



30 June 2011

Our ref: ICAEW Rep 63/11

James Gunn
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International Auditing and Assurance Standards Board
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Dear James

**Proposed International Standard on Assurance Engagements (ISAE) 3410, ISAE 3410
'Assurance Engagements on Greenhouse Gas Statements'**

ICAEW is pleased to respond to your request for comments on *Proposed International Standard on Assurance Engagements (ISAE) 3410, Assurance Engagements on Greenhouse Gas Statements*.

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

PROPOSED INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS (ISAE) 3410, ASSURANCE ENGAGEMENTS ON GREENHOUSE GAS STATEMENTS

Memorandum of comment submitted in June 2011 by ICAEW, in response to the IAASB exposure draft Proposed International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements* published in January 2011

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INTRODUCTION

1. ICAEW welcomes the opportunity to comment on the consultation paper Proposed International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements* published by the 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 136,000 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 POINT

Support for the initiative

4. We welcome the exposure of ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*. The standard should raise the standard of existing practice and enhance consistency. As we will discuss below, there are a number of technical and conceptual issues relevant to ISAE 3410. However, these issues are likely to be relevant to other existing or draft standards such as ISAE 3000 and ISRE 2400. We believe that these issues are unlikely to be resolved merely by way of technical discussion but by trial and feedback based on experience of using these standards. We therefore support the issuance of ISAE 3410 and revisit the standard in a few years' time rather than to delay it further.

Relationship with other professional pronouncements

5. We believe that proposed ISAE 3410 needs to refer to the elements and objectives of an assurance engagement as defined in the *International Framework for Assurance Engagements* (the Assurance Framework) more explicitly. We are content with the manner how ISAE 3410 requires practitioners to comply with ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.
6. The Assurance Framework states that it does not itself 'establish standards or provide procedural requirements for the performance of assurance engagements.' Nevertheless, it provides the objectives of reasonable and limited assurance engagements and sets out characteristics that must be satisfied before practitioners accept an assurance engagement. As we expect that it will be some time before the finalisation of proposed ISAE 3000 that incorporates relevant material of the Assurance Framework, it would be sensible either to require ISAE 3410 to be read in the context of the Assurance Framework or to tailor and incorporate necessary elements of the Assurance Framework within ISAE 3410. Notably, we believe that the characteristics of an assurance engagement should be referred to explicitly in ISAE 3410 as these may not be always present in new subject matter areas such as GHG statements. These characteristics include, in particular, the underlying subject matter being appropriate; the suitable and available criteria; the evidence needed to support the practitioner's conclusion being accessible; and the existence of a rational purpose for an assurance engagement.

7. Notwithstanding that ISAE 3000 incorporating materials of the Assurance Framework would be eventually finalised and therefore there would be no incentive for ISAE 3410 to refer to the Assurance Framework as well as ISAE 3000, our current preference is to incorporate the relevant material of the Assurance Framework in ISAE 3410. When ISAE 3000 is finalised, we suggest that the IAASB should review ISAE 3410 and remove duplications where unnecessary.

1. Do respondents believe proposed ISAE 3410 achieves an appropriate balance between improving the consistency and quality of GHG assurance engagements and the potential cost of such engagements as a result of work effort required by the standard?

8. Yes. The work required for reasonable assurance engagements appears to focus on risk and control. This is consistent with financial audits, a recognised current example of reasonable assurance engagements and helps us to gauge the potential cost and we believe it is likely to be proportional. It is difficult to comment on limited assurance engagements, as the work effort is likely to vary from engagement to engagement. The definition of work effort, however, appears to be carefully considered and proportionate. We suggest the IAASB monitors developing practice and reviews the cost implication of limited and reasonable assurance as established by the standard over a period.

2. Do respondents agree with the general approach taken in proposed ISAE 3410 to limited assurance engagements on GHG statements, as outlined above? In particular:

(a) Do respondents agree that for such engagements a risk assessment is necessary in order to obtain a meaningful level of assurance; and

(b) In responding to the assessed risks, do respondents agree that the standard should direct the practitioner to design and perform further procedures whose nature, timing and extent are responsive to the assessed risks having regard to the level of assurance?

An alternative may be to specify only certain types of procedures (such as inquiry and analytical procedures) as the primary means of obtaining evidence.

9. The experience of accountants' involvement in assurance reporting on GHG statements is relatively limited to date. Therefore, we support the standard being principles-based and enabling practitioners to determine the work sufficient to obtain a meaningful level of assurance. In doing so, the IAASB should stress the importance of professional judgement in undertaking limited assurance engagements and the Code of Ethics. The Code of Ethics requires professional accountants to maintain professional knowledge and skill at the level required to ensure that clients receive competent professional service (130.1, Code of Ethics). To fulfil this requirement, the fundamental principle of professional competence and due care imposes an obligation on a professional accountant in public practice to provide only those services that he is competent to perform (210.6, Code of Ethics). This means, for example, if the practitioner considers that he is unable to carry out the engagement risk assessment necessary for a limited assurance engagement, whether it is due to the lack of relevant skills or because the circumstances indicate that the entity is unlikely to allow the practitioner to access sufficient appropriate evidence, he should not accept the engagement.

10. (a) Yes, we agree that an engagement risk assessment is necessary because the extent of procedures performed in limited assurance engagements depends on the practitioner's assessment of risks of material misstatement.

11. (b) Yes, we are satisfied with the explanation in the 'Limited Assurance' section on pages 6-7 of the explanatory memorandum. We do not believe that specifying the type of procedures to obtain limited assurance is always sufficient (where excluded procedures only can obtain the necessary evidence) or efficient (where other procedures can obtain appropriate evidence more speedily and economically than specified procedures).

12. We note that this would be a different approach from that taken in the proposed ISRE 2400 *Engagements to Review Historical Financial Statements*. Due to the different nature of the subject matter, and to the rationale set out in paragraph 4 of this response, we believe that the difference is acceptable.

3. If the general approach to limited assurance engagements on GHG statements is adopted in the final ISAE, do respondents agree with the specific differences between limited assurance and reasonable assurance engagements on GHG statements noted in the proposed ISAE?

13. We agree. In an assurance standard on a relatively new subject matter such as greenhouse gas, the standard should set high-level principles and leave scope for professional judgement in practice.

14. Key differences between limited and reasonable assurance engagements in the proposed ISAE, in particular:

- practitioners' work related to internal control, including the understanding the entity's internal control, evaluation of the design and the implementation of controls; and
- limitation in the requirements in limited assurance engagements in specific areas (eg, understanding the entity and its environment, identifying and assessing risks of material misstatement, when and how the practitioner performs additional procedures, and the nature and extent of those procedures)

are significant, practicable and pragmatic. At the same time, we support the fact that none of procedures required for reasonable assurance engagements are prohibited in limited assurance engagements. The practitioner should be allowed to carry out procedures according to his professional judgement.

4. Do respondents agree with the use of the columnar format with the letter 'L' (limited assurance) or 'R' (reasonable assurance) after the paragraph number to differentiate requirements that apply to only one or the other type of engagement? Do respondents believe more guidance needs to be included in the ISAE to assist readers in understanding the differences between limited assurance and reasonable assurance engagements on GHG statements and, if so, what should be included in that guidance?

15. We agree with the use of the columnar format. While it is unusual in the light of existing standards, it is easy to contrast the work involved in the two types of engagements and thus useful. The standard should however provide a concise summary of the differences in a manner similar to the summary set out in pages 7-9 of the Explanatory Memorandum (eg, reasonable assurance engagements place reliance on internal controls) before the tables, for example in paragraphs 7-8. It would be unhelpful if practitioners have to figure out the rationale and principles as to why and how reasonable and limited assurance procedures differ.

16. We noted that many procedures are common to both limited and reasonable assurance engagements. We suggest the use of a single column where requirements are common to both types of engagements for simplicity.

5. Do respondents agree with the requirements and guidance in the proposed ISAE for a limited assurance engagement regarding the summary of procedures in the practitioner's report? (to continue. . .)

17. Yes, on balance, we agree with the requirements and guidance regarding the summary at present if the purpose of the information is communicated clearly. However, when assurance on GHG statements is well embedded in practice eg, in five years' time, we suggest the IAASB revisit the point with a view to deciding whether to retain the summary or not. We set out our rationale below.

18. Greenhouse gas is a relatively new subject matter, and both preparers and users may appreciate information on what work practitioners have carried out. In particular, in order to obtain a degree of confidence to issue a limited assurance conclusion, the procedures the practitioner performs can vary significantly. This should be usefully explained in the standard and if possible in the assurance report because it alerts users of the report of the professional judgement used in assurance reporting and, at the same time, the existence of the minimum threshold of confidence that the practitioner has reached to issue an unqualified limited assurance conclusion. To reflect the point, the first sentence of paragraph A136 could be revised to explain that there is a degree of confidence required in a limited assurance engagement: *'In a limited assurance engagement, however, the procedures the practitioner performs vary in order to obtain the degree of assurance required to issue a limited assurance conclusion.'*
19. Fundamentally, we do not believe that the provision of the summary of procedures performed turns assurance engagements, limited or otherwise, into agreed-upon procedures. In agreed-upon procedures, the users of the report assess the factual findings from procedures carried out to draw their own conclusions. In assurance engagements, practitioners determine the necessary work based on the risk assessment and therefore the responsibility to draw conclusion cannot be transferred to users. Furthermore, ISAE 3410 does not require practitioners to provide detailed disclosure or the outcome of procedures performed that would amount to agreed-upon procedure reporting.
20. From the viewpoint of users, however, it is possible for them to mistake that it is their responsibility to draw their own conclusion if the summary is too detailed. We are therefore against the disclosure of detailed procedures performed. Some users may consider that the extent of summary provided is in accordance with the level of assurance. Furthermore, their interpretation may not be consistent with other users. For example, some users may consider that more work means the practitioner has obtained more assurance. Conversely, others may consider that the practitioner has carried out more work because there were more areas that indicated risks. As we have no control over user perceptions, we believe that too much detail can potentially mislead users.

(. . . continued) In particular, will the proposed ISAE lead to reporting procedures with an appropriate amount of detail to convey effectively to users the level of assurance obtained by the practitioner?

21. The requirements and guidance regarding the summary of procedures need to be clearer. Current requirement is that it is written in an objective way; otherwise the standard states that it usually will not involve a detailed work plan and should not be too summarised to be ambiguous or written in a way that is overstated or embellished. This, however, leaves a scope for a wide variety of summaries between the entire work plan and a simple summary of the nature and types of work performed. Furthermore, we would like clarification as to in what circumstances, if any, the detailed description of the entire work plan is appropriate as the guidance in A 136 states that in most cases, the summary of procedures will not involve a detailed work plan.
22. It is important that the standard should stress that the summary of procedures is to facilitate communication with users. The summary of procedures is likely to be unique to each limited assurance report which the standard should encourage as the key feature of the summary. We recognise that it is easy to define the objective of the summary but difficult to describe what the summary should look like. We suggest that the standard provide examples of the summary of procedures to help practitioners understand how to develop one for a limited assurance report.

6. Do respondents agree with the requirements and guidance in the proposed ISAE for a limited assurance engagement describing the trigger point at which additional procedures are required? Do respondents agree with the related requirements concerning the

practitioner's response when there are matters that cause the practitioner to believe the financial statements may be materially misstated?

23. Yes. We agree with the requirements and guidance in the proposed ISAE describing the trigger point at which additional procedures are required for a limited assurance engagement.

24. We support the use of 'may be' in the proposed ISAE as opposed to 'are likely to be' and 'are.' The latter two appear to indicate that the material misstatement is likely to have occurred or actually has occurred rather than there being a risk. We believe that a practitioner with professional scepticism would find it difficult not to perform additional procedures until they are certain that there is likely to be or there are indeed material misstatements in the GHG statements.

7. Do respondents agree with proposed requirements and application material dealing with the performance of procedures on location at an entity's facilities?

25. Yes. The guidance in paragraph A72 that illustrates alternative procedures that the practitioner may perform instead of visiting a selection of facilities is helpful.

8. With respect to uncertainties associated with emissions:

(a) Do respondents believe the proposed ISAE explains clearly the differences between scientific uncertainty and estimation uncertainty?

(b) Do respondents agree that the assurance report should include a statement identifying the uncertainties relevant to emissions? If so, do respondents agree with the example wording of that statement, and its placement in the illustrative reports included in Appendix 2 to the proposed ISAE?

26. (a) Yes, the explanation on the two types of uncertainties in the standard is clear.

27. (b) Yes, we agree that the report should include a statement referring to the uncertainties and its placement in the illustrative reports is reasonable. It is also appropriate that the paragraph is included in both reasonable and limited assurance reports.

28. The suggested wording appears to be primarily related to scientific uncertainty. This is acceptable as paragraph A22(a) states, it is 'ordinarily negated by the use of criteria that stipulate particular scientific assumptions to be used in preparing the GHG statement or particular factors that embody those assumptions.' As criteria are assessed for their suitability as required by ISAE 3000 (paragraph 16(b)) as one of preconditions for the engagement, the impact of scientific uncertainty on the assurance engagement should be reasonably explained by the suggested wording. We suggest that the proposed wording on uncertainty under the practitioner's responsibility should be revised to be 'GHG quantification is subject to uncertainty because of . . . incomplete scientific knowledge *to date*' to explain that the uncertainty relates to our knowledge as of today.

29. The standard should further clarify the practitioners' responsibility as to estimation uncertainty. While the explanations in paragraphs A24-25 and A84(g) are useful, we would like further explanation to clarify how to differentiate different engagement circumstances, such as:

- i where estimation uncertainty leads to one of the preconditions for the engagement not being met;
- ii where the preconditions for the engagement are met at the engagement acceptance stage but estimation uncertainty later proves so significant to be a scope limitation due to the unavailability of appropriate sufficient evidence and therefore the conclusion is qualified; and

- iii where the preconditions for the engagement are met at the engagement acceptance stage and estimation uncertainty has no impact on the assurance conclusion, but it is significant enough to require an additional statement (or emphasis of matter) in the assurance report.

9. Do respondents agree with the form and content of the illustrative assurance reports included in Appendix 2 to the proposed ISAE?

- 30.** In principle, yes, although we have some concerns in relation to the manner in which the draft deals with distinguishing limited from reasonable assurance engagements. As set out in paragraph 73(h), the report states that the nature of procedures performed in a limited assurance engagement is different from, and the extent is substantially less than, a reasonable assurance engagement. Our concern is that such a statement may be of limited value to users, since we would not necessarily expect all users to be familiar with such technical definitions or to read the standard to appreciate fully the distinction between limited assurance and reasonable assurance. However, we accept that similar issues arise in relation to reporting on various forms of limited assurance engagement, and are not restricted to those dealing with greenhouse gas statements. As a result, we consider that the manner in which limited assurance is explained in assurance reports is a matter that should be considered in the revision of ISAE 3000.

OTHER POINTS

Preconditions for the Engagement (paragraph 16)

- 31.** We understand that 'pre-condition' means that the practitioner needs to establish these conditions prior to, or at the point of engagement acceptance at the latest. It would be challenging to satisfy some of these conditions, in particular 16(b) that requires some degree of understanding of the entity and its environment.

Documentation (paragraph 62-67)

- 32.** Documentation requirements in this section are very detailed. Some of them should be moved to the Application and Other Explanatory Material. Guidance in paragraph A120 is, however, helpful in setting out the broad principles of necessary documentation.

Quality control

- 33.** The requirements section of the proposed ISAE has no reference to ISQC1 while ISAE 3000 paragraphs 4 and 6 refer to ISQC1. It appears inconsistent as both ISAEs specifically refer to the Code of Ethics (which ISAE 3000 also refers to.) It also seems odd that assurance engagement standards do not refer to ISQC1 while ISAs and ISRE 2400 do.
- 34.** We presume this is why specific quality controls requirements are given under paragraphs 64 (documentation) and 68 (where a quality control review is required by laws or regulations.) If inclusion of quality control requirements in the proposed ISAE is meant to be a substitute for the reference to ISQC1, the proposed ISAE may need to go beyond what is proposed currently.

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