriate for the IAASB to monitor and restrict the use of the ISAE by other groups and experts. Instead, the ISAE may need to highlight the importance of IFAC requirements set out for professional accountants who are members of IFAC members and associates. The compliance with this ISAE is not complete without complying with the rest of these requirements and this should be clearly stated in the ISAE.

Q2: 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.

19. Guidance in paragraph A5-8 appears sufficient for the purpose of engagements covered in the ISAE.

Q3: 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?

20. In many assurance engagements including audits, experts form part of an engagement team. The requirements and guidance in the ISAE appear to be adequate.
21. As practitioners performing assurance engagements are governed by the Code of Ethics and ISQC 1, both pronouncements may be referred to in paragraph 6 of the ISAE.

Q4: Is there a need for additional guidance regarding the measure of objectivity that should be applied with respect to external experts?

- 22.** No. If the need is considered relevant to future ISAEs, the discussion should be held as part of a broader IAASB/IFAC discussion on independence and objectivity (including of experts) and not within this specific ISAE.

Q5: 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?

- 23.** While the Code does not directly apply to experts, it will apply to practitioners doing the assurance engagement. It therefore charges them with assessing that the experts used to provide evidence are independent and that evidence is reliable. The practitioners therefore ought to consider how objective the experts are.

Q6: 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?

- 24.** We do not have quantitative information to comment on this at this stage, as we have no consistent basis of comparison.

- 25.** However, the cost of a reasonable assurance GHG engagement is likely to depend on characteristics such as the size, type of industry and structure of the entity and the level of data collection and reporting. One way of finding out the likely cost and its proportionality is to carry out a field test of the standard. Once the ISAE has been released, the IAASB may wish to monitor and consider its cost implication over a suitable period of time.

Q7: 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?

- 26.** No requirements of any significance appear to have been inappropriately omitted or included.

Q8: Are there any additional matters the IAASB should take into account with respect to engagements conducted in accordance with local laws or regulations?

- 27.** Circumstances envisaged in paragraphs 20 (a) and (b) would need to be considered only if the engagement satisfies paragraph 3 of the IAASB Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services. By doing so, reference to the issue may be reduced or become unnecessary in paragraphs 20, 113, and A25 (but not 31, A6, A23 and A45.) It may be best to discuss this issue in the introduction of the ISAE. This reflects issues around the application of the standard rather than engagement acceptance.

Q9: 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?

- 28.** Yes. Requirements specified in the question appear to be basic requirements of an assurance engagement. They should be applicable to all engagements covered by the ISAE, not just voluntary reporting.

Q10: 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?

29. Yes. Paragraphs 59 and 60 appear to reflect the characteristics of analytical review procedures used in practice. However, it may be useful for the ISAE to note that evidence for certain types of information is obtained from observation or by applying formulae and there is less reliance on related controls.

Q11: 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.

30. Yes, it is appropriate in principle. As stated earlier, it is essential for practitioners to obtain a high-level understanding of internal controls relevant to the engagement, including the five components in paragraph 46 to assess the risks of material misstatement at the assertion level. In practice, a detailed work programme would comprise a combination of control evaluation and testing, and substantive testing. The extent of testing in each area would depend on the engagement circumstances and the practitioner's professional judgement.

31. It would be helpful for the ISAE to set out how a practitioner may reach an assurance conclusion for engagements through a substantive approach for entities whose control environment and systems are weak. It would also be helpful for the ISAE to recognise the range of possible situations clearly.

Q12: 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?

32. Yes. The assertions identified in paragraph A49 seem to be appropriate.

Q13: 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?

33. In our experience, the most common examples of significant risks at the GHG statement level are most common:

- uncertainties regarding completeness of data and an omission of entire sources of emissions from the GHG statement;
- incorrect inclusion of sources of emission which may flatter performance in subsequent years;
- using incorrect factors in quantifying data;
- misleading presentation;
- year on year data being non-comparable due to the frequent restatement of prior year data; and
- poor or inaccurate descriptions of collection methods and descriptions of what the numbers represent.

Q14: 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.

34. There is a wide range of 'economic' decisions. Other forms of decision may include internally set targets (quantitative), regulation (quantitative) and stakeholder expectation (qualitative). To ensure sufficient breadth, it may be best to add '... and other relevant decisions'.

(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?

35. Yes.

(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?

36. Generally, yes. The third bullet point, 'the common information needs of intended users as a group' may create difficulties in practice. Paragraphs 28 and 30 of the International Framework for Assurance Engagements should provide a practical way forward (for example, restricting users).

37. In any case, materiality in GHG statements may be qualitatively and quantitatively highly judgemental. The IAASB should consider including some examples in the ISAE on how materiality may be determined in different engagements as part of Application and Other Explanatory Material.

(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?

38. Assumptions on intended users in paragraph A41 are helpful in practice and will allow sufficient flexibility.

(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)?

39. When the engagement does not cover all of the component elements of a GHG statement, the practitioner ought to consider various other aspects of the engagement such as acceptance (WD, 15(a)(ii)), planning (for example, paragraph 36), and oversight of GHG information of the entity (for example, paragraph 43 (e)). Some of these aspects are relevant to GHG reporting or the governance of the entity and not only to the scope of the engagement. The standard could provide further explanations on them.

40. Where a complete GHG statement exists but only a certain part of it is subject to an assurance engagement, the practitioner will need to apply materiality based on the component elements; otherwise, the engagement would become subject to an uncertainty due to the basis of calculation of materiality.

41. If the scope of the engagement is very small relative to the total emissions reported, the practitioner would also need to consider whether the engagement has a rational purpose to be acceptable. The International Framework for Assurance Engagements cautions that if there is a significant limitation on the scope of the practitioner's work, it may be unlikely that the engagement has a rational purpose (paragraph 17). This is because a material limitation in the scope of the practitioners' work would prevent the practitioner from obtaining evidence required to reduce assurance engagement risk to the appropriate level (paragraph 55).

(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?

42. The guidance in paragraphs A42 to A46 is appropriate.

Q15: 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.

43. Yes. Regarding paragraph 106(d), it may be useful for the ISAE to clarify what procedures practitioners should follow where: (i) assurance reporting is required by regulation; and (ii) management has not made relevant disclosures.

44. The discussion on uncertainty involved in GHG statements in paragraph A52 could be incorporated into the introduction to the ISAE as it is generally applicable to the subject matter.

Q16: 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?

45. Yes.

Q17: 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.

46. Yes. The definition, requirements and discussion of fraud are sufficient and appropriate.

Q18: 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?

47. Yes. The example report appears reasonable except for the specific comments made in this response (see our response to Question 3). Input from users based on a pilot study should provide a valuable source of information to improve the example report.

Q19: Should the ISAE include requirements with respect to Emphasis of Matter paragraphs and Other Matter paragraphs adapted from ISA 706 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?

48. Yes, the concepts adapted from ISA 706 would be relevant in certain contexts and therefore the requirements should be included.

Q20: 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?

49. Yes. ISAE 3000, which is currently under revision, sets out requirements on the use of a short-form or a long-form report. A long-form report may include matters such as the terms of the engagement, the details of criteria used and findings and allows, in some cases, recommendations. Different types of report may be suitable for different users.

50. However, the basic elements should be consistent for both types of report. Information specific to a long-form report such as findings and recommendations should be clearly separated from the assurance conclusion (see also our response to Question 21).

Q21: 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.

51. We support this in principle for assurance reports that are made publicly available. Notwithstanding that ISAE 3000 allows a long-form report that includes recommendations, it is probably better to communicate matters such as recommendations in a separate document (eg, a letter to management), in order to distinguish them from the conclusion in the assurance report. It is important that users of the report understand that recommendations do not affect the practitioner's conclusion.

52. However, current market practices indicate that the inclusion of recommendations is common. For example, a reporting framework such as AA1000 issued by AccountAbility, commonly used in combination with ISAE 3000 in corporate responsibility assurance engagements, requires the inclusion of recommendations on the basis that they satisfy the needs of users.

53. As drafted, paragraph A89 strongly discourages the inclusion of recommendations unless required by law or regulation. This means, for example where a practitioner is engaged to report in accordance with both AA1000 and the ISAE, the practitioner might be required to issue two forms of assurance reports which contain the same conclusion: a long-form report in compliance with AA1000 containing recommendations and a short form report in compliance with the ISAE. Not only would this be costly and impractical, but we also do not believe that it would benefit users.

54. In the long run, the IAASB should encourage proponents of other reporting framework to change what they request in an assurance reports to facilitate clear communication with users. However, until this is achieved and as there are demands for practitioners to issue an assurance report with recommendations and ISAE 3000 does not prohibit this practice, we would suggest a practical solution, at least in the short term. ISAE 3000 suggests the means that may be used to facilitate clear communication, such as the use of headings, paragraph numbers, typographical devices, for example the bolding of text, and other mechanisms. This ISAE should require recommendations or any other additional information, if included within the assurance report, to be clearly separated from the assurance conclusion so as not to confuse users that recommendations are in fact part of the opinion or perceived as a

qualification. This may be done for example by setting out recommendations on a separate page with a separate heading where it is not an option to issue a separate document.

Q22: 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.

55. Yes. Compliance criteria should be the starting point for the purpose of the ISAE as existing criteria appear to be predominantly based on compliance criteria. We also attach a list of criteria typically used in the UK which include:
- Reporting Framework, Climate Disclosure Standards Board;
 - The Greenhouse Gas Protocol, World Business Council for Sustainable Development and the World Resources Institute;
 - General Reporting Protocol, the Climate Registry; and
 - Greenhouse Gas Emission Trading System, the European Commission.

Q23: 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.

56. The ISAE may be written primarily with general purpose criteria in mind but additional guidance on special purpose criteria beyond what is set out in paragraph A25 may be helpful. See, for example, ISAE 3000 paragraphs 20 (a) and (b).

Q24: 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.

57. To deal with deductions, the following approaches may be available:
- exclude deductions from the scope of the engagement and describe the omission;
 - carry out procedures to the extent available (for example, acquisition of the offsets and their documentation) and report an assurance conclusion to that extent only; or
 - carry out procedures to the extent possible (for example, acquisition of the offsets and their documentation) and report the findings only as agreed-upon-procedures.
58. The first approach would be the simplest approach. However, we are aware that preparers and users alike see value in applying deductions.
59. The second approach, which the ISAE currently also accepts, is valuable in enhancing the credibility of information to the extent it is currently practicable. Suggested wording in the issues paper (paragraph 52) appears to describe the scope of work performed and to be widely accepted in practice. We have no evidence that users misunderstand the wording. The wording may be usefully used as an illustration in paragraph A92. To facilitate better communication with users, we propose that the assurance report should describe the practitioner's work regarding deductions within the practitioner's responsibility section.
60. The last approach, which combines an assurance engagement and agreed-upon procedures, would risk confusion unless an agreed-upon procedures report is separately issued. This is likely to be impractical.

Q25: 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?

61. See our response to Question 24.

Q26: 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?

62. Yes, the proposed treatment and suggested wording are appropriate.

Q27: 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.

63. There are benefits in including cautionary language due to the nature of the subject matter. Opinions have been given in relation to Scope 3 in practice, but these are often in very specific circumstances.

64. We support the use of cautionary language for the benefit of users. Although management may have described the boundaries of what is included in Scope 3 disclosures and the practitioner considers that the method for determining the scope is suitable and accurately described in the management report, others, in particular certain users, may have different views about what should be included.

Q28: 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?

65. It appears that Scope 3 emissions are currently not deemed a suitable subject matter for an assurance engagement. However, in practice, if a client were to specify a methodology for determining what to include and how to measure them, the practitioner may be asked to provide an opinion on management's methodology or its application. That may be a significant step towards wider Scope 3 reporting. If the IAASB is to support disclosure of Scope 3 emissions, and to encourage entities to measure and suitably disclose them, a description of the practitioner's responsibility and suitable report wording, including qualifications, will need to be developed.

Q29: 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?

66. We are not aware of any jurisdictions in which direct reporting engagements are common in practice.

Q30: 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?

67. (a) There are many ways to obtain evidence sufficient for limited assurance and therefore, every engagement may differ in practice. Specific differences between reasonable and limited assurance depend on the situation and have to be judged from a risk perspective in context. The two types of assurance engagements are not necessarily or fully differentiated by the types of procedures used.

(b) Most corporate responsibility reporting to date, including GHG emissions, has been based on limited assurance. We do not believe that there is a significant difference in the risk assessment procedures practitioners adopt for reasonable and limited assurance engagements. The primary difference is seen by many people as relating to the extent of evidence gathering performed to support the relevant assurance conclusion.

(c) See response to (b). This would still be an integral part of a limited assurance engagement as it informs the dialogue with management about what needs to be disclosed in management's report and what may require additional testing.

(d) Practitioners typically use analytical review and management enquiry when reviewing financial statements. It does not mean, however, that these techniques are the only means to obtain limited assurance in assurance engagements on other types of subject matter. In particular, information available for analytical review in first year assurance engagements may be restricted for GHG statements. Furthermore, it is often the case in GHG statements that the quality and robustness of underlying systems and processes may be questionable. Finally, a double entry system often has no application for GHG data that is mostly in a memorandum form. Thus, reliance on controls and other sources to enable analytical review to be used to best effect may not be possible.

(e) We believe that a limited assurance engagement on a GHG statement is likely to be a combination of procedures and consider that in principle any specific procedures should not be prohibited. Although the extent of testing may only require a high-level understanding of controls exercised by management, practitioners may still want to perform a control environment review in the relevant area.

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