Response from The Institute of Chartered Accountants of Scotland to the International Auditing and Assurance Standards Board

ISAE 3410, Assurance Engagements on Greenhouse Gas Statements

8 June 2011
INTRODUCTION

The Institute’s Audit and Assurance Committee has considered the exposure draft ISAE 3410, Assurance Engagements on Greenhouse Gas Statements and is pleased to forward its comments to the International Auditing and Assurance Standards Board (IAASB).

The Institute is the first incorporated professional accountancy body in the world. The Institute’s Charter requires the Audit and Assurance Committee to act primarily in the public interest, and our responses to consultations are therefore intended to place the general public interest first. Our Charter also requires us to represent our members’ views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

ICAS strongly supports the issue of an assurance standard on Greenhouse Gas (GHG) statements. We understand that such assurance engagements are becoming more widespread as more entities report their greenhouse gas emissions, either through choice or because they are required to by legislation. This is an area where many practitioners are not professional accountants and therefore this is an opportunity to lead the way in setting the standard for this type of assurance, while recognising that many non-accountants may choose voluntarily to adopt this standard.

We are pleased to see that the IAASB acted on the comments made on the consultation paper issued in 2010 and extended the scope of the draft International Standard on Assurance Engagements (ISAE) to cover limited assurance engagements. We are also pleased to see that the draft ISAE 3000 has now been issued for consultation.

Overall we support the draft ISAE contained within the exposure draft.

Annex A contains our responses to the specific questions in the exposure draft.
ANNEX A: RESPONSES TO SPECIFIC QUESTIONS

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

We note that, while the draft ISAE does contain a large number of requirements, this is substantially less than the number of requirements in the working draft of the standard contained in the 2010 consultation paper. We agree that it is appropriate to require the practitioner to meet the general requirements of ISAE 3000 rather than repeating those requirements in ISAE 3410.

We are in full agreement with the IAASB’s decision to include limited assurance engagements within the scope of the standard in addition to reasonable assurance engagements, as it is our understanding that many companies opt for limited assurance engagements on cost and time grounds.

We believe that the draft ISAE does achieve an appropriate balance between the number of requirements and the quality of the engagement.

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.

Yes we agree that for a limited assurance engagement on a GHG statement a risk assessment is necessary in order to obtain a meaningful level of assurance.

We agree that it is more appropriate for the procedures to be designed based on the assessed risks rather than mandating particular tests such as analytical procedures, as specific tests may not be appropriate in all circumstances. We agree that GHG statements contain information that is very different to historical financial information and, while the principles of assurance are no different, the specific types of tests may need to be adapted to suit the assignment.
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?

We agree with the theoretical basis for distinction between a limited assurance engagement and a reasonable assurance engagement. However, the issue will be whether the user of these assurance reports understands the differences. It is therefore vital that the assurance report assists the user to understand what procedures have been undertaken. This is a very new type of engagement and will not be as widely understood as the audit of historical financial statements.

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?

We agree that the use of the columnar format with the letters “L” and “R” to distinguish between limited and reasonable assurance engagements is appropriate.

We note that the draft ISAE effectively distinguishes between limited assurance engagements and reasonable assurance engagements by the type of procedures used. However there is no concise definition in the standard which easily and clearly explains to the user of the ISAE what the difference is between these two types of engagement. It seems to be assumed that a user of the standard would know this already. Although the standard is written for professional accountants, it is important for others to be able to understand the standard. It would therefore be helpful if a more general description and definition of the two types of assurance could be included in the standard.

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

We believe it would be appropriate to include a sample summary of procedures in the illustrative assurance report for a limited assurance engagement. This would assist users of the ISAE to understand what is meant by a summary of procedures written in an objective manner.
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?**

   Yes we agree that “may” is the appropriate trigger point for additional procedures to be performed. We also agree with the related requirements concerning the practitioner’s response. It seems sensible to provide the practitioner with a binary choice of either concluding that the GHG statement is not materially misstated or establishing the matter that causes it to be materially misstated. This is appropriate for the work level involved in a limited assurance engagement and providing more complex requirements would stray into the territory of a reasonable assurance engagement and thereby risk confusing the user.

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

   Yes we agree with the proposed requirements and application material. It must be a matter of judgement for the practitioner to decide whether and to what extent site visits should be performed as part of the engagement – but it is appropriate to point out that where there are significant facilities it may be difficult to gain an understanding of the entity without visiting some of the facilities.

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?**

   Yes we believe that the definitions explain the differences between scientific and estimation uncertainty appropriately. However uncertainty is a feature of all assurance engagements – for example, the audit of historical financial information can include the audit of complex financial models based on assumptions about the future. We are not therefore convinced that it is necessary to draw attention to scientific and estimation uncertainty so prominently in the assurance report itself as it could have the effect of lowering the user’s confidence in the whole report.

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

   Subject to our responses to question 5 and question 8 above we agree overall with the form and content of the illustrative assurance reports.