



January 2011

To: **Members of the Hong Kong Institute of CPAs**
All other interested parties

INVITATION TO COMMENT ON IAASB EXPOSURE DRAFT ON PROPOSED INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS (ISAE)

Proposed ISAE 3410 Assurance Engagements on Greenhouse Gas Statements

Comments to be received by 20 May 2011

The Hong Kong Institute of Certified Public Accountants' (Institute) Auditing and Assurance Standards Committee is seeking comments on the IAASB Exposure Draft which has been posted on the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/exposure-drafts/>.

The Explanatory Memorandum to the Exposure Draft provides background information and explanation of the proposed ISAE.

The newly proposed ISAE has been developed through a robust program of consultation, including a series of global roundtables and feedback received on an earlier Consultation Paper.

The proposed ISAE addresses the practitioner's responsibilities in identifying, assessing, and responding to risks of material misstatement, and contains illustrative assurance reports on greenhouse gas statements. The proposed standard covers both "reasonable assurance" and "limited assurance" engagements. The proposed requirements and guidance also recognize that most engagements will be undertaken by a multidisciplinary team, so they address the need for the assurance practitioner to integrate experts – in engineering or environmental science, for example – into various stages of the engagement.

In accordance with the Institute's International Standards Convergence Due Process, comments are invited from any interested party and the Institute would like to hear from both those who do agree and those who do not agree with the proposals contained in the IAASB Exposure Draft.

The IAASB invites all stakeholders to comment on its proposals. In particular, it would be helpful if respondents' comments could include the areas set out in the guide for respondents which is in pages 12 and 13 of the IAASB Exposure Draft.

Comments should be supported by specific reasoning and should be submitted in written form.

To allow your comments on the IAASB Exposure Draft to be considered, comments on the exposure draft are requested by the due date shown above.

Comments may be sent by mail, fax or e-mail to:

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Comments will be acknowledged and may be made available for public review unless otherwise requested by the contributor.

January 2011
Exposure Draft

Response Due Date
20 May 2011

ED of Proposed ISAE 3410

Assurance Engagements on Greenhouse Gas Statements



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

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ED of Proposed ISAE 3410 "Assurance Engagements on Greenhouse Gas Statements"

IAASB Press release

This Exposure Draft may be filed in the "Exposure Drafts, Invitations to Comment" section of Volume III of the Institute Members' Handbook.

The Exposure Draft can also be found on the Institute's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/exposure-drafts/>.



Hong Kong Institute of
Certified Public Accountants
香港會計師公會

*Proposed International Standard on Assurance
Engagements*

ISAE 3410, Assurance Engagements
on Greenhouse Gas Statements



REQUEST FOR COMMENTS

The International Auditing and Assurance Standards Board (IAASB) approved this exposure draft, proposed International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*, for publication in January 2011. This proposed ISAE may be modified in light of comments received before being issued in final form.

Respondents are asked to submit their comments **electronically** through the IAASB website (www.iaasb.org), using the “Submit a Comment” link on the Exposure Drafts and Consultation Papers page. Please note that first-time users must register to use this new feature. All comments will be considered a matter of public record and will ultimately be posted on the IAASB website.

Comments can also be faxed to the attention of the IAASB Technical Director at +1 (212) 856-9420, or mailed to:

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Comments should be submitted by **June 10, 2011**.

Copies of this exposure draft may be downloaded free of charge from the IAASB website at www.iaasb.org.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance.

The objective of the IAASB is to serve the public interest by setting high-quality auditing and assurance standards and by facilitating the convergence of international and national standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The structures and processes that support the operations of the IAASB are facilitated by IFAC. The mission of IFAC is to serve the public interest, strengthen the worldwide accountancy profession and contribute to the development of strong international economies by establishing and promoting adherence to high quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession’s expertise is most relevant.

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides background to, and an explanation of, the proposed International Standard on Assurance Engagements (ISAE) 3410, *Assurance Engagements on Greenhouse Gas Statements*. The International Auditing and Assurance Standards Board (IAASB) approved the proposed ISAE in December 2010 for exposure.

Background

Climate Change and Emissions Reporting

The IAASB's *Strategy and Work Program 2009–2011*¹ notes that many professional accountants practice in the field of assurance on sustainability and similar reports, and for a number of years they have been asking the IAASB to consider developing standards specifically designed for such work. The IAASB's project to develop a standard for assurance engagements on greenhouse gas (GHG) statements is intended to address a particular aspect of this general need.

Sources such as the Stern Report² and the report of the Intergovernmental Panel on Climate Change³ have highlighted the overwhelming scientific evidence that “*climate change presents very serious global risks, and it demands an urgent global response.*” Stern notes that climate change “*is the greatest and widest-ranging market failure ever seen,*” and concludes that “*the benefits of strong and early action far outweigh the economic costs of not acting.*” The primary focus of the actions recommended by Stern is a shift to low-carbon energy systems as a way of reducing carbon emissions.

A major step in this direction is the pricing of carbon⁴ through carbon taxes and carbon trading schemes, in particular “cap and trade” schemes, which rely on the reporting of emissions information. In cap and trade schemes, a central authority sets a limit, or “cap,” on carbon emissions and entities in the scheme are given tradable credits (allowances) that represent the right to emit a specific amount of carbon. The total amount of credits cannot exceed the cap, thereby limiting total emissions to that level. Entities that emit beyond their allowance must either buy credits from those who emit less than their allowance,⁵ or face penalties. In effect, the buyer is paying for excess emissions, while the seller is being rewarded for having reduced emissions. Thus, entities that can easily reduce emissions will do so, and those for which it is harder will buy credits. The rationale behind such schemes is to provide market incentives for emission reductions to take place where the cost of the reduction is lowest.

¹ Issued July 2008, and available on the IAASB website at:

[web.ifac.org/download/IAASB Strategy and Work Program 2009-2011.pdf](http://web.ifac.org/download/IAASB_Strategy_and_Work_Program_2009-2011.pdf)

² *Stern Review on the Economics of Climate Change* available at: www.direct.gov.uk/en/N11/Newsroom/DG_064854

³ *Climate Change 2007: The Physical Science Basis*, available at the IPCC website at: www.ipcc.ch/ipccreports/ar4-wg1.htm

⁴ While the term “carbon” is used here, different schemes may regulate different GHGs. Carbon dioxide (CO₂) is the major GHG. Other GHGs (e.g., methane, nitrous oxide, sulphur hexafluoride, hydrofluorocarbons, perfluorocarbons and chlorofluorocarbons) are often measured as carbon dioxide equivalents (CO₂-e).

⁵ Or buy other forms of “offsets” if allowed by the scheme.

The robustness of such schemes is subject to the rigor with which emissions are measured, which in turn is affected by the measurement criteria and the assurance systems used. Yet, while the value of transactions in the main schemes has increased from USD 8 billion in 2005 to USD 123 billion in 2009,⁶ there is still a great deal of variation in the way current carbon trading schemes approach assurance with respect to the information they use to establish valuable rights and obligations.

In addition to carbon trading schemes, other significant uses of carbon emissions information include:

- The preparation of GHG statements as part of regulatory disclosure regimes, such as Australia's National Greenhouse and Energy Reporting Act 2007; and
- To inform investors and others on a voluntary basis. Voluntary disclosures are becoming increasingly common. Such disclosures may be, for example, published as a stand-alone document, included as part of a broader sustainability report or in an entity's annual report, or made to support inclusion in a "carbon register."

IAASB's Project to Develop an International Standard for Assurance Engagements on Greenhouse Gas Statements

In light of factors such as those noted above, the IAASB approved the commencement of a project on this topic at its December 2007 meeting. During 2008, four international roundtables were held with participants from a diverse range of stakeholder groups, including: accounting firms and accounting bodies; government regulators and policymakers; reporting companies; public sector auditors; non-accounting assurers and standard setters; institutional investors; non-governmental organizations; academics; and legal professionals.

Following deliberations on the feedback received at the roundtables, the IAASB released a Consultation Paper⁷ accompanied by a working draft of ISAE 3410 in October 2009. The Consultation Paper sought feedback from stakeholders on key issues in relation to:

- The Engagement Partner and the Team
- Number and Nature of Requirements, and Costs and Benefits Considerations
- Relationship with Regulatory Requirements
- The Assurance Process
- Reporting
- Emissions Deductions
- Scope 3 Emissions
- Types of Assurance Engagements.

⁶ *State and Trends of the Carbon Market 2007* and *State and Trends of the Carbon Market 2010*, available on the World Bank Carbon Finance Unit website at:

wbcarbonfinance.org/Router.cfm?Page=DocLib&ht=25621&dtype=25622&dl=0

⁷ *Assurance on a Greenhouse Gas Statement* available at the IAASB website at: www.ifac.org/Guidance/EXD-Details.php?EDID=0132

The comment period on the Consultation Paper closed in February 2010, and thirty-five submissions were received. While many detailed comments were raised by respondents, the majority of respondents was generally satisfied with how most issues had been dealt with in the working draft and expressed a strong demand for work on the ISAE to proceed. However, many respondents noted that the working draft only dealt with reasonable assurance engagements and indicated there is an urgent need for a standard that covers both reasonable assurance and limited assurance engagements. One respondent, who also sets international standards, questioned the need for an ISAE. The IAASB has initiated liaison with this respondent to explore the role of, and differences between, various sets of standards, including consideration of the use of the ISAEs by assurance providers other than professional accountants in public practice (as discussed further below). In the light of comments received on the Consultation Paper, the IAASB has considered a series of revisions to the working draft, and at its December 2010 meeting approved proposed ISAE 3410 for exposure.

Significant Matters

Limited Assurance

The most significant issue arising in the comments on the Consultation Paper was a call for the ISAE to deal with limited assurance engagements. Proposed ISAE 3410 therefore covers limited assurance engagements in addition to reasonable assurance GHG engagements.

General Approach to Limited Assurance

The IAASB has considered a number of possible approaches to how limited assurance engagements on GHG statements should be conducted. The main issues relate to whether ISAE 3410 should require certain types of procedures (such as inquiry and analytical procedures) as the primary means of obtaining evidence, or whether it should acknowledge a broader range of procedures selected by the practitioner based on an assessment of risks of material misstatement in the circumstances of the engagement.

Either approach would be consistent with the Assurance Framework⁸ and ISAE 3000,⁹ which allow for the approach adopted to limited assurance in a subject matter-specific ISAE to be tailored to suit the particular subject matter.

The approach taken in proposed ISAE 3410 requires the practitioner to select procedures appropriate to the circumstances of the engagement based on an assessment of risks of material misstatement. After careful deliberation, the IAASB concluded that, in order to obtain a meaningful level of assurance, an explicit risk assessment is necessary and that mandating certain types of procedures (such as inquiry and analytical procedures) as the primary means of obtaining evidence is not appropriate. The IAASB is aware that this approach is different from that for limited assurance engagements on historical financial information. The IAASB reached this decision based on a number of factors, including:

- The nature of GHG information, which is quite different from historical financial information. For example, GHG information is not capable of being subject to the rigor of

⁸ *International Framework for Assurance Engagements*

⁹ *ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

a double entry bookkeeping system, and is susceptible to different risks than historical financial information. Accordingly, while in many cases the fixed nature of physical or chemical relationships between particular emissions and other measurable phenomena allows for the design of powerful analytical procedures, there may be cases where analytical procedures (alone or in combination only with inquiry) may be less applicable and therefore less effective in obtaining evidence in support of a meaningful level of assurance.

- The nature of assurance engagements on GHG statements, which can vary greatly. For example, a limited assurance engagement may relate to emissions from electricity use at a single office only, or it may relate to emissions resulting from complicated physical or chemical processes at several facilities, or it may relate to emissions using information collected from various entities in the supply chain. These different engagement circumstances may warrant a particular type(s) of procedure in order to effectively respond to assessed risks.
- The approach incorporated in the proposed ISAE is consistent with the advice of the GHG assurance experts with whom the IAASB has consulted. It is also consistent with current practice as evidenced by publicly available limited assurance reports on GHG statements.

Main Differences between Limited Assurance and Reasonable Assurance Engagements on GHG Statements

Each requirement of proposed ISAE 3410, unless otherwise stated, applies to both reasonable and limited assurance engagements.

Requirements that apply to only one or the other type of engagement have been presented in a columnar format with the letter “L” (limited assurance) or “R” (reasonable assurance) after the paragraph number. These requirements are presented in this way so that:

- It is clear which requirements apply only for limited assurance engagements or for reasonable assurance engagements; and
- The differences between limited assurance and reasonable assurance engagements can be easily identified.

These requirements relate to:

- Understanding the Entity and Its Environment:¹⁰ The understanding required as the basis for identifying and assessing risks of material misstatement in a limited assurance engagement on a GHG statement is of a lesser depth and breadth than that required for a reasonable assurance engagement. In particular, the practitioner in a limited assurance engagement on a GHG statement is not required to obtain an understanding of all of the components of the entity’s internal control as in a reasonable assurance engagement, and is not required to evaluate the design of controls and determine whether they have been implemented.

¹⁰ Proposed ISAE 3410, paragraphs 22–23

- Identifying and Assessing Risks of Material Misstatement:¹¹ This is also of a lesser depth and breadth for a limited assurance engagement on a GHG statement than for a reasonable assurance engagement. For example, in a limited assurance engagement on a GHG statement, the practitioner's identification and assessment of risks of material misstatements with respect to material types of emission and disclosure need not be at the assertion level.
- Overall Responses to Assessed Risks and Further Procedures:¹² The proposed ISAE includes different requirements for overall responses and further procedures for reasonable assurance and limited assurance engagements on GHG statements. The application material¹³ also includes additional guidance, including discussion of:
 - The emphasis placed on the nature of various procedures;
 - The extent of further procedures; and
 - The nature of analytical procedures.

One of the differences regarding further procedures relates to when and how the practitioner determines whether it is necessary to perform additional procedures, and the nature and extent of those procedures if the practitioner becomes aware of a matter(s) that causes the practitioner to believe the GHG statement may be materially misstated.¹⁴ This requirement is further discussed below.

In addition, differences exist in the practitioner's objectives, in the requirements for forming and expressing the practitioner's conclusion, and in the requirement to include a summary of the practitioner's procedures in the assurance report (as discussed below).¹⁵

It is also important to note that:

- The skills, knowledge and experience required for a limited assurance engagement on a GHG statement are identical to those required for a reasonable assurance engagement on a GHG statement.¹⁶
- The preconditions for the engagement are identical for both limited assurance engagements on a GHG statement and reasonable assurance engagements on a GHG statement.¹⁷
- The proposed ISAE specifically states that the suitability of the applicable criteria is not affected by the level of assurance, that is, if criteria are not suitable for a reasonable assurance engagement, they are also not suitable for a limited assurance engagement, and vice versa.¹⁸

¹¹ Proposed ISAE 3410, paragraph 31

¹² Proposed ISAE 3410, paragraphs 34–47

¹³ Proposed ISAE 3410, paragraph A86

¹⁴ Proposed ISAE 3410, paragraph 47L

¹⁵ Proposed ISAE 3410, paragraphs 12, 69–70, and 73(h)(ii) respectively

¹⁶ Proposed ISAE 3410, paragraph 15

¹⁷ Proposed ISAE 3410, paragraph 16

¹⁸ Proposed ISAE 3410, paragraph A31

- The proposed ISAE specifically states that decisions regarding materiality are not affected by the level of assurance, that is, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement.¹⁹

Summary of Procedures in the Practitioner's Report

For both reasonable assurance and limited assurance engagements on GHG statements, the practitioner's report is required to include a summary of the practitioner's procedures. In the case of a limited assurance engagement, the report must also include a statement that the extent of procedures is substantially less than a reasonable assurance engagement and consequently does not enable the practitioner to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement.²⁰

The practitioner's report in a reasonable assurance engagement is ordinarily in the short-form, that is, it follows a standard wording and only briefly describes procedures performed. This is because describing in detail the specific procedures performed would not assist users to understand that, in all reasonable assurance engagements where an unmodified report is issued, sufficient appropriate evidence has been obtained to enable the practitioner to express a conclusion in the positive form.

In a limited assurance engagement, however, the level of assurance that the practitioner obtains can vary significantly depending on the procedures performed in the individual circumstances of the engagement. It is important therefore that the summary be written in an objective way that allows intended users to understand the work done as the basis for the practitioner's conclusion. While it is difficult to describe the appropriate level of summation in a general way, in most cases it will not involve detailing the entire work plan. Nevertheless, it is important for it not to be so summarized as to be ambiguous, nor written in a way that is overstated or embellished.²¹

Additional Procedures

Paragraph 47L of the proposed ISAE states:

If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the GHG statement may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to:

- (a) Conclude that the matter(s) is not likely to cause the GHG statement to be materially misstated; or
- (b) Determine that the matter(s) causes the GHG statement to be materially misstated.

The IAASB decided to use the word "may" in the proposed ISAE to describe the trigger point for performing additional procedures. The IAASB considered substituting "are" or "are likely to be" for the word "may" on the basis that "may" might set too low a threshold and would therefore lead to an excessive amount of work being performed for a limited assurance engagement. These alternatives were rejected because the IAASB did not consider it appropriate for a practitioner to

¹⁹ Proposed ISAE 3410, paragraph A51

²⁰ Proposed ISAE 3410, paragraph 73(h)(ii)

²¹ Proposed ISAE 3410, paragraphs A135–A136

report without having performed additional procedures when the practitioner believes the GHG statement may be materially misstated. Also, this requirement applies only if the practitioner has become aware of a relevant matter(s) that causes the practitioner to have this belief. This is in contrast to, for example, merely being aware of a risk of material misstatement when planning the engagement.

The point at which the practitioner may stop performing additional procedures is expressed in paragraph 47L (a) and (b).

In regard to paragraph 47L(a) (“...Conclude that the matter(s) is not likely to cause the GHG statement to be materially misstated”), the IAASB discussed defining or describing the meaning of “not likely” or “likely.” It decided that any definition or description in the proposed ISAE that involved a quantitative approach (such as “more likely than not”) would be unhelpful as it would imply a level of precision that is rarely, if ever, achievable in practice. Rather, it was agreed that no definition or description in the proposed ISAE is needed because the “plain language” use has the meaning intended by the IAASB.

In regard to paragraph 47L(b) (...“Determine that the matter(s) causes the GHG statement to be materially misstated”), in a limited assurance engagement, as with a reasonable assurance engagement, the practitioner needs to obtain sufficient appropriate evidence to support a conclusion in the assurance report that the GHG statement is materially misstated.

Performing Procedures on Location at Facilities, and the Role of Uncertainty

Feedback from respondents to the October 2009 Consultation Paper indicated a need for the IAASB to provide clear guidance on two issues that are particularly important when undertaking assurance engagements on GHG statements:

- Performing procedures on location at facilities. The IAASB considered whether proposed ISAE 3410 should require the practitioner to perform procedures on location at significant facilities in all cases, but decided this would not be necessary when, for example, the engagement relates only to emissions from electricity use and reliable records of electricity used at facilities are available at head office. Considerable guidance has, however, been included in proposed ISAE 3410 regarding the requirement for the practitioner to determine whether it is necessary in the circumstances of the engagement to perform procedures on location at significant facilities.²²
- The role of uncertainties associated with emissions. In particular, the IAASB considered it important for practitioners to understand the distinction between scientific uncertainty and estimation uncertainty,²³ and for the assurance report to include a reference to uncertainty regardless of what, if any, disclosures are included in the explanatory notes to the GHG statement.²⁴

²² Proposed ISAE 3410, paragraphs 13(q), 29, A14–A15 and A70–A73

²³ Proposed ISAE 3410, paragraph A22

²⁴ Proposed ISAE 3410, paragraphs 73(e) and A27

ISAE 3000 and Professional Accountants

ISAE 3000

Proposed ISAE 3410 requires that a practitioner comply with the requirements of both this ISAE 3410 and ISAE 3000.²⁵ Although ISAE 3000 is currently being revised by the IAASB, proposed ISAE 3410 has been written in the context of extant ISAE 3000. Any conforming amendments to proposed ISAE 3410 as a result of proposed changes to ISAE 3000 will be included in the exposure draft of proposed ISAE 3000 (Revised).

Professional Accountants

The working draft accompanying the October 2009 Consultation Paper required the practitioner to be a professional accountant in public practice. This is consistent with extant ISAE 3000, the purpose of which is “to establish basic principles and essential procedures for, and to provide guidance to, professional accountants in public practice.”²⁶

The use of the ISAEs by assurance providers other than professional accountants in public practice is being considered by the IAASB in the context of revised ISAE 3000. For example, the IAASB is considering whether the extant requirement to comply with the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code) should be changed to require compliance with the IESBA Code or other professional requirements, or requirements in laws or regulations, that are at least as demanding. Comments on this issue will be sought when proposed revised ISAE 3000 is approved for exposure by the IAASB, which is expected to occur in the first half of 2011. However, if respondents to this exposure draft have particular perspectives on this issue, they are invited to share them at this stage.

Project Timetable

Subject to comments received on exposure of proposed ISAE 3410, the IAASB intends to finalize the standard in late 2011 or early 2012.

Guide for Respondents

The IAASB welcomes comments on all matters addressed in the exposure draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this exposure draft (especially those calling for change in current practice), it will be helpful for the IAASB to be made aware of this view.

²⁵ Proposed ISAE 3410, paragraph 14

²⁶ ISAE 3000, paragraph 1

Request for Specific Comments

The IAASB would welcome views on the following questions:

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?
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.

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?
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?
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?
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?
7. Do respondents agree with proposed requirements and application material dealing with the performance of procedures on location at an entity’s facilities?²⁷

²⁷ Proposed ISAE 3410, paragraphs 13(q), 29, A14–A15 and A70–A73

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?²⁸
 - (b) Do respondents agree that the assurance report should include a statement identifying the uncertainties relevant to emissions?²⁹ 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?
9. Do respondents agree with the form and content of the illustrative assurance reports included in Appendix 2 to the proposed ISAE?

The IAASB is also seeking comments on the matters set out below.

- *Preparers, Users and Assurers of GHG Statements prepared by Small- and Medium-Sized Entities (SMEs), including Regulators*—Recognizing that SMEs increasingly will be preparing GHG statements and seeking to have them assured, the IAASB invites preparers, users (including regulators) and assurers to comment on the proposed ISAE, in particular on the scalability of requirements and the form and content of the illustrative assurance reports.
- *Developing Nations*—Recognizing the contribution of many developing nations to international efforts with respect to climate change, the IAASB invites respondents from these nations to comment on the proposed ISAE, in particular, on any foreseeable difficulties in applying it in a developing nation environment.
- *Translations*—Recognizing that many respondents may intend to translate the final ISAE for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents may note in reviewing the proposed ISAE.
- *Effective Date*—Recognizing that proposed ISAE 3410 is a new standard, and given the need for national due process and translation, as applicable, and the likely immediate use of the standard where there is no equivalent national standard, the IAASB believes that an appropriate effective date for the standard would be 12–15 months after approval of the final standard but with earlier application permitted. The IAASB welcomes comment on whether this would provide a sufficient period to support effective implementation of the ISAE.

²⁸ Proposed ISAE 3410, paragraph A22

²⁹ Proposed ISAE 3410, paragraphs 73(e) and A27

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PROPOSED INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS 3410
ASSURANCE ENGAGEMENTS ON GREENHOUSE GAS STATEMENTS

(Effective for assurance reports dated on or after [date])

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<p>Proposed International Standard on Assurance Engagements (ISAE) 3410, <i>Assurance Engagements on Greenhouse Gas Statements</i>, should be read in conjunction with the <i>Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services</i>.</p>
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Introduction

1. With the increasing attention given to the link between greenhouse gas (GHG) emissions and climate change, many entities are quantifying their GHG emissions for internal management purposes, and an increasing number are also preparing a GHG statement:
 - (a) As part of a regulatory disclosure regime;
 - (b) As part of an emissions trading scheme; or
 - (c) To inform investors and others on a voluntary basis. Voluntary disclosures may be, for example, published as a stand-alone document; included as part of a broader sustainability report or in an entity's annual report; or made to support inclusion in a "carbon register."

Scope of this ISAE

2. This International Standard on Assurance Engagements (ISAE) deals with assurance engagements to report on an entity's GHG statement.
3. The assurance engagement may cover a GHG statement and other information, for example, when the practitioner is engaged to report on a sustainability report of which a GHG statement is only one part. In such cases: (Ref: Para. A1–A2)
 - (a) This ISAE applies to assurance procedures performed with respect to the GHG statement; and
 - (b) ISAE 3000¹ (or another ISAE dealing with a specific subject matter) applies to assurance procedures performed with respect to the remainder of the information covered by the engagement.
4. This ISAE does not deal with, or provide specific guidance for, assurance engagements to report on the following:
 - (a) Statements of emissions other than GHG emissions, for example, nitrogen oxides (NO_x) and sulfur dioxide (SO₂). This ISAE may nonetheless provide guidance for such engagements;²
 - (b) Other GHG-related information, such as product lifecycle "footprints," hypothetical "baseline" information, and key performance indicators based on emissions data; or (Ref: Para. A3)
 - (c) Instruments, processes or mechanisms, such as offset projects, used by other entities as emissions deductions. However, where an entity's GHG statement includes emissions deductions that are subject to assurance, the requirements of this ISAE apply in relation to those emissions deductions as appropriate (see paragraph 73(f)).

¹ ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. ISAE 3000 is currently being revised by the IAASB. Any conforming amendments to this proposed ISAE as a result of proposed changes to ISAE 3000 will be included in the exposure draft of proposed ISAE 3000 (Revised).

² NO_x (i.e., NO and NO₂, which differ from the GHG nitrous oxide, N₂O) and SO₂ are associated with "acid rain" rather than climate change.

Assertion-Based and Direct Reporting Engagements

5. The *International Framework for Assurance Engagements* (the Assurance Framework) notes that an assurance engagement may be either an assertion-based engagement or a direct reporting engagement. This ISAE deals only with assertion-based engagements.³

Procedures for Reasonable Assurance and Limited Assurance Engagements

6. The Assurance Framework notes that an assurance engagement may be either a reasonable assurance engagement or a limited assurance engagement.⁴ This ISAE deals with both reasonable and limited assurance engagements.
7. In both reasonable assurance and limited assurance engagements on a GHG statement, the practitioner chooses a combination of assurance procedures, which can include: inspection; observation; confirmation; recalculation; reperformance; analytical procedures; and inquiry. Determining the assurance procedures to be performed on a particular engagement is a matter of professional judgment. Because GHG statements cover a wide range of circumstances, the nature, timing and extent of procedures are likely to vary considerably from engagement to engagement.
8. Unless otherwise stated, each requirement of this ISAE applies to both reasonable and limited assurance engagements. Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the nature and timing of the procedures the practitioner will perform to satisfy these requirements in a limited assurance engagement will be different from, and their extent will be less than, a reasonable assurance engagement.⁵ Requirements that apply to only one or the other type of engagement have been presented in a columnar format with the letter “L” (limited assurance) or “R” (reasonable assurance) after the paragraph number. Although some procedures are required only for reasonable assurance engagements, they may nonetheless be appropriate in some limited assurance engagements (see also paragraph A86, which outlines the primary differences between the practitioner’s further procedures for a reasonable assurance engagement and a limited assurance engagement on a GHG statement). (Ref: Para. A4)

Relationship with Other Professional Pronouncements

9. The performance of assurance engagements other than audits or reviews of historical financial information requires the practitioner to comply with ISAE 3000. ISAE 3000 includes requirements in relation to such topics as engagement acceptance, planning, evidence, and documentation that apply to all assurance engagements, including engagements in accordance with this ISAE. This ISAE expands on how ISAE 3000 is to be applied in an assurance engagement to report on an entity’s GHG statement. The Assurance Framework, which defines and describes the elements and objectives of an assurance engagement, provides context for understanding this ISAE and ISAE 3000.

³ Assurance Framework, paragraph 10

⁴ Assurance Framework, paragraph 11

⁵ Assurance Framework, paragraph 53, and ISAE 3000, paragraph 37

10. Compliance with ISAE 3000 requires, among other things, that the practitioner comply with the independence and other requirements of the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code) and implement quality control procedures that are applicable to the individual engagement.⁶ (Ref: Para. A5–A6)

Effective Date

11. This ISAE is effective for assurance reports covering periods ending on or after [date].

Objectives

12. The objectives of the practitioner are:
- (a) To obtain reasonable or limited assurance, as appropriate, about whether the GHG statement is free from material misstatement, whether due to fraud or error, thereby enabling the practitioner to express a conclusion conveying that level of assurance;
 - (b) To report, in accordance with the practitioner’s findings, about whether:
 - (i) In the case of a reasonable assurance engagement, the GHG statement is prepared, in all material respects, in accordance with the applicable criteria; or
 - (ii) In the case of a limited assurance engagement, anything has come to the practitioner’s attention that causes the practitioner to believe on the basis of the procedures performed that the GHG statement is not prepared, in all material respects, in accordance with the applicable criteria; and
 - (c) To communicate as otherwise required by this ISAE, in accordance with the practitioner’s findings.

Definitions

13. For purposes of this ISAE, the following terms have the meanings attributed below:
- (a) Applicable criteria – The criteria used by the entity to quantify and report its emissions in the GHG statement.
 - (b) Assertions – Representations by the entity, explicit or otherwise, that are embodied in the GHG statement, as used by the practitioner to consider the different types of potential misstatements that may occur.
 - (c) Comparative information – The amounts and disclosures included in the GHG statement in respect of one or more prior periods.

⁶ ISAE 3000, paragraphs 4 and 6. As noted in the Explanatory Memorandum, this exposure draft is based on extant ISAE 3000, which is currently being revised. As part of that revision, the IAASB is considering whether the extant requirement to comply with the IESBA Code should be changed to require compliance with the IESBA Code “or other professional requirements, or requirements in laws or regulations, that are at least as demanding.”

- (d) Emissions – The GHGs that, during the relevant period, have been emitted to the atmosphere or would have been emitted to the atmosphere had they not been captured and channeled to a sink. Emissions can be categorized as:
- Direct emissions (also known as Scope 1 emissions), which are emissions from sources that are owned or controlled by the entity. (Ref: Para. A7)
 - Indirect emissions, which are emissions that are a consequence of the activities of the entity, but which occur at sources that are owned or controlled by another entity. Indirect emissions can be further categorized as:
 - Scope 2 emissions, which are emissions associated with energy that is transferred to and consumed by the entity. (Ref: Para. A8)
 - Scope 3 emissions, which are all other indirect emissions. (Ref: Para. A9)
- (e) Emissions deduction – Any item included in the entity’s GHG statement that is deducted from the total reported emissions, but which is not a removal; it commonly includes purchased offsets, but can also include a variety of other instruments or mechanisms such as performance credits and allowances that are recognized by a regulatory or other scheme of which the entity is a part. (Ref: Para. A10–A11)
- (f) Emissions factor – A mathematical factor or ratio for converting the measure of an activity (for example, liters of fuel consumed, kilometers travelled, the number of animals in husbandry, or tonnes of product produced) into an estimate of the quantity of GHGs associated with that activity.
- (g) Entity – The legal entity, economic entity, or the identifiable portion of a legal or economic entity (for example, a single factory or other form of facility, such as a land fill site), or combination of legal or other entities or portions of those entities (for example, a joint venture) to which the emissions in the GHG statement relate.
- (h) Fraud – An intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage.
- (i) Further procedures – Procedures performed in response to assessed risks of material misstatement, including tests of controls (if any), tests of details and analytical procedures.
- (j) GHG statement – A statement setting out constituent elements and quantifying an entity’s GHG emissions for a period and, where applicable, comparative information (sometimes known as an emissions inventory) and explanatory notes including a summary of significant quantification and reporting policies. An entity’s GHG statement may also include a categorized listing of removals or emissions deductions. Where the engagement does not cover the entire GHG statement, the term “GHG statement” is to be read as that portion that is covered by the engagement. The GHG statement is the “subject matter information” of the engagement.⁷

⁷ Assurance Framework, paragraph 8

- (k) Greenhouse gases (GHGs) – Carbon dioxide (CO₂) and any other gases required by the applicable criteria to be included in the GHG statement, such as: methane; nitrous oxide; sulfur hexafluoride; hydrofluorocarbons; perfluorocarbons; and chlorofluorocarbons. Gases other than carbon dioxide are often expressed in terms of carbon dioxide equivalents (CO₂-e).
- (l) Organizational boundary – The boundary that determines which operations to include in the entity’s GHG statement.
- (m) Performance materiality – The amount or amounts set by the practitioner at less than materiality for the GHG statement to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the GHG statement. If applicable, performance materiality also refers to the amount or amounts set by the practitioner at less than the materiality level or levels for particular types of emissions or disclosures.
- (n) Purchased offset – An emissions deduction in which the entity pays for the lowering of another entity’s emissions (emissions reductions) or the increasing of another entity’s removals (removal enhancements), compared to a hypothetical baseline. (Ref: Para. A12)
- (o) Quantification – The process of determining the quantity of GHGs that relate to the entity, either directly or indirectly, as emitted (or removed) by particular sources (or sinks).
- (p) Removal – The GHGs that the entity has, during the period, removed from the atmosphere, or that would have been emitted to the atmosphere had they not been captured and channeled to a sink. Where an entity’s GHG statement includes removals that are subject to assurance, the requirements of this ISAE apply in relation to those removals as appropriate. (Ref: Para. A13)
- (q) Significant facility – A facility that is of individual significance due to the size of its emissions relative to the aggregate emissions included in the GHG statement or its specific nature or circumstances which give rise to particular risks of material misstatement. (Ref: Para. A14–A15)
- (r) Sink – A physical unit or process that removes GHGs from the atmosphere.
- (s) Source – A physical unit or process that releases GHGs into the atmosphere.
- (t) Type of emission – A grouping of emissions based on, for example, source of emission, type of gas, region, or facility.

Requirements

ISAE 3000

14. The practitioner shall not represent compliance with this ISAE unless the practitioner has complied with the requirements of both this ISAE and ISAE 3000. (Ref: Para. A5–A6, A16, A20–A27, A42, A120)

Acceptance and Continuance

Skills, Knowledge and Experience

15. The engagement partner shall:
- (a) Have sufficient assurance skills, knowledge and experience, and sufficient competence in the quantification and reporting of emissions, to accept responsibility for the assurance conclusion; and
 - (b) Be satisfied that the engagement team and any practitioner's external experts collectively possess the necessary professional competencies, including in the quantification and reporting of emissions and in assurance, to perform the assurance engagement in accordance with this ISAE. (Ref: Para. A17–A18)

Preconditions for the Engagement

16. In order to establish whether the preconditions for the engagement are present:
- (a) The engagement partner shall determine that both the GHG statement and the engagement have sufficient scope to be useful to intended users, considering, in particular: (Ref: Para. A19)
 - (i) If the GHG statement is to exclude significant emissions that have been, or could readily be, quantified; or
 - (ii) If the engagement is to exclude significant emissions that are included in the GHG statement,
whether such exclusions are reasonable in the circumstances.
 - (b) The practitioner shall assess the suitability of the applicable criteria as required by ISAE 3000.⁸ As part of that assessment, the practitioner shall determine whether the criteria encompass at a minimum: (Ref: Para. A28–A31)
 - (i) The method for determining the entity's organizational boundary; (Ref: Para. A32–A33)
 - (ii) The GHGs to be accounted for;
 - (iii) Acceptable quantification methods, including methods for making adjustments to the base year (if applicable); and
 - (iv) Adequate disclosures such that intended users can understand the significant judgments made in preparing the GHG statement. (Ref: Para. A34–A39)
 - (c) The practitioner shall obtain the agreement of the entity that it acknowledges and understands its responsibility:
 - (i) For designing, implementing and maintaining such internal control as the entity determines is necessary to enable the preparation of a GHG statement that is free from material misstatement, whether due to fraud or error;

⁸ ISAE 3000, paragraph 19

- (ii) For the preparation of its GHG statement in accordance with the applicable criteria; and (Ref: Para. A40)
- (iii) For referring to or describing in its GHG statement the applicable criteria it has used and, when it is not readily apparent from the engagement circumstances, who developed them. (Ref: Para. A41)

Agreement on Engagement Terms

17. The agreed terms of the engagement required by ISAE 3000⁹ shall include:
- (a) The objective and scope of the engagement;
 - (b) The responsibilities of the practitioner;
 - (c) The responsibilities of the entity, including those described in paragraph 16(c);
 - (d) Identification of the applicable criteria for the preparation of the GHG statement;
 - (e) Reference to the expected form and content of any reports to be issued by the practitioner and a statement that there may be circumstances in which a report may differ from its expected form and content; and
 - (f) An acknowledgement that the entity agrees to provide a representation letter at the conclusion of the engagement.

Planning

18. When planning the engagement as required by ISAE 3000,¹⁰ the practitioner shall: (Ref: Para. A43–A46)
- (a) Identify the characteristics of the engagement that define its scope;
 - (b) Ascertain the reporting objectives of the engagement to plan the timing of the engagement and the nature of the communications required;
 - (c) Consider the factors that, in the practitioner’s professional judgment, are significant in directing the engagement team’s efforts;
 - (d) Consider the results of engagement acceptance or continuance procedures and, where applicable, whether knowledge gained on other engagements performed by the engagement partner for the entity is relevant;
 - (e) Ascertain the nature, timing and extent of resources necessary to perform the engagement; and
 - (f) Determine the impact of the internal audit function, if any, on the engagement.

⁹ ISAE 3000, paragraph 10

¹⁰ ISAE 3000, paragraph 12

Materiality in Planning and Performing the Engagement

Determining Materiality and Performance Materiality When Planning the Engagement

19. When establishing the overall engagement strategy, the practitioner shall determine materiality for the GHG statement.
20. The practitioner shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further procedures. (Ref: Para. A47–A53)

Revision as the Engagement Progresses

21. The practitioner shall revise materiality for the GHG statement in the event of becoming aware of information during the engagement that would have caused the practitioner to have determined a different amount initially. (Ref: Para. A54)

Understanding the Entity and Its Environment

Limited Assurance	Reasonable Assurance
<p>22L. The practitioner shall: (Ref: Para. A55–A58)</p> <ol style="list-style-type: none"> (a) Obtain an understanding of the control environment and the information system, including the related business processes, relevant to emissions quantification and reporting, and communication of emissions reporting roles and responsibilities and significant matters relating to emissions reporting; and (b) Inquire about the results of the entity’s risk assessment process, as the basis for identifying and assessing risks of material misstatement 	<p>22R. The practitioner shall obtain an understanding of the entity and its environment, including the following components of the entity’s internal control as the basis for identifying and assessing risks of material misstatement: (Ref: Para. A55–A58)</p> <ol style="list-style-type: none"> (a) The control environment; (b) The entity’s risk assessment process; (c) The information system, including the related business processes, relevant to emissions quantification and reporting, and communication of emissions reporting roles and responsibilities and significant matters relating to emissions reporting; (d) Control activities relevant to the engagement, being those the practitioner judges it necessary to understand in order to assess the risks of material misstatement at the assertion level and design further procedures responsive to assessed risks. An assurance

Limited Assurance	Reasonable Assurance
	<p>engagement does not require an understanding of all the control activities related to each significant type of emission and disclosure in the GHG statement or to every assertion relevant to them; and (Ref: Para. A59–A60)</p> <p>(e) Monitoring of controls, including the internal audit function and its activities with respect to emissions where applicable.</p>
	<p>23R. When obtaining the understanding required by the preceding paragraph, the practitioner shall evaluate the design of controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity’s personnel.</p>

24. The practitioner shall obtain an understanding of the following:

- (a) Relevant industry, regulatory, and other relevant external factors including the applicable criteria.
- (b) The nature of the entity, including:
 - (i) The nature of the operations included in the entity’s organizational boundary, including: (Ref: Para. A32–A33)
 - a. The sources and completeness of emissions and, if any, sinks and emissions deductions;
 - b. The contribution of each to the entity’s overall emissions; and
 - c. The uncertainties associated with the quantities reported in the GHG statement. (Ref: Para. A22–A27)
 - (ii) Changes in the nature or extent of operations, including whether there have been any mergers, acquisitions, or sales of emissions sources, or outsourcing of functions with significant emissions; and
 - (iii) The frequency or nature of interruptions to operations. (Ref: Para. A61)
- (c) The entity’s selection and application of quantification methods and reporting policies, including the reasons for changes thereto and the potential for double-counting of emissions.

- (d) The requirements of the applicable criteria relevant to estimates, including related disclosures.
- (e) The entity's climate change objective and strategy, if any, and associated economic, regulatory, physical and reputational risks. (Ref: Para. A62)
- (f) The oversight of, and responsibility for, emissions information within the entity
- (g) Whether the entity has an internal audit function and, if so, its activities and main findings with respect to emissions.

Procedures to Obtain an Understanding and to Identify and Assess Risks

25. The procedures to obtain an understanding of the entity and its environment to identify and assess risks shall include the following:
 - (a) Inquiries of those within the entity who, in the practitioner's judgment, have information that is likely to assist in identifying and assessing risks of material misstatement due to fraud or error.
 - (b) Analytical procedures. (Ref: Para. A63–A65)
 - (c) Observation and inspection. (Ref: Para. A66–A68)
26. If the engagement partner has performed other engagements for the entity, the engagement partner shall consider whether information obtained is relevant to identifying and assessing risks of material misstatement. (Ref: Para. A69)
27. The engagement partner and other key members of the engagement team, and any key practitioner's external experts, shall discuss the susceptibility of the entity's GHG statement to material misstatement whether due to fraud or error, and the application of the applicable criteria to the entity's facts and circumstances. The engagement partner shall determine which matters are to be communicated to members of the engagement team, and to any practitioner's external experts not involved in the discussion.
28. The practitioner shall evaluate whether the entity's quantification methods and reporting policies, including the determination of the entity's organizational boundary, are appropriate for its operations, and are consistent with the applicable criteria and quantification and reporting policies used in the relevant industry and in prior periods.

Performing Procedures on Location at the Entity's Facilities

29. The practitioner shall determine whether it is necessary in the circumstances of the engagement to perform procedures on location at significant facilities. (Ref: Para. A70–A73)

Internal Audit

30. Where the entity has an internal audit function that is relevant to the engagement the practitioner shall: (Ref: Para. A74)
 - (a) Determine whether, and to what extent, to use specific work of the internal auditors; and

- (b) If using the specific work of the internal auditors, determine whether that work is adequate for the purposes of the engagement.

Identifying and Assessing Risks of Material Misstatement

Limited Assurance	Reasonable Assurance
<p>31L. The practitioner shall identify and assess risks of material misstatement:</p> <ul style="list-style-type: none"> (a) At the GHG statement level, and (Ref: Para. A75–A76) (b) For material types of emission and disclosure, <p>as the basis for designing and performing procedures whose nature, timing and extent:</p> <ul style="list-style-type: none"> (c) Are responsive to assessed risks; and (d) Allow the practitioner to obtain limited assurance about whether the GHG statement is prepared, in all material respects, in accordance with the applicable criteria. 	<p>31R. The practitioner shall identify and assess risks of material misstatement:</p> <ul style="list-style-type: none"> (a) At the GHG statement level; and (Ref: Para. A75–A76) (b) At the assertion level for material types of emission and disclosure; (Ref: Para. A77–A78) <p>as the basis for designing and performing procedures whose nature, timing and extent: (Ref: Para. A79)</p> <ul style="list-style-type: none"> (c) Are responsive to assessed risks; and (d) Allow the practitioner to obtain reasonable assurance about whether the GHG statement is prepared, in all material respects, in accordance with the applicable criteria.

Causes of Risks of Material Misstatement

32. When performing the procedures required by paragraphs 31L or 31R, the practitioner shall consider at least the following factors: (Ref: Para. A80–A85)
- (a) The possibility of intentional misstatement in the GHG statement; (Ref: Para. A80–A82)
 - (b) The possibility of non-compliance with the provisions of those laws and regulations generally recognized to have a direct effect on the content of the GHG statement; (Ref: Para. A83)
 - (c) The possibility of omission of a potentially significant emission; (Ref: Para. A84(a))
 - (d) Significant economic or regulatory changes; (Ref: Para. A84(b))
 - (e) The nature of operations; (Ref: Para. A84(c))
 - (f) The nature of quantification methods; (Ref: Para. A84(d))
 - (g) The degree of complexity in determining the organizational boundary and whether related parties are involved; (Ref: Para. A32–A33)

- (h) Whether there are significant emissions that are outside the normal course of business for the entity, or that otherwise appear to be unusual; (Ref: Para. A84(e))
- (i) The degree of subjectivity in the quantification of emissions; (Ref: Para. A84(e))
- (j) Whether Scope 3 emissions are included in the GHG statement; and (Ref: Para. A84(f))
- (k) How the entity makes significant estimates and the data on which they are based. (Ref: Para. A84(g))

Overall Responses to Assessed Risks and Further Procedures

- 33. The practitioner shall design and implement overall responses to address the assessed risks of material misstatement at the GHG statement level. (Ref: Para. A86–A89)
- 34. The practitioner shall design and perform further procedures whose nature, timing and extent are responsive to the assessed risks of material misstatement having regard to the level of assurance, reasonable or limited, as appropriate. (Ref: Para. A86)

Limited Assurance	Reasonable Assurance
<p>35L. In designing the further procedures in accordance with paragraph 34, the practitioner shall: (Ref: Para. A86, A90)</p> <ul style="list-style-type: none"> (a) Consider the reasons for the assessment given to the risks of material misstatement for material types of emission and disclosure; and (Ref: Para. A91) (b) Obtain more persuasive evidence the higher the practitioner’s assessment of risk. (Ref: Para. A93) 	<p>35R. In designing the further procedures in accordance with paragraph 34, the practitioner shall: (Ref: Para. A86, A90)</p> <ul style="list-style-type: none"> (a) Consider the reasons for the assessment given to the risks of material misstatement at the assertion level for material types of emission and disclosure, including: (Ref: Para. A91) <ul style="list-style-type: none"> (i) The likelihood of material misstatement due to the particular characteristics of the relevant type of emission or disclosure (that is, the inherent risk); and (ii) Whether the practitioner intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of other procedures; and (Ref: Para. A92) (b) Obtain more persuasive evidence the higher the practitioner’s assessment of risk. (Ref: Para. A93)

Limited Assurance	Reasonable Assurance
	<p data-bbox="839 254 1057 285"><i>Tests of Controls</i></p> <p data-bbox="839 306 1445 485">36R. The practitioner shall design and perform tests of controls to obtain sufficient appropriate evidence as to the operating effectiveness of relevant controls if: (Ref: Para. A86(a))</p> <ul style="list-style-type: none"> <li data-bbox="911 506 1445 684">(a) The practitioner intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of other procedures; or (Ref: Para. A92) <li data-bbox="911 705 1445 842">(b) Procedures other than tests of controls cannot alone provide sufficient appropriate evidence at the assertion level. (Ref: Para. A103) <p data-bbox="839 863 1445 1073">37R. If deviations from controls upon which the practitioner intends to rely are detected, the practitioner shall make specific inquiries to understand these matters and their potential consequences, and shall determine whether:</p> <ul style="list-style-type: none"> <li data-bbox="911 1094 1445 1199">(a) The tests of controls that have been performed provide an appropriate basis for reliance on the controls; <li data-bbox="911 1220 1445 1283">(b) Additional tests of controls are necessary; or <li data-bbox="911 1304 1445 1409">(c) The potential risks of misstatement need to be addressed using other procedures. <p data-bbox="839 1451 1333 1482"><i>Procedures Other than Tests of Controls</i></p> <p data-bbox="839 1503 1445 1713">38R. Irrespective of the assessed risks of material misstatement, the practitioner shall design and perform tests of details or analytical procedures in addition to tests of controls, if any, for each material type of emission and disclosure. (Ref: Para. A90)</p> <p data-bbox="839 1734 1445 1839">39R. The practitioner shall consider whether external confirmation procedures are to be performed. (Ref: Para. A104)</p>

Limited Assurance	Reasonable Assurance
<p data-bbox="201 254 667 323"><i>Analytical Procedures Performed in Response to Assessed Risks</i></p> <p data-bbox="201 344 812 453">40L. When designing and performing analytical procedures, the practitioner shall: (Ref: Para. A86(c), A94–A96)</p> <ul style="list-style-type: none"> <li data-bbox="282 474 812 653">(a) Determine the suitability of particular analytical procedures, taking account of the assessed risks of material misstatement and tests of details, if any; <li data-bbox="282 674 812 968">(b) Evaluate the reliability of data from which the practitioner’s expectation of recorded quantities or ratios is developed, taking account of the source, comparability, and nature and relevance of information available, and controls over preparation; and <li data-bbox="282 989 812 1058">(c) Develop an expectation with respect to recorded quantities or ratios. <p data-bbox="201 1079 812 1331">41L. If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected quantities or ratios, the practitioner shall inquire of the entity about such differences. (Ref: Para. A86(c))</p>	<p data-bbox="833 254 1299 323"><i>Analytical Procedures Performed in Response to Assessed Risks</i></p> <p data-bbox="833 344 1445 453">40R. When designing and performing analytical procedures, the practitioner shall: (Ref: Para. A86(c), A94–A96)</p> <ul style="list-style-type: none"> <li data-bbox="914 474 1445 695">(a) Determine the suitability of particular analytical procedures for given assertions, taking account of the assessed risks of material misstatement and tests of details, if any, for these assertions; <li data-bbox="914 716 1445 1010">(b) Evaluate the reliability of data from which the practitioner’s expectation of recorded quantities or ratios is developed, taking account of the source, comparability, and nature and relevance of information available, and controls over preparation; and <li data-bbox="914 1031 1445 1167">(c) Develop an expectation of recorded quantities or ratios which are sufficiently precise to identify material misstatements. <p data-bbox="833 1188 1445 1440">41R. If analytical procedures identify fluctuations or relationships that are inconsistent with other relevant information or that differ significantly from expected quantities or ratios, the practitioner shall investigate such differences by: (Ref: Para. A86(c))</p> <ul style="list-style-type: none"> <li data-bbox="914 1461 1445 1577">(a) Inquiring of the entity and obtaining additional evidence relevant to the entity’s responses; and <li data-bbox="914 1598 1445 1667">(b) Performing other procedures as necessary in the circumstances.

Limited Assurance	Reasonable Assurance
<p><i>Procedures Regarding Estimates</i></p> <p>42L. Based on the assessed risks of material misstatement, the practitioner shall: (Ref: Para. A97–A98)</p> <p>(a) Evaluate whether:</p> <p style="padding-left: 40px;">(i) The entity has appropriately applied the requirements of the applicable criteria relevant to estimates; and</p> <p style="padding-left: 40px;">(ii) The methods for making estimates are appropriate and have been applied consistently, and whether changes, if any, in reported estimates or in the method for making them from the prior period are appropriate in the circumstances; and</p> <p>(b) Consider whether other procedures are necessary in the circumstances.</p>	<p><i>Procedures Regarding Estimates</i></p> <p>42R. Based on the assessed risks of material misstatement, the practitioner shall determine whether: (Ref: Para. A97)</p> <p>(a) The entity has appropriately applied the requirements of the applicable criteria relevant to estimates; and</p> <p>(b) The methods for making estimates are appropriate and have been applied consistently, and whether changes, if any, in reported estimates or in the method for making them from the prior period are appropriate in the circumstances.</p> <p>43R. In responding to an assessed risk of material misstatement, the practitioner shall undertake one or more of the following, taking account of the nature of estimates: (Ref: Para. A97)</p> <p>(a) Test how the entity made the estimate and the data on which it is based. In doing so, the practitioner shall evaluate whether:</p> <p style="padding-left: 40px;">(i) The method of quantification used is appropriate in the circumstances; and</p> <p style="padding-left: 40px;">(ii) The assumptions used by the entity are reasonable.</p> <p>(b) Test the operating effectiveness of the controls over how the entity made the estimate, together with other appropriate procedures.</p>

Limited Assurance	Reasonable Assurance
	<p>(c) Develop a point estimate or a range to evaluate the entity’s estimate. For this purpose:</p> <p>(i) If the practitioner uses assumptions or methods that differ from the entity’s, the practitioner shall obtain an understanding of the entity’s assumptions or methods sufficient to establish that the practitioner’s point estimate or range takes into account relevant variables and to evaluate any significant differences from the entity’s point estimate.</p> <p>(ii) If the practitioner concludes that it is appropriate to use a range, the practitioner shall narrow the range, based on evidence available, until all outcomes within the range are considered reasonable.</p>
<p><i>Sampling</i></p> <p>44L. If sampling is used, the practitioner shall, when designing the sample, consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn. (Ref: Para. A86(b), A99)</p>	<p><i>Sampling</i></p> <p>44R. If sampling is used, the practitioner shall, when designing the sample, consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn. (Ref: Para. A86(b), A99)</p>
<p><i>Fraud, Laws and Regulations</i></p> <p>45L. The practitioner shall respond appropriately to fraud or suspected fraud and non-compliance or suspected non-compliance with laws and regulations</p>	<p><i>Fraud, Laws and Regulations</i></p> <p>45R. The practitioner shall respond appropriately to fraud or suspected fraud and non-compliance or suspected non-compliance with laws and regulations</p>

Limited Assurance	Reasonable Assurance
identified during the engagement. (Ref: Para. A100–A101)	identified during the engagement. (Ref: Para. A100–A101)
<p><i>Procedures Regarding the GHG Statement Aggregation Process</i></p> <p>46L. The practitioner’s procedures shall include the following procedures related to the GHG statement aggregation process: (Ref: Para. A102)</p> <ul style="list-style-type: none"> (a) Agreeing or reconciling the GHG statement with the underlying records; and (b) Obtaining, through inquiry of the entity, an understanding of material adjustments made during the course of preparing the GHG statement. 	<p><i>Procedures Regarding the GHG Statement Aggregation Process</i></p> <p>46R. The practitioner’s procedures shall include the following procedures related to the GHG statement aggregation process: (Ref: Para. A102)</p> <ul style="list-style-type: none"> (a) Agreeing or reconciling the GHG statement with the underlying records; and (b) Examining material adjustments made during the course of preparing the GHG statement.
<p><i>Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement</i></p> <p>47L. If the practitioner becomes aware of a matter(s) that causes the practitioner to believe the GHG statement may be materially misstated, the practitioner shall design and perform additional procedures sufficient to enable the practitioner to: (Ref: Para. A105–A106)</p> <ul style="list-style-type: none"> (a) Conclude that the matter(s) is not likely to cause the GHG statement to be materially misstated; or (b) Determine that the matter(s) causes the GHG statement to be materially misstated. (Ref: Para. A107) 	<p><i>Revision of Risk Assessment in a Reasonable Assurance Engagement</i></p> <p>47R. The practitioner’s assessment of the risks of material misstatement at the assertion level may change during the course of the engagement as additional evidence is obtained. In circumstances where the practitioner obtains evidence from performing further procedures, or if new information is obtained, either of which is inconsistent with the evidence on which the practitioner originally based the assessment, the practitioner shall revise the assessment and modify the planned procedures accordingly. (Ref: Para. A105)</p>

Accumulation of Identified Misstatements

- 48. The practitioner shall accumulate misstatements identified during the engagement, other than those that are clearly trivial. (Ref: Para. A108)

Consideration of Identified Misstatements as the Engagement Progresses

49. The practitioner shall determine whether the overall engagement strategy and engagement plan need to be revised if:
 - (a) The nature of identified misstatements and the circumstances of their occurrence indicate that other misstatements may exist that, when aggregated with misstatements accumulated during the engagement, could be material; or
 - (b) The aggregate of misstatements accumulated during the engagement approaches materiality determined in accordance with paragraphs 19–21 of this ISAE.
50. If, at the practitioner's request, the entity has examined a type of emission or disclosure and corrected misstatements that were detected, the practitioner shall perform additional procedures with respect to the work performed by the entity to determine whether material misstatements remain.

Communication and Correction of Misstatements

51. The practitioner shall communicate on a timely basis all misstatements accumulated during the engagement with the appropriate level within the entity and shall request the entity to correct those misstatements.
52. If the entity refuses to correct some or all of the misstatements communicated by the practitioner, the practitioner shall obtain an understanding of the entity's reasons for not making the corrections and shall take that understanding into account when forming the practitioner's conclusion.

Evaluating the Effect of Uncorrected Misstatements

53. Prior to evaluating the effect of uncorrected misstatements, the practitioner shall reassess materiality determined in accordance with paragraphs 19–21 of this ISAE to confirm whether it remains appropriate in the context of the entity's actual emissions.
54. The practitioner shall determine whether uncorrected misstatements are material, individually or in the aggregate. In making this determination, the practitioner shall consider the size and nature of the misstatements, and the particular circumstances of their occurrence, in relation to particular types of emissions or disclosures and the GHG statement.

Using the Work of Component Practitioners

55. When the practitioner intends using the work of component practitioners regarding components of the GHG statement, the practitioner shall: (Ref: Para. A109)
 - (a) Communicate clearly with those component practitioners about the scope and timing of their work on those components and their findings; and (Ref: Para. A110–A111)
 - (b) Evaluate the sufficiency and appropriateness of evidence obtained regarding those components and the process for including related information in the GHG statement. (Ref: Para. A112)

Written Representations

56. The practitioner shall request written representations from a person(s) within the entity with appropriate responsibilities for and knowledge of the matters concerned: (Ref: Para. A113)
- (a) That the entity has fulfilled its responsibility for the preparation of the GHG statement in accordance with the applicable criteria, as set out in the terms of the engagement;
 - (b) That the entity has provided the practitioner with all relevant information and access as agreed in the terms of the engagement and reflected all relevant matters in the GHG statement;
 - (c) Whether the entity believes the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the GHG statement. A summary of such items shall be included in or attached to the written representation;
 - (d) That significant assumptions used in making estimates are reasonable; and
 - (e) That the entity has communicated to the practitioner all deficiencies in internal control relevant to the engagement that are not clearly trivial and inconsequential of which the entity is aware.
57. The date of the written representations shall be as near as practicable to, but not after, the date of the practitioner's report.

Written Representations about the Entity's Responsibilities

58. The practitioner shall disclaim a conclusion on the GHG statement or withdraw from the engagement, where withdrawal is possible under applicable laws or regulations, if:
- (a) The practitioner concludes that there is sufficient doubt about the integrity of the entity such that the written representations required by paragraphs 56(a) and (b) are not reliable; or
 - (b) The entity does not provide the written representations required by paragraphs 56(a) and (b).

Subsequent Events

59. The practitioner shall: (Ref: Para. A114)
- (a) Consider whether events occurring between the date of the GHG statement and the date of the assurance report require adjustment of, or disclosure in, the GHG statement, and evaluate the sufficiency and appropriateness of evidence obtained about whether such events are appropriately reflected in that GHG statement in accordance with the applicable criteria; and
 - (b) Respond appropriately to facts that become known to the practitioner after the date of the assurance report, that, had they been known to the practitioner at that date, may have caused the practitioner to amend the assurance report.

Comparative Information

60. When comparative information is presented with the current emissions information and some or all of that comparative information is covered by the practitioner's report, the practitioner shall evaluate whether: (Ref: Para. A115–A116)
- (a) The comparative information agrees with the amounts and other disclosures presented in the prior period or, when appropriate, has been properly restated and that restatement has been adequately disclosed; and
 - (b) The quantification policies reflected in the comparative information are consistent with those applied in the current period or, if there have been changes, whether they have been properly applied and adequately disclosed.

Other Information

61. The practitioner shall read other information included in documents containing the GHG statement and the assurance report thereon and, if, in the practitioner's judgment, that other information could undermine the credibility of the GHG statement and the practitioner's report, shall discuss the matter with the entity and take further action as appropriate. (Ref: Para. A117–A119)

Documentation

62. In documenting the nature, timing and extent of procedures performed, the practitioner shall record:
- (a) The identifying characteristics of the specific items or matters tested;
 - (b) Who performed the engagement work and the date such work was completed; and
 - (c) Who reviewed the engagement work performed and the date and extent of such review.
63. The practitioner shall document discussions of significant matters with the entity and others, including the nature of the significant matters discussed, and when and with whom the discussions took place. (Ref: Para. A120)

Quality Control

64. The practitioner shall include in the engagement documentation:
- (a) Issues identified with respect to compliance with relevant ethical requirements and how they were resolved.
 - (b) Conclusions on compliance with independence requirements that apply to the engagement, and any relevant discussions with the firm that support these conclusions.
 - (c) Conclusions reached regarding the acceptance and continuance of client relationships and assurance engagements.
 - (d) The nature and scope of, and conclusions resulting from, consultations undertaken during the course of the engagement.

Matters Arising after the Date of the Assurance Report

65. If, in exceptional circumstances, the practitioner performs new or additional procedures or draws new conclusions after the date of the assurance report, the practitioner shall document: (Ref: Para. A121)
- (a) The circumstances encountered;
 - (b) The new or additional procedures performed, evidence obtained, and conclusions reached, and their effect on the assurance report; and
 - (c) When and by whom the resulting changes to engagement documentation were made and reviewed.

Assembly of the Final Engagement File

66. The practitioner shall assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the assurance report. After the assembly of the final engagement file has been completed, the practitioner shall not delete or discard engagement documentation of any nature before the end of its retention period. (Ref: Para. A122)
67. In circumstances other than those envisaged in paragraph 65 where the practitioner finds it necessary to modify existing engagement documentation or add new engagement documentation after the assembly of the final engagement file has been completed, the practitioner shall, regardless of the nature of the modifications or additions, document:
- (a) The specific reasons for making them; and
 - (b) When and by whom they were made and reviewed.

Engagement Quality Control Review

68. For those engagements, if any, for which a quality control review is required by laws or regulations or for which the firm has determined that an engagement quality control review is required, the engagement quality control reviewer shall perform an objective evaluation of the significant judgments made by the engagement team, and the conclusions reached in formulating the assurance report. This evaluation shall involve: (Ref: Para. A123)
- (a) Discussion of significant matters with the engagement partner;
 - (b) Review of the GHG statement and the proposed assurance report;
 - (c) Review of selected engagement documentation relating to the significant judgments the engagement team made and the conclusions it reached; and
 - (d) Evaluation of the conclusions reached in formulating the assurance report and consideration of whether the proposed assurance report is appropriate.

Forming the Assurance Conclusion

69. The practitioner shall conclude as to whether the practitioner has obtained reasonable or limited assurance, as appropriate, about the GHG statement. That conclusion shall take into account the requirements of paragraphs 54 and 70–72 of this ISAE.
70. The practitioner shall evaluate:
- (a) In the case of a reasonable assurance engagement, whether the GHG statement is prepared, in all material respects, in accordance with the applicable criteria; or
 - (b) In the case of a limited assurance engagement, whether anything has come to the practitioner’s attention that causes the practitioner to believe that the GHG statement is not prepared, in all material respects, in accordance with the applicable criteria.
71. This evaluation shall include consideration of the qualitative aspects of the entity’s quantification methods and reporting practices, including indicators of possible bias in judgments and decisions in the making of estimates and in preparing the GHG statement,¹¹ and whether, in view of the applicable criteria:
- (a) The quantification methods and reporting policies selected and applied are consistent with the applicable criteria and are appropriate;
 - (b) Estimates made in preparing the GHG statement are reasonable;
 - (c) The information presented in the GHG statement is relevant, reliable, complete, comparable and understandable;
 - (d) The GHG statement provides adequate disclosure of the applicable criteria, and other matters, including uncertainties, such that intended users can understand the significant judgments made in its preparation; and (Ref: Para. A34, A124–A126)
 - (e) The terminology used in the GHG statement is appropriate.
72. When appropriate in the context of the criteria, the wording of the assurance conclusion, or other engagement circumstances, the evaluation required by paragraph 70 shall also include consideration of:
- (a) The overall presentation, structure and content of the GHG statement; and
 - (b) Whether the GHG statement represents the underlying emissions in a manner that achieves fair presentation.

Assurance Report Content

73. The assurance report shall include the following basic elements: (Ref: Para. A127)
- (a) A title that clearly indicates the report is an independent assurance report.
 - (b) The addressee of the assurance report.

¹¹ Indicators of possible bias do not themselves constitute misstatements for the purposes of drawing conclusions on the reasonableness of individual estimates.

- (c) Identification of the GHG statement, including the period it covers, and, if any information in that statement is not covered by the practitioner's conclusion, identification of the information subject to assurance as well as the excluded information, together with a statement that the practitioner has not performed any procedures with respect to the excluded information and that, therefore, no conclusion on it is expressed. (Ref: Para. A128)
- (d) A description of the entity's responsibilities.
- (e) A statement identifying the uncertainties relevant to emissions. (Ref: Para. A22–A27)
- (f) If the GHG statement includes emissions deductions that are covered by the practitioner's conclusion, identification of those emissions deductions, and a statement of the practitioner's responsibility with respect to them. (Ref: Para. A129–A132)
- (g)
 - (i) Identification of the applicable criteria;
 - (ii) Identification of how those criteria can be accessed;
 - (iii) If those criteria are available only to specific intended users, or are relevant only to a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose; and (Ref: Para. A133–A134)
 - (iv) If established criteria need to be supplemented by disclosures in the explanatory notes to the GHG statement for those criteria to be suitable, identification of the relevant note(s).
- (h) A description of the practitioner's responsibility, including:
 - (i) A statement that the engagement was performed in accordance with ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*.
 - (ii) A summary of the practitioner's procedures, including, in the case of a limited assurance engagement, a statement that the extent of procedures is substantially less than a reasonable assurance engagement and consequently does not enable the practitioner to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement. (Ref: Para. A135–A136)
- (i) The practitioner's conclusion, expressed in the positive form in the case of a reasonable assurance engagement or in the negative form in the case of a limited assurance engagement, about whether the GHG statement is prepared, in all material respects, in accordance with the applicable criteria.
- (j) If the practitioner expresses a conclusion that is modified, a clear description of all the reasons therefor.
- (k) The practitioner's signature. (Ref: Para. A137)
- (l) The date of the assurance report.
- (m) The location in the jurisdiction where the practitioner practices.

Emphasis of Matter Paragraphs and Other Matter Paragraphs

74. If the practitioner considers it necessary to: (Ref: Para. A138–A144)
- (a) Draw intended users' attention to a matter presented or disclosed in the GHG statement that, in the practitioner's judgment, is of such importance that it is fundamental to intended users' understanding of the GHG statement (an Emphasis of Matter paragraph); or
 - (b) Communicate a matter other than those that are presented or disclosed in the GHG statement that, in the practitioner's judgment, is relevant to intended users' understanding of the engagement, the practitioner's responsibilities or the assurance report (an Other Matter paragraph),

and this is not prohibited by laws or regulations, the practitioner shall do so in a paragraph in the assurance report, with an appropriate heading, that clearly indicates the practitioner's conclusion is not modified in respect of the matter.

Other Communication Requirements

75. The practitioner shall communicate appropriately to the entity the following matters that come to the practitioner's attention during the course of the engagement, and shall determine whether there is a responsibility to report them to a party outside the entity:
- (a) Deficiencies in internal control that, in the practitioner's professional judgment, are of sufficient importance to merit attention.
 - (b) Identified or suspected fraud.
 - (c) Matters involving non-compliance with laws and regulations, other than when the matters are clearly inconsequential.

Application and Other Explanatory Material**Introduction**

Assurance Engagements Covering GHG and Other Information (Ref: Para. 3)

- A1. In some cases, the practitioner may perform an assurance engagement on a report that includes GHG information, but that GHG information does not comprise a GHG statement as defined in paragraph 13(j). In such cases, this ISAE may provide guidance for such an engagement, particularly where users are likely to rely on the GHG information as if it were a GHG statement.
- A2. Where a GHG statement is included with other information that is subject to assurance by the practitioner, the extent to which the requirements of paragraph 73 of this ISAE regarding the content of the assurance report are relevant is a matter for the practitioner's professional judgment in the circumstances of the engagement. For example, if the GHG statement is a relatively minor part of the overall information subject to assurance it may not be necessary to include in the assurance report a reference to this ISAE as well as ISAE 3000 or a statement identifying the uncertainties relevant to emissions.

Key Performance Indicators Based on GHG Data (Ref: Para. 4(b))

- A3. An example of a key performance indicator based on GHG data is the weighted average of emissions per kilometer of vehicles manufactured by an entity during a period, which is required to be calculated and disclosed by laws or regulations in some jurisdictions.

Procedures for Reasonable Assurance and Limited Assurance Engagements (Ref: Para. 8)

- A4. As noted in paragraph 8, some procedures that are required only for reasonable assurance engagements may nonetheless be appropriate in some limited assurance engagements. For example, although obtaining an understanding of control activities is not required for limited assurance engagements, in some cases, such as when information is recorded, processed, or reported only in electronic form, the practitioner may nonetheless decide that testing controls, and therefore obtaining an understanding of relevant control activities, is necessary for a limited assurance engagement.

Independence (Ref: Para. 10, 14)

- A5. The IESBA Code adopts a threats and safeguards approach to independence. Compliance with the fundamental principles may potentially be threatened by a broad range of circumstances. Many threats fall into the following categories:

- Self-interest, for example, undue dependence on total fees from the entity.
- Self-review, for example, performing another service for the entity that directly affects the GHG statement, such as involvement in the quantification of the entity's emissions.
- Advocacy, for example, acting as an advocate on behalf of the entity with respect to the interpretation of the applicable criteria.
- Familiarity, for example, a member of the engagement team having a long association, or close or immediate family relationship, with an employee of the entity who is in a position to exert direct and significant influence over the preparation of the GHG statement.
- Intimidation, for example, being pressured to reduce inappropriately the extent of work performed in order to lower fees, or being threatened with withdrawal of the practitioner's registration by a registering authority that is associated with the entity's industry group.

- A6. Safeguards created by the profession, laws or regulations, or safeguards in the work environment, may eliminate or reduce such threats to an acceptable level.

Definitions*Emissions* (Ref: Para. 13(d), Appendix 1)

- A7. Scope 1 emissions may include stationary combustion (from fuel burned in the entity's stationary equipment, such as boilers, incinerators, engines, and flares), mobile combustion (from fuel burned in the entity's transport devices, such as trucks, trains, airplanes and boats), process emissions (from physical or chemical processes, such as cement manufacturing, petrochemical processing, and aluminum smelting), and fugitive

emissions (intentional and unintentional releases, such as equipment leaks from joints and seals and emissions from wastewater treatment, pits, and cooling towers).

- A8. Almost all entities purchase energy in a form such as electricity, heat or steam; therefore almost all entities have Scope 2 emissions. Scope 2 emissions are indirect because the emissions associated with, for example, electricity that the entity purchases occur at the power station, which is outside the entity's organizational boundary.
- A9. Scope 3 emissions may include emissions associated with, for example: employee business travel; outsourced activities; consumption of fossil fuel or electricity required to use the entity's products; extraction and production of materials purchased as inputs to the entity's processes; and transportation of purchased fuels. Scope 3 emissions are further discussed in paragraphs A36–A39.

Emissions Deductions (Ref: Para. 13(e), Appendix 1)

- A10. In some cases, emissions deductions include jurisdiction-specific credits and allowances for which there is no established link between the quantity of emissions allowed by the criteria to be deducted, and any lowering of emissions that may occur as a result of money paid or other action taken by the entity in order for it to claim the emissions deduction.
- A11. Where an entity's GHG statement includes emissions deductions that are within the scope of the engagement, the requirements of this ISAE apply in relation to emissions deductions as appropriate.

Purchased Offset (Ref: Para. 13(n), Appendix 1)

- A12. When the entity purchases an offset from another entity, that other entity may spend the money it receives from the sale on emissions reduction projects (such as replacing energy generation using fossil fuels with renewable energy sources, or implementing energy efficiency measures), or on removing emissions from the atmosphere (for example, by planting and maintaining trees that would otherwise not have been planted or maintained), or the money may be compensation for not undertaking an action that would otherwise be undertaken (such as deforestation or forest degradation). In some jurisdictions, offsets can only be purchased if the emissions reduction or removal enhancement has already occurred.

Removal (Ref: Para. 13(p), Appendix 1)

- A13. Removal may be achieved by storing GHGs in geological sinks (for example, underground) or biological sinks (for example, trees). Removal of GHGs the entity would have otherwise emitted to the atmosphere is ordinarily reported in the GHG statement on a gross basis, that is, both the source and the sink are quantified in the GHG statement.

Significant Facility (Ref: Para. 13(q))

- A14. As the individual contribution of a facility to the aggregate emissions reported in the GHG statement increases, the risks of material misstatement to the GHG statement ordinarily increase. The practitioner may apply a percentage to a chosen benchmark as an aid to identify components that are of individual significance due to their size. Identifying

a benchmark and determining a percentage to be applied to it involve the exercise of professional judgment. For example, the practitioner may consider that facilities exceeding 15% of total assured emissions are significant facilities. A higher or lower percentage may, however, be determined to be appropriate in the circumstances in the practitioner's professional judgment. This may be the case when, for example: there is a small number of facilities, none of which is less than 15% of total assured emissions, but in the practitioner's professional judgment not all the facilities are significant; or when there are a number of facilities that are marginally below 15% of total assured emissions which in the practitioner's professional judgment are significant.

A15. The practitioner may also identify a facility as significant due to its specific nature or circumstances which give rise to particular risks of material misstatement. For example, a facility could be using different data gathering processes or quantification techniques from other facilities, require the use of particularly complex or specialized calculations, or involve particularly complex or specialized chemical or physical processes.

ISAE 3000 (Ref: Para. 14)

A16. ISAE 3000 includes a number of requirements that apply to all assurance engagements, including engagements in accordance with this ISAE. In some cases, this ISAE may include additional requirements or application material in relation to those topics.

Competency (Ref: Para. 15)

A17. General GHG competencies include:

- General understanding of climate science, including the scientific processes that relate GHGs to climate change.
- Understanding who the intended users of the information in the entity's GHG statement are, and how they are likely to use that information (see paragraph A50).
- Understanding emissions trading schemes and related market mechanisms, when relevant.
- Knowledge of applicable laws and regulations, if any, that affect how the entity should report its emissions, and may also, for example, impose a limit on the entity's emissions.
- Knowledge of the applicable criteria, including, for example:
 - Identifying appropriate emissions factors.
 - Identifying those aspects of the criteria that call for significant or sensitive estimates to be made, or for the application of considerable judgment.
 - Methods used for determining the entities whose emissions are to be included in the GHG statement.
 - Which emissions deductions are permitted to be included in the entity's GHG statement.

A18. The complexity of assurance engagements with respect to a GHG statement varies. In some cases, the engagement may be relatively straightforward, for instance, when an

entity has no Scope 1 emissions and is reporting only Scope 2 emissions using an emissions factor specified in regulation, applied to electricity consumption at a single location. In this case, the engagement may focus largely on the system used to record and process electricity consumption figures identified on invoices, and arithmetical application of the specified emissions factor. When, however, the engagement is relatively complex, it is likely to require specialist competence in the quantification and reporting of emissions. Particular areas of expertise that may be relevant in such cases include:

Information systems expertise

- Understanding how emissions information is generated, including how data is initiated, recorded, processed, corrected as necessary, collated and reported in a GHG statement.

Scientific and engineering expertise

- Mapping the flow of materials through a production process, and the accompanying processes that create emissions, including identifying the relevant points at which source data are gathered. This may be particularly important in considering whether the entity's identification of emissions sources is complete.
- Analyzing chemical and physical relationships between inputs, processes and outputs, and relationships between emissions and other variables. The capacity to understand and analyze these relationships will often be important in designing analytical procedures.
- Identifying the effect of uncertainty on the GHG statement.
- Experience with specific industries and related emissions creation and removal processes. Procedures for Scope 1 emissions quantification vary greatly depending on the industries and processes involved, for example, the nature of electrolytic processes in aluminum production; combustion processes in the production of electricity using fossil fuels; and chemical processes in cement production are all different.
- The operation of physical sensors and other quantification methods, and the selection of appropriate emissions factors.

Acceptance and Continuance

Scope of the GHG Statement and the Engagement (Ref: Para. 16(a))

A19. Examples of circumstances where the reasons for excluding known emissions sources from the GHG statement, or excluding disclosed emissions sources from the engagement, may not be reasonable in the circumstances include where:

- The entity has significant Scope 1 emissions but only includes Scope 2 emissions in the GHG statement.
- The entity is a part of a larger legal entity that has significant emissions that are not being reported on because of the way the organizational boundary has been determined when this is likely to mislead intended users.

- The emissions that the practitioner is reporting on are only a small proportion of the total emissions included in the GHG statement.

Assessing the Appropriateness of the Subject Matter (Ref: Para. 14)

A20. ISAE 3000 requires the practitioner to assess the appropriateness of the subject matter.¹² In the case of a GHG statement, the entity's emissions (and removals and emissions deductions if applicable) are the subject matter of the engagement. That subject matter will be appropriate if, amongst other things, the entity's emissions are capable of consistent quantification using suitable criteria.¹³

A21. GHG sources may be quantified by:

- (a) Direct measurement (or direct monitoring) of GHG concentration and flow rates using continuous emissions monitoring or periodic sampling; or
- (b) Measuring a surrogate activity, such as fuel consumption, and calculating emissions using, for example, mass balance equations,¹⁴ entity-specific emissions factors, or average emissions factors for a region, source, industry or process.

Uncertainty (Ref: Para: 24(b)(i)c. and 73(e))

A22. The GHG quantification process can rarely be 100% accurate due to:

- (a) *Scientific uncertainty*: This arises because of incomplete scientific knowledge about the measurement of GHGs. For example, the rate of GHG sequestration in biological sinks, and the "global warming potential" values used to combine emissions of different gases and report them as carbon dioxide equivalents, are subject to incomplete scientific knowledge. The degree to which scientific uncertainty affects the quantification of reported emissions is ordinarily beyond the control of the entity. However, the potential for scientific uncertainty to result in unreasonable variations in reported emissions 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; and
- (b) *Estimation uncertainty*: This results from the measurement and calculation processes used to quantify emissions within the bounds of existing scientific knowledge. Estimation uncertainty may relate to the data on which an estimate is based, or the method, including where applicable the model, used in making the estimate (sometimes known as parameter and model uncertainty, respectively). The degree of estimation uncertainty is often controllable by the entity. Reducing the degree of estimation uncertainty ordinarily involves greater cost.

¹² ISAE 3000, paragraph 18

¹³ Assurance Framework, paragraphs 34-38, and ISAE 3000, paragraphs 19-21

¹⁴ That is, equating the amount of a substance entering and exiting a defined boundary, for example, the amount of carbon in a hydrocarbon based fuel entering a combustion device equals the amount of carbon exiting the device in the form of carbon dioxide.

- A23. The fact that quantifying an entity's emissions is subject to uncertainty does not ordinarily mean that an entity's emissions are inappropriate as a subject matter. For example, the applicable criteria may require Scope 2 emissions from electricity to be calculated by applying a prescribed emissions factor to the number of kilowatt hours consumed. The prescribed emissions factor will be based on assumptions and models that may not hold true in all circumstances. However, as long as the assumptions and models are reasonable in the circumstances and adequately disclosed, information in the GHG statement will ordinarily be capable of being assured.
- A24. The situation in the previous paragraph can be contrasted with quantification in accordance with criteria that use models and assumptions based on an entity's individual circumstances. Using entity-specific models and assumptions will likely result in more accurate quantification than using, for example, average emissions factors for an industry; it will also likely introduce additional risks with respect to how the entity-specific models and assumptions were arrived at. Again, as long as the assumptions and models are reasonable in the circumstances and adequately disclosed, information in the GHG statement will ordinarily be capable of being assured.
- A25. In some cases, however, the practitioner may decide that it is inappropriate to undertake an assurance engagement if the impact of uncertainty on information in the GHG statement is very high. This may be the case when, for example, a significant proportion of the entity's reported emissions are from fugitive sources (see paragraph A7) that are not monitored and estimation methods are not sufficiently sophisticated, or when a significant proportion of the entity's reported removals are attributable to biological sinks. It should be noted that decisions whether to undertake an assurance engagement in such circumstances are not affected by the level of assurance, that is, if it is not appropriate for a reasonable assurance engagement, it is also not appropriate for a limited assurance engagement, and vice versa.
- A26. A discussion in the explanatory notes to the GHG statement of the nature, causes, and effects of the uncertainties that affect the entity's GHG statement alerts intended users to the uncertainties associated with the quantification of emissions. This may be particularly important where the intended users did not determine the criteria to be used. For example, a GHG statement may be available to a broad range of intended users even though the criteria used were developed for a particular regulatory purpose.
- A27. Because uncertainty is a significant characteristic of all GHG statements, paragraph 73(e) requires it to be mentioned in the assurance report regardless of what, if any, disclosures are included in the explanatory notes to the GHG statement.¹⁵

Assessing the Suitability of the Criteria

Specifically Developed and Established Criteria (Ref: Para. 16(b))

- A28. Suitable criteria exhibit the following characteristics: relevance, completeness, reliability, neutrality, and understandability. Criteria may be "specifically developed" or they may be "established," that is, embodied in laws or regulations, or issued by authorized or

¹⁵ See also ISAE 3000, paragraph 49(e).

recognized bodies of experts that follow a transparent due process.¹⁶ Ordinarily, established criteria are suitable when they are relevant to the needs of the intended users, for example, criteria established by a regulator can be presumed to be relevant when that regulator is the intended user. Some established criteria may be developed for a special purpose and be unsuitable for application in other circumstances. For example, criteria developed by a regulator that include emissions factors for a particular region may render misleading information if used for emissions in another region; or criteria that are designed to report only on particular regulatory aspects of emissions may be unsuitable for reporting to intended users other than the regulator that established the criteria.

- A29. Specifically developed criteria may be appropriate when, for example, the entity has very specialized machinery or is aggregating emissions information from different jurisdictions where the established criteria used in those jurisdictions differ. Special care may be necessary when assessing the neutrality and other characteristics of specifically developed criteria, particularly if they are not substantially based on established criteria generally used in the entity's industry or region, or are inconsistent with such criteria.
- A30. The applicable criteria may comprise established criteria supplemented by disclosures, in the explanatory notes to the GHG statement, of specific boundaries, methods, assumptions, emissions factors, etc. In some cases, established criteria may not be suitable, even when supplemented by disclosures in the explanatory notes to the GHG statement, for example, when they do not encompass the matters noted in paragraph 16(b).
- A31. It should be noted that the suitability of the applicable criteria is not affected by the level of assurance, that is, if they are not suitable for a reasonable assurance engagement, they are also not suitable for a limited assurance engagement, and vice versa.

Operations Included in the Entity's Organizational Boundary (Ref: Para. 16(b)(i), 24(b)(i), 32(g))

- A32. Determining which operations owned or controlled by the entity to include in the entity's GHG statement is known as determining the entity's organizational boundary. In some cases, laws and regulations define the boundaries of the entity for reporting GHG emissions for regulatory purposes. In other cases, the applicable criteria may allow a choice between different methods for determining the entity's organizational boundary, for example, the criteria may allow a choice between an approach that aligns the entity's GHG statement with its financial statements and another approach that treats, for example, joint ventures or associates differently. Determining the entity's organizational boundary may require the analysis of complex organizational structures such as joint ventures, partnerships, and trusts, and complex or unusual contractual relationships. For example, a facility may be owned by one party, operated by another, and process materials solely for another party.
- A33. Determining the entity's organizational boundary is different from what some criteria describe as determining the entity's "operational boundary." The operational boundary relates to which categories of Scope 1, 2 and 3 emissions will be included in the GHG

¹⁶ Assurance Framework, paragraphs 36–37

statement, and is ordinarily determined at the corporate level after setting the organizational boundary.

Adequate Disclosures (Ref: Para. 16(b)(iv), 71(d))

A34. In regulatory disclosure regimes, disclosures specified in the relevant laws or regulations are ordinarily adequate. Disclosure in the GHG statement of such matters as the following are ordinarily necessary in voluntary reporting situations for intended users to understand the significant judgments made in preparing the GHG statement:

- (a) Which operations are included in the entity's organizational boundary, and the method used for determining that boundary if the applicable criteria allow a choice between different methods (see paragraph A32–A33);
- (b) Significant quantification methods and reporting policies selected, including:
 - (i) The method used to determine which Scope 1 and Scope 2 emissions have been included in the GHG statement (see paragraph A35);
 - (ii) Any significant interpretations made in applying the applicable criteria in the entity's circumstances, including data sources and, when choices between different methods are allowed, or entity-specific methods are used, disclosure of the method used and the rationale for doing so; and
 - (iii) How the entity determines whether previously reported emissions should be restated.
- (c) The categorization of emissions attributable to material types of emission included in the GHG statement. As noted in paragraph A13, when reported emissions include removals, these are ordinarily reported in the GHG statement on a gross basis, that is, both the source and the sink are quantified in the GHG statement;
- (d) A statement regarding the uncertainties relevant to the entity's quantification of its emissions, including: their causes; how they have been addressed; their effects on the GHG statement; and, where the GHG statement includes Scope 3 emissions, an explanation of: (see paragraphs A36–A39)
 - (i) The nature of Scope 3 emissions, including that it is not practicable for an entity to include all Scope 3 emissions in its GHG statement; and
 - (ii) The basis for selecting those Scope 3 emissions sources that have been included; and
- (e) Changes, if any, in the matters mentioned in this paragraph or in other matters that materially affect the comparability of the GHG statement with a prior period(s) or base year.

Scope 1 and Scope 2 Emissions

A35. Criteria commonly call for all material Scope 1, Scope 2, or both Scope 1 and Scope 2 emissions to be included in the GHG statement. Where some Scope 1 or Scope 2 emissions have been excluded, it is important that the explanatory notes to the GHG statement disclose the basis for determining which emissions are included and which are

excluded, particularly if those that are included are not likely to be the largest for which the entity is responsible.

Scope 3 Emissions

- A36. While some criteria require the reporting of specific Scope 3 emissions, more commonly the inclusion of Scope 3 emissions is optional because it would be impracticable for nearly any entity to attempt to quantify the full extent of its indirect emissions as this includes all sources both up and down the entity's supply chain. For some entities, reporting particular categories of Scope 3 emissions provides important information for intended users, for example, where an entity's Scope 3 emissions are considerably larger than its Scope 1 and Scope 2 emissions, as may be the case with many service sector entities. In these cases, the practitioner may consider it inappropriate to undertake an assurance engagement if significant Scope 3 emissions are not included in the GHG statement.
- A37. Where some Scope 3 emissions sources have been included in the GHG statement, it is important that the basis for selecting which sources to include is reasonable, particularly if those included are not likely to be the largest sources for which the entity is responsible.
- A38. In some cases, the source data used to quantify Scope 3 emissions may be maintained by the entity. For example, the entity may keep detailed records as the basis for quantifying emissions associated with employee air travel. In some other cases, the source data used to quantify Scope 3 emissions may be maintained in a well-controlled and accessible source outside the entity. Where this is not the case, however, it may be unlikely that the practitioner will be able to obtain sufficient appropriate evidence with respect to such Scope 3 emissions. In such cases, it may be appropriate to exclude those Scope 3 emissions sources from the engagement.
- A39. It may also be appropriate to exclude Scope 3 emissions from the engagement where the quantification methods in use are heavily dependent on estimation and lead to a high degree of uncertainty in reported emissions. For example, various quantification methods for estimating the emissions associated with air travel can give widely varying quantifications even when identical source data is used. If such Scope 3 emissions sources are included in the engagement, it is important that the quantification methods used are selected objectively and that they are fully described along with the uncertainties associated with their use.

The Entity's Responsibility for the Preparation of the GHG Statement (Ref: Para. 16(c)(ii))

- A40. As noted in paragraph A58, for some engagements concerns about the condition and reliability of an entity's records may cause the practitioner to conclude that it is unlikely that sufficient appropriate evidence will be available to support an unmodified conclusion on the GHG statement. This may occur when the entity has little experience with the preparation of GHG statements. In such circumstances, it may be more appropriate for the practitioner to undertake an agreed-upon procedures engagement in preparation for an assurance engagement in a later period.

Who Developed the Criteria (Ref: Para. 16(c)(iii))

A41. When the GHG statement has been prepared for a regulatory disclosure regime or emissions trading scheme where the applicable criteria and form of reporting are prescribed, it will ordinarily be apparent from the engagement circumstances that it is the regulator or body in charge of the scheme that developed the criteria. In voluntary reporting situations, however, it may not be clear who developed the criteria unless it is stated in the explanatory notes to the GHG statement.

Changing the Terms of the Engagement (Ref: Para. 14)

A42. ISAE 3000 requires that the practitioner not agree to a change in the terms of the engagement where there is no reasonable justification for doing so.¹⁷ A request to change the scope of the engagement may not have a reasonable justification when, for example, the request is made to exclude certain emissions sources from the scope of the engagement because of the likelihood that the practitioner's conclusion would be modified.

Planning (Ref: Para. 18)

A43. When establishing the overall engagement strategy, it may be relevant to consider the emphasis given to different aspects of the design and implementation of the GHG information system. For example, in some cases the entity may have been particularly conscious of the need for adequate internal control to ensure the reliability of reported information, while in other cases the entity may have focused more on accurately determining the scientific, operational or technical characteristics of the information to be gathered.

A44. Smaller engagements or more straightforward engagements (see paragraph A18) may be conducted by a very small engagement team. With a smaller team, coordination of, and communication between, team members is easier. Establishing the overall engagement strategy for a smaller engagement, or for a more straightforward engagement, need not be a complex or time-consuming exercise. For example, a brief memorandum, based on discussions with the entity, can serve as the documented engagement strategy if it covers the matters noted in paragraph 18.

A45. The practitioner may decide to discuss elements of planning with the entity when determining the scope of the engagement or to facilitate the conduct and management of the engagement (for example, to coordinate some of the planned procedures with the work of the entity's personnel). Although these discussions often occur, the overall engagement strategy and the engagement plan remain the practitioner's responsibility. When discussing matters included in the overall engagement strategy or engagement plan, care is required in order not to compromise the effectiveness of the engagement. For example, discussing the nature and timing of detailed procedures with the entity may compromise the effectiveness of the engagement by making the procedures too predictable.

¹⁷ ISAE 3000, paragraph 11

A46. The performance of an assurance engagement is an iterative process. As the practitioner performs planned procedures, the evidence obtained may cause the practitioner to modify the nature, timing or extent of other planned procedures. In some cases, information may come to the practitioner's attention that differs significantly from that expected at an earlier stage of the engagement. For example, systematic errors discovered when performing procedures on location at selected facilities may indicate that it is necessary to visit additional facilities.

Materiality in Planning and Performing the Engagement (Ref: Para. 19–20)

Determining Materiality and Performance Materiality When Planning the Engagement

A47. The criteria may discuss the concept of materiality in the context of the preparation and presentation of the GHG statement. Although criteria may discuss materiality in different terms, the concept of materiality generally includes that:

- Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence relevant decisions of users taken on the basis of the GHG statement;
- Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
- Judgments about matters that are material to intended users of the GHG statement are based on a consideration of the common information needs of intended users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

A48. Such a discussion, if present in the applicable criteria, provides a frame of reference to the practitioner in determining materiality for the engagement. If the applicable criteria do not include a discussion of the concept of materiality, the characteristics referred to above provide the practitioner with such a frame of reference.

A49. The practitioner's determination of materiality is a matter of professional judgment, and is affected by the practitioner's perception of the common information needs of intended users as a group. In this context, it is reasonable for the practitioner to assume that intended users:

- (a) Have a reasonable knowledge of GHG related activities, and a willingness to study the information in the GHG statement with reasonable diligence;
- (b) Understand that the GHG statement is prepared and assured to levels of materiality, and have an understanding of any materiality concepts included in the applicable criteria;
- (c) Understand that the quantification of emissions involves uncertainties (see paragraphs A22–A27); and
- (d) Make reasonable decisions on the basis of the information in the GHG statement.

A50. Intended users and their information needs may include, for example:

- Management and those charged with governance of the entity who use information about emissions for strategic and operational decisions, such as choosing between alternative technologies and investment and divestment decisions, perhaps in anticipation of a regulatory disclosure regime or entering an emissions trading scheme.
- Regulators and policy makers in the case of a regulatory disclosure regime. Their information needs may relate to monitoring compliance with the disclosure regime, and a broad range of government policy decisions related to climate change mitigation and adaptation, usually based on aggregated information.
- Market participants in the case of an emissions trading scheme, whose information needs may relate to decisions to trade negotiable instruments (such as permits, credits or allowances) created by the scheme, or impose fines or other penalties on the basis of excess emissions.
- Investors and other stakeholders such as suppliers, customers, employees, and the broader community in the case of voluntary disclosures. Their information needs may relate to decisions to buy or sell equity in the entity; lend to, trade with, or be employed by the entity; or make representations to the entity or others, for example, politicians.

The practitioner may not be able to identify all those who will read the assurance report, particularly where there is a large number of people who have access to it. In such cases, particularly where possible readers are likely to have a broad range of interests with respect to emissions, intended users may be limited to major stakeholders with significant and common interests. Intended users may be identified in different ways, for example, by agreement between the practitioner and the responsible party or engaging party, or by laws or regulations.

A51. Judgments about materiality are made in light of surrounding circumstances, and are affected by both quantitative and qualitative factors. It should be noted, however, that decisions regarding materiality are not affected by the level of assurance, that is, materiality for a reasonable assurance engagement is the same as for a limited assurance engagement.

A52. A percentage is often applied to a chosen benchmark as a starting point in determining materiality. Factors that may affect the identification of an appropriate benchmark and percentage include:

- The elements included in the GHG statement (for example, Scope 1, Scope 2 and Scope 3 emissions, emissions deductions, and removals). A benchmark that may be appropriate, depending on the circumstances, is gross reported emissions, that is, the aggregate of reported Scope 1, Scope 2 and Scope 3 emissions before subtracting any emissions deductions or removals. Materiality relates to the emissions covered by the engagement. Therefore, when the engagement does not cover the entire GHG statement, materiality is set in relation to only that portion of

the GHG statement that is covered by the engagement as if it were the GHG statement.

- The quantity of a particular type of emission or the nature of a particular disclosure. In some cases, there are particular types of emissions or disclosures for which misstatements of lesser amounts than materiality for the GHG statement in its entirety is appropriate. For example, the practitioner may consider it appropriate to set a lower materiality for emissions from a particular jurisdiction, or for a particular gas or particular facility.
- How the GHG statement presents relevant information, for example, whether it includes a comparison of emissions with a prior period(s), base year, or a “cap,” in which case determining materiality in relation to the comparative information may be a relevant consideration. Where a “cap” is relevant, materiality is ordinarily set in relation to the cap if it is lower than reported emissions.
- The relative volatility of emissions. For example, if emissions vary significantly from period to period, it may be appropriate to set materiality relative to the lower end of the fluctuation range even if the current period is higher.
- The requirements of the applicable criteria. In some cases, the applicable criteria may set a threshold for accuracy and may refer to this as materiality. For example, the criteria may state an expectation that emissions are measured using a stipulated percentage as the “materiality threshold.” Where this is the case, the threshold set by the criteria provides a frame of reference to the practitioner in determining materiality for the engagement.

A53. Qualitative factors may include:

- The sources of emissions.
- The types of gases involved.
- The context in which the information in the GHG statement will be used (for example, whether the information is for use in an emissions trading scheme, is for submission to a regulator, or is for inclusion in a widely distributed sustainability report); and the types of decisions that intended users are likely to make.
- Whether there are one or more types of emissions or disclosures on which the attention of the intended users tends to be focused, for example, gases that, as well as contributing to climate change, are ozone depleting.
- The nature of the entity, its climate change strategies and progress toward related objectives.
- The industry and the economic and regulatory environment in which the entity operates.

Revision as the Engagement Progresses (Ref: Para. 21)

A54. If during the engagement the practitioner concludes that a lower materiality for the GHG statement (and, if applicable, materiality level or levels for particular types of emissions

or disclosures) than that initially determined is appropriate, it may be necessary to revise performance materiality, and the nature, timing and extent of the further procedures.

Understanding the Entity and Its Environment

Professional Judgment (Ref: Para. 22L–22R)

- A55. The practitioner uses professional judgment to determine the extent of the understanding and the nature, timing and extent of procedures to identify and assess risks of material misstatement that are required to obtain reasonable or limited assurance, as appropriate. The practitioner’s primary consideration is whether the understanding that has been obtained and the identification and assessment of risks are sufficient to meet the objective stated in this ISAE. The depth of the understanding that is required by the practitioner is less than that possessed by management in managing the entity, and both the depth of the understanding and the nature, timing and extent of procedures to identify and assess risks are less for a limited assurance engagement than for a reasonable assurance engagement.
- A56. Obtaining an understanding and identifying and assessing risks is an iterative process. Procedures to obtain an understanding of the entity and its environment and to identify and assess risks by themselves do not provide sufficient appropriate evidence on which to base the assurance conclusion.

Relevant Components of Internal Control (Ref: Para. 22L–22R)

- A57. In a limited assurance engagement, while it may often be appropriate to inquire of the entity about control activities and monitoring of controls relevant to the quantification and reporting of emissions, it will ordinarily not be necessary to obtain a detailed understanding of these components of the entity’s internal control.
- A58. The practitioner’s understanding of relevant components of internal control may raise doubts about whether sufficient appropriate evidence is available for the practitioner to complete the engagement. For example (see also paragraphs A59–A60, A88–A89, and A92):
- Concerns about the integrity of those preparing the GHG statement may be so serious as to cause the practitioner to conclude that the risk of management misrepresentation in the GHG statement is such that an engagement cannot be conducted.
 - Concerns about the condition and reliability of an entity’s records may cause the practitioner to conclude that it is unlikely that sufficient appropriate evidence will be available to support an unmodified conclusion on the GHG statement.

Control Activities Relevant to the Engagement (Ref: Para. 22R(d))

- A59. The practitioner’s judgment about whether particular control activities are relevant to the engagement may be affected by the level of sophistication, documentation and formality of the entity’s information system, including the related business processes, relevant to reporting emissions. As reporting of emissions evolves, it can be expected that so too will the level of sophistication, documentation and formality of information systems and related control activities relevant to the quantification and reporting of emissions.

A60. In the case of very small entities or immature information systems, particular control activities are likely to be more rudimentary, less well-documented, and may only exist informally. When this is the case, it is less likely the practitioner will judge it necessary to understand particular control activities in order to assess the risks of material misstatement and design further procedures responsive to assessed risks. In some regulated schemes, on the other hand, the information system and control activities may be required to be formally documented and their design approved by the regulator. Even in some of these cases, however, not all relevant data flows and associated controls may be documented. For example, it may be more likely that control activities with respect to source data collection from continuous monitoring are sophisticated, well-documented, and more formal than control activities with respect to subsequent data processing and reporting (see also paragraphs A58, A88–A89, and A92).

The Entity and Its Environment

Interruptions to Operations (Ref: Para. 24(b)(iii))

A61. Interruptions may include incidents such as shut downs, which may occur unexpectedly, or may be planned, for example, as part of a maintenance schedule. In some cases, the nature of operations may be intermittent, for example, when a facility is only used at peak periods.

Objectives and Strategies (Ref: Para. 24(e))

A62. Consideration of the entity's climate change strategy, if any, and associated economic, regulatory, physical and reputational risks, may assist the practitioner to identify risks of material misstatement. For example, if the entity has made commitments to become carbon neutral, this may provide an incentive to understate emissions so the target will appear to be achieved within a declared timeframe. Conversely, if the entity is expecting to be subject to a regulated emissions trading scheme in the future, this may provide an incentive to overstate emissions in the meantime to increase the opportunity for it to receive a larger permit quota at the outset of the scheme.

Procedures to Obtain an Understanding and to Identify and Assess Risks

Analytical Procedures for Obtaining an Understanding of the Entity and Its Environment and Identifying and Assessing Risks (Ref: Para. 25(b))

A63. Analytical procedures performed to obtain an understanding of the entity and its environment and assess risks may identify aspects of the entity of which the practitioner was unaware and may assist in assessing the risks of material misstatement in order to provide a basis for designing and implementing responses to the assessed risks. Analytical procedures performed as risk assessment procedures may include, for example, comparing GHG emissions from various facilities with production figures for those facilities.

A64. Analytical procedures may help identify the existence of unusual events, and amounts, ratios, and trends that might indicate matters that have implications for the engagement. Unusual or unexpected relationships that are identified may assist the practitioner in identifying risks of material misstatement.

A65. However, when such analytical procedures use data aggregated at a high level (which may be the situation with analytical procedures performed as risk assessment procedures), the results of those analytical procedures only provide a broad initial indication about whether a material misstatement may exist. Accordingly, in such cases, consideration of other information that has been gathered when identifying the risks of material misstatement together with the results of such analytical procedures may assist the practitioner in understanding and evaluating the results of the analytical procedures.

Observation and Inspection (Ref: Para. 25(c))

A66. Observation consists of looking at a process or procedure being performed by others, for example, the practitioner's observation of monitoring devices being calibrated by the entity's personnel, or of the performance of control activities. Observation provides evidence about the performance of a process or procedure, but is limited to the point in time at which the observation takes place, and by the fact that the act of being observed may affect how the process or procedure is performed.

A67. Inspection involves:

- (a) Examining records or documents, whether internal or external, in paper form, electronic form, or other media, for example calibration records of a monitoring device. Inspection of records and documents provides evidence of varying degrees of reliability, depending on their nature and source and, in the case of internal records and documents, on the effectiveness of the controls over their production; or
- (b) A physical examination of, for example, a calibrating device.

A68. Observation and inspection may support inquiries of management and others, and may also provide information about the entity and its environment. Examples of such procedures include observation or inspection of the following:

- The entity's operations. Observing processes and equipment, including monitoring equipment, at facilities may be particularly relevant where significant Scope 1 emissions are included in the GHG statement.
- Documents (such as emissions mitigation plans and strategies), records (such as calibration records and results from testing laboratories), and manuals detailing information collection procedures and internal controls.
- Reports prepared by management (such as quarterly management reports) and those charged with governance (such as minutes of board of directors' meetings).

Other Engagements Performed for the Entity (Ref: Para. 26)

A69. Information obtained from other engagements performed for the entity may relate to, for example, aspects of the entity's control environment.

Performing Procedures on Location at the Entity's Facilities (Ref: Para. 29)

A70. Performing observation and inspection, as well as other procedures, on location at a facility (often referred to as a "site visit") may be important in building on the understanding of the entity that the practitioner develops by performing procedures at

head office. Because the practitioner's understanding of the entity and identification and assessment of risks of material misstatement can be expected to be more comprehensive for a reasonable assurance engagement than for a limited assurance engagement, the number of facilities at which procedures are performed on location in the case of a reasonable assurance engagement will ordinarily be greater than in the case of a limited assurance engagement.

A71. Performing procedures on location at a facility may be done as part of planning, when performing risk assessment procedures, or when responding to assessed risks of material misstatement. Performing procedures at significant facilities is often particularly important for an engagement being undertaken for the first time when considering the completeness of Scope 1 sources and of sinks included in the GHG statement, and when establishing whether the entity's data collection and processing systems, and its estimation techniques, are appropriate relative to the underlying physical processes and related uncertainties.

A72. As noted in paragraph A70, performing procedures on location at a facility may be important in building on the understanding of the entity that the practitioner develops by performing procedures at head office. For many reasonable assurance engagements, the practitioner will also judge it necessary to perform procedures on location at each significant facility to respond to assessed risks, particularly when the entity has significant facilities with Scope 1 emissions. For a limited assurance engagement where the entity has a number of significant facilities with Scope 1 emissions, a meaningful level of assurance could not ordinarily be obtained without the practitioner having performed procedures at a selection of significant facilities. Where the entity has significant facilities with Scope 1 emissions but the practitioner determines that it is not necessary to perform procedures on location at the facility (or have a component practitioner perform such procedures on behalf of the practitioner), alternative procedures ordinarily include one or more of the following:

- Reviewing source documents, energy flow diagrams, and material flow diagrams.
- Analyzing questionnaire responses from facility management.
- Inspecting satellite imagery of the facility.

A73. To obtain adequate coverage of total emissions, particularly in a reasonable assurance engagement, the practitioner may decide that it is appropriate to perform procedures on location at a selection of facilities that are not significant facilities. Factors that may be relevant to such a decision include:

- The nature of emissions at different facilities. For example, it is more likely that a practitioner may choose to visit a facility with Scope 1 emissions than a facility with only Scope 2 emissions. In the latter case, the examination of energy invoices at head office is more likely to be a primary source of evidence.
- The number and size of facilities, and their contribution to overall emissions.
- Whether facilities use different processes, or processes using different technologies. Where this is the case, it may be appropriate to perform procedures on location at a selection of facilities using different processes or technologies.

- The methods used at different facilities to gather emissions information.
- The experience of relevant staff at different facilities.
- Varying the selection of facilities over time.

Internal Audit (Ref: Para. 30)

A74. The entity's internal audit function is likely to be relevant to the engagement if the nature of the internal audit function's responsibilities and activities are related to the entity's GHG reporting, and the practitioner expects to use the work of the internal auditors to modify the nature or timing, or reduce the extent, of procedures to be performed.

Identifying and Assessing Risks of Material Misstatement

Risks of Material Misstatement at the GHG Statement Level (Ref: Para. 31L(a)–31R(a))

A75. Risks of material misstatement at the GHG statement level refer to risks that relate pervasively to the GHG statement as a whole. Risks of this nature are not necessarily risks identifiable with a specific type of emission or disclosure level. Rather, they represent circumstances that may increase the risks of material misstatement more generally, for example, through management override of internal control. GHG statement level risks may be especially relevant to the practitioner's consideration of the risks of material misstatement arising from fraud.

A76. Risks at the GHG statement level may derive in particular from a deficient control environment. For example, deficiencies such as management's lack of competence may have a more pervasive effect on the GHG statement and may require an overall response by the practitioner. Other risks of material misstatement at the GHG statement may include, for example:

- Inadequate, poorly controlled or poorly documented mechanisms for collecting data, quantifying emissions and preparing GHG statements.
- Lack of staff competence in collecting data, quantifying emissions and preparing GHG statements.
- Lack of management involvement in quantifying emissions and preparing GHG statements.
- Failure to identify accurately all sources of GHGs.
- Risk of fraud, for example, in connection with emissions trading markets.
- Presenting information covering prior periods that is not prepared on a consistent basis, for example, because of changed boundaries or changes in measurement methodologies.
- Misleading presentation of information in the GHG statement, for example, unduly highlighting particularly favorable data or trends.
- Inconsistent quantification methods and reporting policies, including different methods for determining the organizational boundary, at different components.
- Errors in unit conversion when consolidating information from components.

- Inadequate disclosure of scientific uncertainties and key assumptions in relation to estimates.

The Use of Assertions (Ref: Para. 31R(b))

A77. In representing that the GHG statement is in accordance with the applicable criteria, the entity implicitly or explicitly makes assertions regarding the quantification, presentation and disclosure of emissions.

A78. Assertions are used by the practitioner in a reasonable assurance engagement, and may be used in a limited assurance engagement, to consider the different types of potential misstatements that may occur fall into the following categories and may take the following forms:

- (a) Assertions about the quantification of emissions for the period subject to assurance:
 - (i) Occurrence—emissions that have been recorded have occurred and pertain to the entity.
 - (ii) Completeness—all emissions that should have been recorded have been recorded (see paragraphs A35–A39 for a discussion of completeness with respect to various Scopes).
 - (iii) Accuracy—the quantification of emissions has been recorded appropriately.
 - (iv) Cutoff—emissions have been recorded in the correct reporting period.
 - (v) Classification—emissions have been recorded as the proper type.
- (b) Assertions about presentation and disclosure:
 - (i) Occurrence and responsibility—disclosed emissions and other matters have occurred and pertain to the entity.
 - (ii) Completeness—all disclosures that should have been included in the GHG statement have been included.
 - (iii) Classification and understandability—emissions information is appropriately presented and described, and disclosures are clearly expressed.
 - (iv) Accuracy and quantification—emissions quantification and other information included in the GHG statement are appropriately disclosed.
 - (v) Consistency—quantification policies are consistent with those applied in the prior period, or changes are justified and have been properly applied and adequately disclosed; and comparative information, if any, is as reported in the prior period or has been appropriately restated.

Reliance on Internal Control (Ref: Para. 31R)

A79. If the practitioner's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively (that is, the practitioner intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of other procedures), the practitioner is required by paragraph 36R to design and perform tests of the operating effectiveness of those controls.

Causes of Risks of Material Misstatement (Ref: Para. 32)

Fraud (Ref: Para. 32(a))

- A80. Misstatements in the GHG statement can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the GHG statement is intentional or unintentional.
- A81. Incentives for intentional misstatement of the GHG statement may arise if, for example, those who are directly involved with, or have the opportunity to influence, the emissions reporting process have a significant portion of their compensation contingent upon achieving aggressive GHG targets. As noted in paragraph A62, other incentives to either under or overstate emissions may result from the entity's climate change strategy, if any, and associated economic, regulatory, physical and reputational risks.
- A82. Although fraud is a broad legal concept, for the purposes of this ISAE, the practitioner is concerned with fraud that causes a material misstatement in the GHG statement. Although the practitioner may suspect or, in rare cases, identify the occurrence of fraud, the practitioner does not make legal determinations of whether fraud has actually occurred.

Non-Compliance with Laws and Regulations (Ref: Para. 32(b))

- A83. This ISAE distinguishes the practitioner's responsibilities in relation to compliance with two different categories of laws and regulations as follows:
- (a) The provisions of those laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the GHG statement in that they determine the reported quantities and disclosures in an entity's GHG statement. Paragraph 32(b) requires the practitioner to consider the possibility of material misstatement due to non-compliance with the provisions of such laws and regulations when performing the procedures required by paragraphs 31L or 31R; and
 - (b) Other laws and regulations that do not have a direct effect on the determination of the quantities and disclosures in the GHG statement, but compliance with which may be fundamental to the operating aspects of the business, to an entity's ability to continue its business, or to avoid material penalties (for example, compliance with the terms of an operating license, or compliance with environmental regulations). Maintaining professional skepticism throughout the engagement, as required by ISAE 3000,¹⁸ is important in the context of remaining alert to the possibility that procedures applied for the purpose of forming a conclusion on the GHG statement may bring instances of identified or suspected non-compliance with such laws and regulations to the practitioner's attention.

¹⁸ ISAE 3000, paragraph 14

Other Causes of Risks of Material Misstatement (Ref: Para. 32)

A84. Examples of factors referred to in paragraph 32(c)–(k) include:

- (a) Omission of one or more emissions sources is more likely for sources that are less obvious and may be overlooked, such as fugitive emissions.
- (b) Significant economic or regulatory changes may include, for example, increases in renewable energy targets or significant price changes for permits under an emissions trading scheme, which may lead to, for example, increased risk of misclassification of sources at an electricity generator.
- (c) The nature of the entity's operations may be complex (for example, it may involve multiple and disparate facilities and processes), discontinuous (for example, peak load electricity generation), or result in few or weak relationships between the entity's emissions and other measurable activity levels (for example, a cobalt nickel plant). In such cases, the opportunity for meaningful analytical procedures may be significantly reduced.

Changes in operations or boundaries (for example, introduction of new processes, or the sale, acquisitions or outsourcing of emissions sources or removal sinks) may also introduce risks of material misstatement (for example, through unfamiliarity with quantification or reporting procedures). Also double counting of an emissions source or removals sink may occur due to inadequate coordination in the identification of sources and sinks at a complex installation.

- (d) Selection of an inappropriate quantification method (for example, calculating Scope 1 emissions using an emissions factor when using a more accurate direct measurement method is available and would be more appropriate). Selecting an appropriate quantification method is particularly important when the method has been changed. This is because intended users are often interested in emissions trends over time, or relative to a base year. Some criteria may require that quantification methods are only changed when a more accurate method is to be used. Other factors related to the nature of quantification methods include:
 - Incorrect application of a quantification method, such as not calibrating meters or not reading them sufficiently frequently, or use of an emissions factor that is inappropriate in the circumstances. For example, an emissions factor may be predicated on an assumption of continuous use and may not be appropriate to use after a shut down.
 - Complexity in quantification methods, which will likely involve higher risk, for example: extensive or complex mathematical manipulation of source data (such as the use of complex mathematical models); extensive use of state conversion factors (such as those to convert measures of liquid to measures of gas); or extensive use of unit conversion factors (such as those to convert imperial measures to metric measures).
 - Changes in quantification methods or input variables (for example, if the quantification method used is based on the carbon content of biomass, and the composition of the biomass used changes during the period).

- (e) Significant non-routine emissions or judgmental matters are a source of greater risk relative to routine, non-complex emissions that are subject to systematic quantification and reporting. Non-routine emissions are those that are unusual, in size or nature, and that therefore occur infrequently (for example, one-off events such as a plant malfunction or major leak). Judgmental matters may include the development of subjective estimates. Risks of material misstatement may be greater because of matters such as:
- Greater management intervention to specify the quantification methods or reporting treatment.
 - Greater manual intervention for data collection and processing.
 - Complex calculations or quantification methods and reporting principles.
 - The nature of non-routine emissions, which may make it difficult for the entity to implement effective controls over the risks.
 - Quantification methods and reporting principles for estimates may be subject to differing interpretation.
 - Required judgments may be subjective or complex.
- (f) The inclusion of Scope 3 emissions where the source data used in quantification are not maintained by the entity, or where quantification methods commonly in use are imprecise or lead to large variations in reported emissions (see paragraphs A36–A39).
- (g) Matters that the practitioner may consider in obtaining an understanding of how the entity makes significant estimates and the data on which they are based include, for example:
- An understanding of the data on which estimates are based;
 - The method, including where applicable the model, used in making estimates;
 - Relevant aspects of the control environment and information system;
 - Whether the entity has used an expert;
 - The assumptions underlying estimates;
 - Whether there has been or ought to have been a change from the prior period in the methods for making estimates and, if so, why; and
 - Whether and, if so, how the entity has assessed the effect of estimation uncertainty on the GHG statement, including:
 - Whether and, if so, how the entity has considered alternative assumptions or outcomes by, for example, performing a sensitivity analysis to determine the effect of changes in the assumptions on an estimate;
 - How the entity determines the estimate when analysis indicates a number of outcome scenarios; and

- Whether the entity monitors the outcome of estimates made in the prior period, and whether it has appropriately responded to the outcome of that monitoring procedure.

A85. Examples of other factors that may lead to risks of material misstatement include:

- Human error in the quantification of emissions, which may be more likely to occur if personnel are unfamiliar with, or not well-trained regarding, emissions processes or data recording.
- Undue reliance on a poorly designed information system, which may have few effective controls, for example, the use of spreadsheets without adequate controls.
- Manual adjustment of otherwise automatically recorded activity levels, for example, manual input may be required if a flare meter becomes overloaded.
- Significant external developments such as heightened public scrutiny of a particular facility.

Overall Responses to Assessed Risks and Further Procedures

Limited and Reasonable Assurance Engagements (Ref: Para. 7, 33–36R, 40L–41R, 44L–44R)

A86. Because the level of assurance obtained in a limited assurance engagement is lower than in a reasonable assurance engagement, the nature and timing of the procedures the practitioner will perform in a limited assurance engagement will be different from, and their extent will be less than, a reasonable assurance engagement. The primary differences between the practitioner's overall responses to address the assessed risks and further procedures for a reasonable assurance engagement and a limited assurance engagement on a GHG statement are as follows:

- (a) *The emphasis placed on the nature of various procedures:* The emphasis placed on the nature of various procedures as a source of evidence will likely differ, depending on the engagement circumstances. For example:
 - The practitioner may judge it to be appropriate in the circumstances of a particular limited assurance engagement to place relatively greater emphasis on inquiries of the entity's personnel and analytical procedures, and relatively less emphasis, if any, on tests of controls and obtaining evidence from external sources than would be the case for a reasonable assurance engagement.
 - Where the entity uses continuous measuring equipment to quantify emission flows, the practitioner may decide in a limited assurance engagement to respond to an assessed risk by inquiring about the frequency with which the equipment is calibrated. In the same circumstances for a reasonable assurance engagement, the practitioner may decide to examine the entity's records of the equipment's calibration or independently test its calibration.
 - Where the entity burns coal, the practitioner may decide in a reasonable assurance engagement to independently analyze the characteristics of the coal, but in a limited assurance engagement the practitioner may decide that

reviewing the entity's records of laboratory test results is an adequate response to an assessed risk.

- (b) *The extent of further procedures:* The extent of further procedures performed in a limited assurance engagement is less than in a reasonable assurance engagement. This may involve:
- Reducing the number of items to be examined, for example, reducing sample sizes for tests of details;
 - Performing fewer procedures (for example, performing only analytical procedures in circumstances when, in a reasonable assurance engagement, both analytical procedures and tests of detail would be performed); or
 - Performing procedures on location at fewer facilities.
- (c) *The nature of analytical procedures:* In a reasonable assurance engagement, analytical procedures performed in response to assessed risks involve developing expectations of quantities or ratios that are sufficiently precise to identify material misstatements. In a limited assurance engagement, on the other hand, analytical procedures are often designed to support expectations regarding the direction of trends, relationships and ratios rather than to identify misstatements with the level of precision expected in a reasonable assurance engagement.¹⁹

Further, when significant fluctuations, relationships or differences are identified, appropriate evidence may often be obtained by making inquiries of the entity and considering responses received in the light of known engagement circumstances, without obtaining additional evidence as is required by paragraph 41R(a) in the case of a reasonable assurance engagement.

In addition, when undertaking analytical procedures in a limited assurance engagement the practitioner may, for example:

- Use data that is more highly aggregated, for example, data at a regional level rather than at facility level, or monthly data rather than weekly data.
- Use data that has not been subjected to separate procedures to test its reliability to the same extent as it would be for a reasonable assurance engagement.

Overall Responses to Assessed Risks (Ref: Para. 33)

A87. Overall responses to address the assessed risks of material misstatement at the GHG statement level may include:

- Emphasizing to the assurance personnel the need to maintain professional skepticism.
- Assigning more experienced staff or those with special skills or using experts.

¹⁹ This may not always be the case; for example, in some circumstances the practitioner may develop a precise expectation based on fixed physical or chemical relationships even in a limited assurance engagement.

- Providing more supervision.
- Incorporating additional elements of unpredictability in the selection of further procedures to be performed.
- Making general changes to the nature, timing, or extent of procedures, for example: performing procedures at the period end instead of at an interim date; or modifying the nature of procedures to obtain more persuasive evidence.

A88. The assessment of the risks of material misstatement at the GHG statement level, and thereby the practitioner's overall responses, is affected by the practitioner's understanding of the control environment. An effective control environment may allow the practitioner to have more confidence in internal control and the reliability of evidence generated internally within the entity and thus, for example, allow the practitioner to conduct some procedures at an interim date rather than at the period end. Deficiencies in the control environment, however, have the opposite effect; for example, the practitioner may respond to an ineffective control environment by:

- Conducting more procedures as of the period end rather than at an interim date.
- Obtaining more extensive evidence from procedures other than tests of controls.
- Increasing sample sizes and the extent of procedures, such as the number of facilities at which procedures are performed.

A89. Such considerations, therefore, have a significant bearing on the practitioner's general approach, for example, the relative emphasis on tests of controls versus other procedures (see also paragraphs A58, A59–A60, and A92).

Examples of Further Procedures (Ref: Para. 35L–35R, 38R)

A90. Further procedures may include, for example:

- Testing the operating effectiveness of controls over the collection and recording of activity data, such as kilowatt hours of electricity purchased.
- Agreeing emissions factors to appropriate sources (for example, government publications), and considering their applicability in the circumstances.
- Reviewing joint venture agreements and other contracts relevant to determining the entity's organizational boundary.
- Reconciling recorded data to, for example, odometers on vehicles owned by the entity.
- Reperforming calculations (for example, mass balance and energy balance calculations), and reconciling differences noted.
- Taking readings from continuous monitoring equipment.
- Observing or reperforming physical measurements, such as dipping oil tanks.
- Analyzing the soundness and appropriateness of unique measurement or quantification techniques, particularly complex methods that may involve, for example, recycle or feedback loops.

- Sampling and independently analyzing the characteristics of materials such as coal, or observing the entity's sampling techniques and reviewing records of laboratory test results.
- Checking the accuracy of calculations and the suitability of calculation methods used (for example, the conversion and aggregation of input measurements).
- Agreeing recorded data back to source documents, such as production records, fuel usage records, and invoices for purchased energy.

Factors that May Influence Assessed Risks of Material Misstatement (Ref: Para. 35L(a)–35R(a))

A91. Factors that may influence the assessed risks of material misstatement include:

- The nature and frequency of instrument calibration.
- The number, nature, geographical spread, and ownership characteristics of facilities from which data is collected.
- The number and nature of the various gases and emissions sources included in the GHG statement.
- Whether processes to which emissions relate are continuous or intermittent, and the risk of disruption to such processes.
- The complexity of methods for activity measurement and for calculating emissions, for example, some processes require unique measurement and calculation methods.
- The risk of unidentified fugitive emissions.
- The extent to which the quantity of emissions correlates with readily available input data.
- Whether personnel who perform data collection are trained in relevant methods, and the frequency of turnover of such personnel.
- The nature and level of automation used in data and manipulation.
- The quality control policies and procedures implemented at testing laboratories, whether internal or external.
- The complexity of criteria and of quantification and reporting policies, including how the organizational boundary is determined.

Operating Effectiveness of Controls (Ref: Para. 35R(a)(ii), 36R(a))

A92. In the case of very small entities or immature information systems, there may not be many control activities that could be identified by the practitioner, or the extent to which their existence or operation have been documented by the entity may be limited. In such cases, it may be more efficient for the practitioner to perform further procedures that are primarily other than tests of controls. In some rare cases, however, the absence of control activities or of other components of control may make it impossible to obtain sufficient appropriate evidence (see also paragraph A58, A59–A60, and A88–A89).

Persuasiveness of Evidence (Ref: Para. 35L(b)–35R(b))

A93. To obtain more persuasive evidence because of a higher assessment of risk, the practitioner may increase the quantity of the evidence, or obtain evidence that is more relevant or reliable, for example, by obtaining corroborating evidence from a number of independent sources.

Analytical Procedures Performed in Response to Assessed Risks (Ref: Para. 40L–40R)

A94. In many cases, the fixed nature of physical or chemical relationships between particular emissions and other measurable phenomena allows for the design of powerful analytical procedures, both as risk assessment and further procedures (for example, the relationship between fuel consumption and carbon dioxide and nitrous oxide emissions).

A95. Similarly, a reasonably predictable relationship may exist between emissions and financial or operational information (for example, the relationship between Scope 2 emissions from electricity and the general ledger balance for electricity purchases or hours of operation). Other analytical procedures may involve comparisons of information about the entity's emissions with external data such as industry averages; or the analysis of trends during the period to identify anomalies for further investigation, and trends across periods for consistency with other circumstances such as the acquisition or disposal of facilities.

A96. Analytical procedures may be particularly effective when disaggregated data is readily available, or when the practitioner has reason to consider the data to be used is reliable, such as when it is extracted from a well-controlled source. In some cases, data to be used may be captured by the financial reporting information system, or may be entered in another information system in parallel with the entry of related financial data, and some common input controls applied. For example, the quantity of fuel purchased as recorded on suppliers' invoices may be input under the same conditions that relevant invoices are entered into an accounts payable system. In some cases, data to be used may be an integral input to operational decisions and therefore subject to increased scrutiny by operational personnel, or subject to separate external audit procedures (for example, as part of a joint venture agreement or oversight by a regulator).

Procedures Regarding Estimates (Ref: Para. 42L–43R)

A97. In some cases, it may be appropriate for the practitioner to evaluate how the entity has considered alternative assumptions or outcomes, and why it has rejected them.

A98. In some limited assurance engagements, it may be appropriate for the practitioner to undertake one or more of the procedures identified in paragraph 43R.

Sampling (Ref: Para. 44L–44R)

A99. Sampling involves:

- (a) Determining a sample size sufficient to reduce sampling risk to an acceptably low level. Because the acceptable level of assurance engagement risk is lower for a reasonable assurance engagement than for a limited assurance engagement, so too will be the level of sampling risk that is ordinarily acceptable in the case of tests of

details. Therefore, when sampling is used for tests of details in a reasonable assurance engagement, the sample size will ordinarily be larger than when used in similar circumstances in a limited assurance engagement.

- (b) Selecting items for the sample in such a way that each sampling unit in the population has a chance of selection, and performing procedures, appropriate to the purpose, on each item selected. If the practitioner is unable to apply the designed procedures, or suitable alternative procedures, to a selected item, that item is treated as a deviation from the prescribed control, in the case of tests of controls, or a misstatement, in the case of tests of details.
- (c) Investigating the nature and cause of deviations or misstatements identified, and evaluating their possible effect on the purpose of the procedure and on other areas of the engagement.
- (d) Evaluating:
 - (i) The results of the sample, including, for tests of details, projecting misstatements found in the sample to the population; and
 - (ii) Whether the use of sampling has provided an appropriate basis for conclusions about the population that has been tested.

Fraud, Laws and Regulations (Ref: Para. 45L–45R)

A100. In responding to fraud or suspected fraud identified during the engagement, it may be appropriate for the practitioner to, for example:

- Discuss the matter with the entity.
- Request the entity to consult with an appropriately qualified third party, such as the entity’s legal counsel.
- Consider the implications of the matter in relation to other aspects of the engagement, including the practitioner’s risk assessment and the reliability of written representations from the entity.
- Obtain legal advice about the consequences of different courses of action.
- Communicate with third parties (for example, a regulator).
- Withhold the assurance report.
- Withdraw from the engagement.

A101. The actions noted in the preceding paragraph may be appropriate in responding to non-compliance or suspected non-compliance with laws and regulations identified during the engagement. It may also be appropriate to describe the matter in an Other Matter paragraph in the practitioner’s report in accordance with paragraph 74 of this ISAE, unless the practitioner:

- (a) Concludes that the non-compliance has a material effect on the GHG statement and has not been adequately reflected in the GHG statement; or

- (b) Is precluded by the entity from obtaining sufficient appropriate evidence to evaluate whether non-compliance that may be material to the GHG statement has, or is likely to have, occurred,
- in which case paragraph 51 of ISAE 3000 applies.

Procedures Regarding the GHG Statement Aggregation Process (Ref: Para. 46L–46R)

A102. As noted in paragraph A59, as reporting of emissions evolves, it can be expected that so too will the level of sophistication, documentation and formality of information systems relevant to the quantification and reporting of emissions. In immature information systems, the aggregation process may be very informal. In more sophisticated systems, the aggregation process may be more systematic and formally documented. The nature, and also the extent, of the practitioner’s procedures with respect to adjustments and the manner in which the practitioner agrees or reconciles the GHG statement with the underlying records depends on the nature and complexity of the entity’s quantifications and reporting process and the related risks of material misstatement.

Risks for Which Tests of Controls Are Necessary to Provide Sufficient Appropriate Evidence (Ref: 36R(b))

A103. The quantification of emissions may include processes that are highly automated with little or no manual intervention, for example, where relevant information is recorded, processed, or reported only in electronic form such as in a continuous monitoring system, or when the processing of activity data is integrated with an information technology-based financial reporting information system. In such cases:

- Evidence may be available only in electronic form, and its sufficiency and appropriateness dependent on the effectiveness of controls over its accuracy and completeness.
- The potential for improper initiation or alteration of information to occur and not be detected may be greater if appropriate controls are not operating effectively.

Confirmation Procedures (Ref: Para. 39R)

A104. External confirmation procedures may provide relevant evidence about such information as:

- Activity data collected by a third party, such as data about: employee air travel collated by a travel agent; the inflow of energy to a facility metered by a supplier; or kilometers travelled by entity-owned vehicles recorded by an external fleet manager.
- Industry benchmark data used in calculating emissions factors.
- The terms of agreements, contracts, or transactions between the entity and other parties, or information about whether other parties are, or are not, including particular emissions in their GHG statement, when considering the entity’s organizational boundary.

- The results of laboratory analysis of samples (for example, the calorific value of input samples).

Additional Procedures (Ref: Para. 47L–47R)

A105. An assurance engagement is an iterative process, and information may come to the practitioner’s attention that differs significantly from that on which the determination of planned procedures was based. As the practitioner performs planned procedures, the evidence obtained may cause the practitioner to perform additional procedures. Such procedures may include asking the entity to examine the matter(s) identified by the practitioner, and to make adjustments to the GHG statement if appropriate.

Determining Whether Additional Procedures Are Necessary in a Limited Assurance Engagement (Ref: Para. 47L)

A106. The practitioner may become aware of a matter(s) that causes the practitioner to believe the GHG statement may be materially misstated when, for example, performing analytical procedures if the practitioner identifies a fluctuation or relationship that is inconsistent with other relevant information or that differs significantly from expected quantities or ratios. In such cases, the practitioner may investigate such differences by, for example, inquiring of the entity or performing other procedures as appropriate in the circumstances.

A107. If, in the case of a limited assurance engagement, a matter(s) comes to the practitioner’s attention that causes the practitioner to believe the GHG statement may be materially misstated, the practitioner is required by paragraph 47L to design and perform additional procedures. If having done so, however, the practitioner is not able to obtain sufficient appropriate evidence to either conclude that the matter(s) is not likely to cause the GHG statement to be materially misstated or determine that it does cause the GHG statement to be materially misstated, a scope limitation exists.

Accumulation of Identified Misstatements (Ref: Para. 48)

A108. The practitioner may designate an amount below which misstatements would be clearly trivial and would not need to be accumulated because the practitioner expects that the accumulation of such amounts clearly would not have a material effect on the GHG statement. “Clearly trivial” is not another expression for “not material.” Matters that are clearly trivial will be of a wholly different (smaller) order of magnitude than materiality determined in accordance with this ISAE, and will be matters that are clearly inconsequential, whether taken individually or in the aggregate and whether judged by any criteria of size, nature or circumstances. When there is any uncertainty about whether one or more items are clearly trivial, the matter is considered not to be clearly trivial.

Using the Work of Component Practitioners

Planning to Use the Work of a Component Practitioner (Ref: Para. 55)

A109. Components may comprise, for example, a factory or other form of facility at a remote location; a subsidiary, division or branch in a foreign jurisdiction; or a joint venture or

associate. Relevant considerations when the engagement team plans to request a component practitioner to perform work on the information of a component may include:

- Whether the component practitioner understands and complies with the ethical requirements that are relevant to the engagement and, in particular, is independent.
- The component practitioner's professional competence.
- The extent of the engagement team's involvement in the work of the component practitioner.
- Whether the component practitioner operates in a regulatory environment that actively oversees that practitioner.

Communication to Component Practitioners (Ref: Para. 55(a))

A110. Relevant matters to communicate with component practitioners about the work to be performed, the use to be made of that work, and the form and content of the component practitioner's communication with the engagement team may include:

- A request that the component practitioner, knowing the context in which the engagement team will use the work of the component practitioner, confirms that the component practitioner will cooperate with the engagement team.
- Performance materiality for the component (and, if applicable, the materiality level or levels for particular types of emissions or disclosures) and the threshold above which misstatements cannot be regarded as clearly trivial to the GHG statement.
- Identified risks of material misstatement of the GHG statement that are relevant to the work of the component practitioner; and a request that the component practitioner communicate on a timely basis any other identified risks in the component that may be material to the GHG statement, and the component practitioner's responses to such risks.

Communication from Component Practitioners (Ref: Para. 55(a))

A111. Relevant matters that the engagement team may request the component practitioner to communicate include:

- Whether the component practitioner has complied with ethical requirements that are relevant to the group engagement, including independence and professional competence.
- Whether the component practitioner has complied with the group engagement team's requirements.
- Information on instances of non-compliance with laws or regulations that could give rise to a material misstatement of the GHG statement.
- A list of uncorrected misstatements of the component information that are not clearly trivial.

- Indicators of possible bias in the preparation of the component information.
- Description of any identified significant deficiencies in internal control at the component level.
- Other significant matters that the component practitioner has communicated or expects to communicate to the component, including fraud or suspected fraud.
- Any other matters that may be relevant to the GHG statement, or that the component practitioner wishes to draw to the attention of the engagement team, including exceptions noted in any written representations that the component practitioner requested from the component.
- The component practitioner's overall findings, conclusions or opinion.

Evidence (Ref: Para. 55(b))

A112. Relevant considerations when obtaining evidence regarding components and the process for including related information in the GHG statement may include:

- Discussions with the component practitioner, or the component itself, regarding those of the component's business activities that are significant to the GHG statement.
- Discussions with the component practitioner regarding the susceptibility of the component to material misstatement of the GHG statement.
- Reviewing the component practitioner's documentation of identified risks of material misstatement, responses to those risks, and conclusions. Such documentation may take the form of a memorandum that reflects the component practitioner's conclusion with regard to the identified risks.

Written Representations (Ref: Para. 56)

A113. The person(s) from whom the practitioner requests written representations will ordinarily be a member of senior management or those charged with governance. However, because management and governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics, it is not possible for this ISAE to specify for all engagements the appropriate person(s) from whom to request written representations. For example, the entity may be a facility that is not a separate legal entity in its own right. In such cases, identifying the appropriate management personnel or those charged with governance from whom to request written representations may require the exercise of professional judgment.

Subsequent Events (Ref: Para. 59)

A114. Subsequent events may include, for example, the publication of revised emissions factors by a body such as a government agency, changes to relevant legislation or regulations, improved scientific knowledge, significant structural changes in the entity, the availability of more accurate quantification methods, or the discovery of a significant error.

Comparative Information (Ref: Para. 60)

- A115. The GHG quantities reported in a prior period may need to be restated in accordance with the applicable criteria because of, for example, improved scientific knowledge, significant structural changes in the entity, the availability of more accurate quantification methods, the revision of an estimate, or the discovery of a significant error.
- A116. When comparative information is presented with the current emissions information but some or all of that comparative information is not covered by the practitioner's report, it is important that the status of such information is adequately identified in both the GHG statement and the practitioner's report.

Other Information (Ref: Para. 61)

- A117. A GHG statement may be published as a stand-alone document, or with other information, for example, it may be included as part of an entity's annual report or sustainability report, or included with information such as:
- A strategic analysis, including:
 - A statement of the entity's position on climate change;
 - An explanation of significant actions the entity is taking to maximize opportunities and minimize risks associated with climate change;
 - Emissions reduction targets and an analysis of performance against those targets;
 - A description of the entity's assessment of future movements in direct and indirect emissions for timescales over which the entity typically plans its strategies and assesses risks and opportunities, including detailed information on trends and factors likely to affect the assessment; and
 - A description of corporate governance actions taken to address climate change.
 - Regulatory risks from climate change, including an analysis of the material legal and financial effects that current and prospective climate change-related regulation may have on the entity's business and operations.
 - Physical risks from climate change, including a qualitative overview of the entity's current and potential material exposure to direct and indirect physical risks due to climate change.
- A118. In some cases, the entity may publish emissions information that is calculated on a different basis from that used in preparing the GHG statement, for example, the other information may be prepared on a "like-for-like" basis whereby emissions are recalculated to omit the effect of non-recurring events, such as the commissioning of a new plant or the closing down of a facility. The practitioner may seek to have such information removed if the methods used to prepare it would be disallowed by the criteria used to prepare the GHG statement. The practitioner may also seek to have removed any narrative information that is inconsistent with the quantitative data

included in the GHG statement or cannot be substantiated (for example, projections or claims about future action).

A119. Further actions that may be appropriate when other information could undermine the credibility of the GHG statement and the practitioner's report include, for example:

- Requesting the entity to consult with a qualified third party, such as the entity's legal counsel.
- Obtaining legal advice about the consequences of different courses of action.
- Communicating with third parties, for example, a regulator.
- Withholding the assurance report.
- Withdrawing from the engagement, where withdrawal is possible under applicable laws or regulations.
- Describing the matter in the assurance report.

Documentation

Documentation of the Procedures Performed and Evidence Obtained (Ref: Para. 14, 62–63)

A120. ISAE 3000 requires the practitioner to document matters that are significant in providing evidence that supports the assurance report and that the engagement was performed in accordance with ISAEs.²⁰ The following are examples of matters that may be appropriate to include in the engagement documentation:

- *Fraud*: The risks of material misstatement and the nature, timing and extent of procedures with respect to fraud; and communications about fraud made to the entity, regulators and others.
- *Laws and Regulations*: Identified or suspected non-compliance with laws and regulations and the results of discussion with the entity and other parties outside the entity.
- *Planning*: The overall engagement strategy, the engagement plan, and any significant changes made during the engagement, and the reasons for such changes.
- *Materiality*: The following amounts and the factors considered in their determination: materiality for the GHG statement; if applicable, the materiality level or levels for particular types of emissions or disclosures; performance materiality; and any revision of materiality as the engagement progresses.
- *Risks of Material Misstatement*: the discussion required by paragraph 27, and the significant decisions reached, key elements of the understanding obtained regarding each of the aspects of the entity and its environment specified in paragraph 31, and the risks of material misstatement for which in the practitioner's professional judgment further procedures were required.

²⁰ ISAE 3000, paragraph 42

- *Further Procedures*: the nature, timing and extent of the further procedures performed, the linkage of those further procedures with the risks, and the results of the procedures.
- *Evaluation of Misstatements*: The amount below which misstatements would be regarded as clearly trivial, misstatements accumulated during the engagement and whether they have been corrected, and the practitioner's conclusion as to whether uncorrected misstatements are material, individually or in the aggregate, and the basis for that conclusion.

Matters Arising after the Date of the Assurance Report (Ref: Para. 65)

A121. Examples of exceptional circumstances include facts which become known to the practitioner after the date of the assurance report but which existed at that date and which, if known at that date, might have caused the GHG statement to be amended or the practitioner to modify the conclusion in the assurance report, for example, the discovery of a significant uncorrected error. The resulting changes to the audit documentation are reviewed in accordance with the firm's policies and procedures with respect to review responsibilities as required by ISQC 1, with the engagement partner taking final responsibility for the changes.²¹

Assembly of the Final Engagement File (Ref: Para. 66)

A122. ISQC 1 (or national requirements that are at least as demanding) requires firms to establish policies and procedures for the timely completion of the assembly of engagement files.²² An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the assurance report.²³

Engagement Quality Control Review (Ref: Para. 68)

A123. Other matters that may be considered in an engagement quality control review include:

- The engagement team's evaluation of the firm's independence in relation to the engagement.
- Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations.
- Whether engagement documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached.

²¹ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, paragraphs 32–33

²² ISQC 1, paragraph 45

²³ ISQC 1, paragraph A54

Forming the Assurance Conclusion

Description of the Applicable Criteria (Ref: Para. 71(d))

- A124. The preparation of the GHG statement by the entity requires the inclusion of an adequate description of the applicable criteria in the explanatory notes to the GHG statement. That description advises intended users of the framework on which the GHG statement is based, and is particularly important when there are significant differences between various criteria regarding how particular matters are treated in a GHG statement, for example: which emissions deductions are included, if any; how they have been quantified and what they represent; and the basis for selecting which Scope 3 emissions are included, and how they have been quantified.
- A125. A description that the GHG statement is prepared in accordance with particular criteria is appropriate only if the GHG statement complies with all the requirements of those criteria that are effective during the period covered by the GHG statement.
- A126. A description of the applicable criteria that contains imprecise qualifying or limiting language (for example, “the GHG statement is in substantial compliance with the requirements of XYZ”) is not an adequate description as it may mislead users of the GHG statement.

Assurance Report Content

Illustrative Assurance Reports (Ref: Para. 73)

- A127. Appendix 2 contains illustrations of assurance reports on GHG statements incorporating the elements set forth in paragraph 73.

Information Not Covered by the Practitioner’s Conclusion (Ref: Para. 73(c))

- A128. To avoid misunderstanding and undue reliance on information that has not been subject to assurance, where the GHG statement includes information that is not covered by the practitioner’s conclusion, that information and the assured information are ordinarily identified as such in the GHG statement itself, as well as being identified in the practitioner’s assurance report.

Emissions Deductions (Ref: Para. 73(f))

- A129. The wording of the statement to be included in the assurance report when the GHG statement includes emissions deductions may vary considerably depending on the circumstances.
- A130. The availability of relevant and reliable information in relation to offsets and other emissions deductions varies greatly and, therefore, so does the evidence available to practitioners to support entities’ claimed emissions deductions.
- A131. Because of the varied nature of emissions deductions and the often reduced number and nature of procedures that can be applied to emissions deductions by the practitioner, this ISAE requires identification in the assurance report of those emissions deductions, if any, that are covered by the practitioner’s conclusion, and a statement of the practitioner’s responsibility with respect to them.

A132. A statement of the practitioner’s responsibility with respect to emissions deductions may be worded as follows when the emissions deductions are comprised of offsets: “The GHG statement includes a deduction from ABC’s emissions for the year of yyy tonnes of CO_{2-e} relating to offsets. We have performed procedures as to whether these offsets were acquired during the year, and whether the description of them in the GHG statement is a reasonable summary of the relevant contracts and related documentation. We have not, however, performed any procedures regarding the external providers of these offsets, and express no opinion about whether the offsets have resulted, or will result, in a reduction of yy tonnes of CO_{2-e}.”

Use of the Assurance Report (Ref: Para. 73(g)(iii))

A133. As well as identifying the addressee of the assurance report, the practitioner may consider it appropriate to include wording in the body of the assurance report that specifies the purpose for which, or the intended users for whom, the report was prepared. For example, when the GHG statement will be lodged on the public record, it may be appropriate for the explanatory notes to the GHG statement and the assurance report to include a statement that the report is intended for users who have a reasonable knowledge of GHG related activities, and who have studied the information in the GHG statement with reasonable diligence and understand that the GHG statement is prepared and assured to appropriate levels of materiality.

A134. In addition, the practitioner may consider it appropriate to include wording that specifically restricts distribution of the assurance report other than to intended users, its use by others, or its use for other purposes.

Description of the Practitioner’s Responsibility (Ref: Para. 73(h)(ii))

A135. The practitioner’s report in a reasonable assurance engagement is ordinarily in the short-form, that is, it follows a standard wording and only briefly describes procedures performed. This is because, in a reasonable assurance engagement, describing in any level of detail the specific procedures performed would not assist users to understand that, in all cases where an unmodified report is issued, sufficient appropriate evidence has been obtained to enable the practitioner to express a conclusion in the positive form.

A136. In a limited assurance engagement, however, the assurance that the practitioner obtains varies depending on the procedures performed. It is important therefore that the summary be written in an objective way that allows intended users to understand the work done as the basis for the practitioner’s conclusion. In most cases this will not involve detailing the entire work plan, but on the other hand it is important for it not to be so summarized as to be ambiguous, nor written in a way that is overstated or embellished.

Description of the Practitioner’s Responsibility (Ref: Para. 73(k))

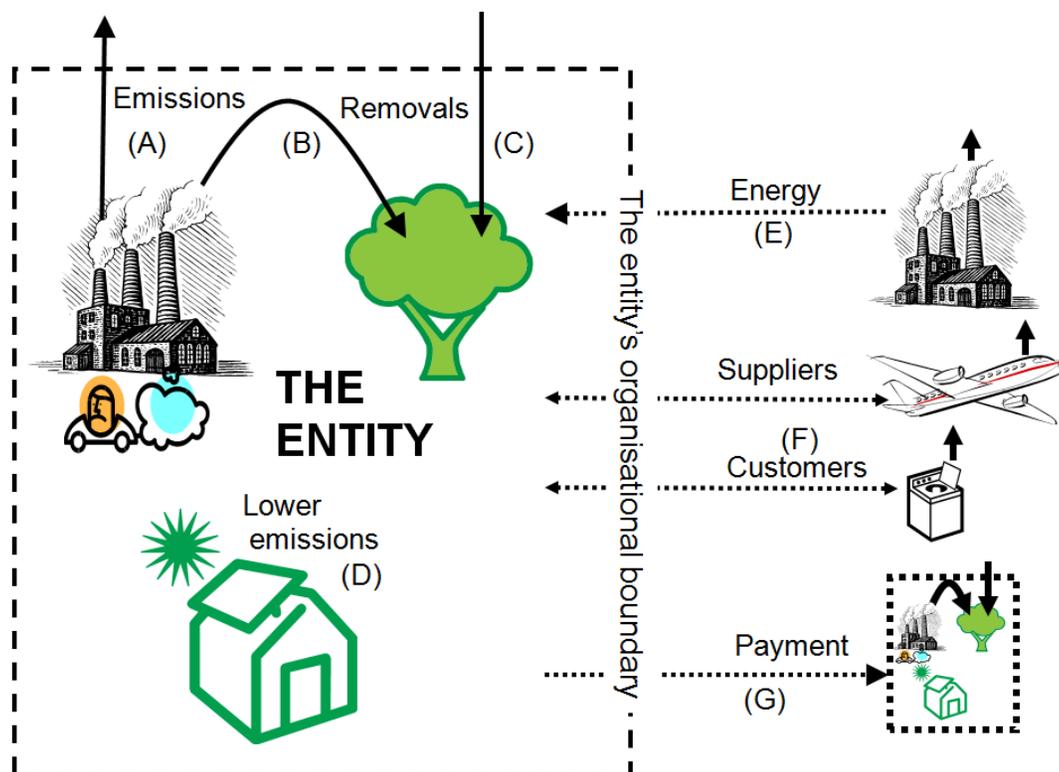
A137. The practitioner’s signature is either in the name of the practitioner’s firm, the personal name of the practitioner or both, as appropriate for the particular jurisdiction. In addition to the practitioner’s signature, in certain jurisdictions, the practitioner may be required to declare in the practitioner’s report the practitioner’s professional designation

or the fact that the practitioner or firm, as appropriate, has been recognized by the appropriate licensing authority in that jurisdiction.

Emphasis of Matter Paragraphs and Other Matter Paragraphs (Ref: Para. 74)

- A138. A widespread use of Emphasis of Matter or Other Matter paragraphs diminishes the effectiveness of the practitioner's communication of such matters.
- A139. An Emphasis of Matter paragraph may be appropriate when, for example, different criteria have been used than in previous years and this has had a fundamental effect on reported emissions, or a system breakdown for part of the period being accounted for means that extrapolation was used to estimate emissions for that time and this has been stated in the GHG statement.
- A140. An Other Matter paragraph may be appropriate when, for example, the scope of the engagement has changed significantly from the previous period and this has not been stated in the GHG statement.
- A141. The content of an Emphasis of Matter paragraph includes a clear reference to the matter being emphasized and to where relevant disclosures that fully describe the matter can be found in the GHG statement.
- A142. The content of an Other Matter paragraph reflects clearly that such other matter is not required to be presented and disclosed in the GHG statement. Paragraph 74 limits the use of an Other Matter paragraph to matters relevant to users' understanding of the engagement, the practitioner's responsibilities or the assurance report, that the practitioner considers it necessary to communicate in the assurance report.
- A143. Including the practitioner's recommendations on matters such as improvements to the entity's information system in the assurance report may imply that those matters have not been appropriately dealt with in preparing the GHG statement. Such recommendations may be communicated, for example, in a management letter or in discussion with those charged with governance. Considerations relevant to deciding whether to include recommendations in the assurance report include whether their nature is relevant to the information needs of intended users, and whether they are worded appropriately to ensure they will not be misunderstood as a qualification of the GHG statement.
- A144. An Other Matter paragraph does not include information that the practitioner is prohibited from providing by laws, regulations or other professional standards, for example, ethical standards relating to confidentiality of information. An Other Matter paragraph also does not include information that is required to be provided by management.

Emissions, Removals and Emissions Deductions



A = Direct, or Scope 1, emissions (see paragraph A7).

B = Removals (emissions that are generated within the entity’s boundary but captured and stored within that boundary rather than released into the atmosphere. They are ordinarily accounted for on a gross basis, that is, as a Scope 1 emission and a removal) (see paragraph A13).

C = Removals (GHGs the entity has removed from the atmosphere) (see paragraph A13).

D = Actions the entity takes to lower its emissions. Such actions might reduce Scope 1 emissions (for example, using more fuel efficient vehicles), Scope 2 emissions (for example, installing solar panels to reduce the quantity of purchased electricity), or Scope 3 emissions (for example, reducing business travel or selling products that require less energy to use). The entity might discuss such actions in the explanatory notes to the GHG statement, but they only affect the quantification of emissions on the face of the entity’s GHG statement to the extent that reported emissions are lower than they would otherwise be or they constitute an emissions deduction in accordance with the applicable criteria (see paragraph A10).

E = Scope 2 emissions (see paragraph A8).

F = Scope 3 emissions (see paragraph A9).

G = Emissions deductions, including purchased offsets (see paragraphs A10–A12).

Illustrations of Assurance Reports on GHG Statements**Illustration 1:****Circumstances include the following:**

- **Reasonable assurance engagement.**
- **The entity's GHG statement contains no Scope 3 emissions.**
- **The entity's GHG statement contains no emissions deductions.**

INDEPENDENT REASONABLE ASSURANCE REPORT ON ABC'S GREENHOUSE GAS (GHG) STATEMENT

[Appropriate Addressee]

Report on GHG Statement (*this heading not needed if this is the only section*)

We have undertaken a reasonable assurance engagement of the accompanying GHG statement of ABC for the year to December 31, 20X1, comprising the Emissions Inventory and the Explanatory Notes on pages xx–yy.

ABC's Responsibility for the GHG Statement

ABC is responsible for the preparation of the GHG statement in accordance with [*applicable criteria*²⁴], applied as explained in Note 1 to the Emissions Inventory. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of a GHG statement that is free from material misstatement, whether due to fraud or error.

GHG quantification is subject to uncertainty because of such things as emissions factors that are used by mathematical models to calculate emissions, and the inability of those models to precisely characterize under all circumstances the relationships between various inputs and the resultant emissions because of incomplete scientific knowledge.

Independence, Quality Control and Expertise

We have complied with the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

²⁴ [*Applicable criteria*] are available for free download from www.#####.org.

In accordance with International Standard on Quality Control 1,²⁵ [name of firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

This engagement was conducted by a multidisciplinary team including assurance practitioners, engineers and environmental scientists.

Our Responsibility

Our responsibility is to express an opinion on the GHG statement based on the evidence we have obtained. We conducted our reasonable assurance engagement in accordance with International Standard on Assurance Engagements 3410, *Assurance Engagements on Greenhouse Gas Statements*, issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain reasonable assurance about whether the GHG statement is free from material misstatement.

A reasonable assurance engagement with respect to a GHG statement involves performing procedures to obtain evidence about the quantification of emissions, and about the other information disclosed in the GHG statement. The procedures selected depend on the practitioner's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error, in the GHG statement. In making those risk assessments, we considered internal control relevant to ABC's preparation of the GHG statement. A reasonable assurance engagement also includes:

- Assessing the suitability in the circumstances of ABC's use of [applicable criteria], applied as explained in Note 1 to the Emissions Inventory, as the basis for preparing the GHG statement;
- Evaluating the appropriateness of quantification methods and reporting policies used and the reasonableness of estimates made by ABC; and
- Evaluating the overall presentation of the GHG statement.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the GHG statement for the year to December 31, 20X1 is prepared, in all material respects, in accordance with the [applicable criteria] applied as explained in Note 1 to the Emissions Inventory.

Report on Other Legal and Regulatory Requirements (*applicable for some engagements only*)

[Form and content of this section will vary depending on the nature of the practitioner's other reporting responsibilities.]

²⁵ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

[Practitioner's signature]

[Date of the assurance report]

[Practitioner's address]

Illustration 2:**Circumstances include the following:**

- **Limited assurance engagement.**
- **The entity's GHG statement contains no Scope 3 emissions.**
- **The entity's GHG statement contains no emissions deductions.**

INDEPENDENT LIMITED ASSURANCE REPORT ON ABC'S GREENHOUSE GAS (GHG) STATEMENT

[Appropriate Addressee]

Report on GHG Statement (*this heading not needed if this is the only section*)

We have undertaken a limited assurance engagement of the accompanying GHG statement of ABC for the year to December 31, 20X1, comprising the Emissions Inventory and the Explanatory Notes on pages xx–yy.

ABC's Responsibility for the GHG Statement

ABC is responsible for the preparation of the GHG statement in accordance with [*applicable criteria*²⁶], applied as explained in Note 1 to the Emissions Inventory. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation of a GHG statement that is free from material misstatement, whether due to fraud or error.

GHG quantification is subject to uncertainty because of such things as emissions factors that are used by mathematical models to calculate emissions, and the inability of those models to precisely characterize under all circumstances the relationships between various inputs and the resultant emissions because of incomplete scientific knowledge.

Independence, Quality Control and Expertise

We have complied with the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants, which includes independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

In accordance with International Standard on Quality Control 1,²⁷ [*name of firm*] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

This engagement was conducted by a multidisciplinary team including assurance practitioners, engineers and environmental scientists.

²⁶ [*Applicable criteria*] are available for free download from www.#####.org.

²⁷ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

Our Responsibility

Our responsibility is to express a limited assurance conclusion on the GHG statement based on the procedures we have performed. We conducted our limited assurance engagement in accordance with International Standard on Assurance Engagements 3410, *Assurance Engagements on Greenhouse Gas Statements*, issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform this engagement to obtain limited assurance about whether the GHG statement is free from material misstatement.

A limited assurance engagement with respect to a GHG statement involves performing procedures regarding the quantification of emissions, and other information disclosed in the GHG statement.

The procedures performed depend on the practitioner's judgment, but their nature is different from, and their extent is substantially less than, a reasonable assurance engagement, and consequently they do not enable us to obtain the assurance necessary to become aware of all significant matters that might be identified in a reasonable assurance engagement.

Our procedures on this engagement included: [*insert a summary of the procedures written in an objective way that allows intended users to understand the work done as the basis for the practitioner's conclusion. In most cases this will not involve detailing the entire work plan, but on the other hand it is important for it not to be so summarized as to be ambiguous, nor written in a way that is overstated or embellished*].

Limited Assurance Conclusion

On the basis of the procedures we have performed nothing has come to our attention that causes us to believe the GHG statement for the year to December 31, 20X1 is not prepared, in all material respects, in accordance with the [*applicable criteria*] applied as explained in Note 1 to the Emissions Inventory.

Report on Other Legal and Regulatory Requirements (*applicable for some engagements only*)

[Form and content of this section will vary depending on the nature of the practitioner's other reporting responsibilities.]

[Practitioner's signature]

[Date of the assurance report]

[Practitioner's address]



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IAASB Proposes Assurance Standard to Strengthen Reporting on Greenhouse Gases

(New York/January 11, 2011) (*New York/January 11, 2011*) – The International Auditing and Assurance Standards Board (IAASB) today released for comment proposed new International Standard on Assurance Engagements (ISAE) 3410, [Assurance Engagements on Greenhouse Gas Statements](#).

“The monetary value of carbon trading transactions around the world is in the billions and continuing to increase exponentially. This has led to a strong and growing need for mechanisms to enhance the reliability of the underlying information used in these transactions—and this proposed standard is an important part of fulfilling that need,” said Prof. Arnold Schilder, IAASB chairman. “Disclosure of emissions information is also increasingly being required by regulation or presented on a voluntary basis to inform investors, consumers, and others,” Schilder added. “For example, it is becoming more common to include detailed emissions information in company sustainability reports. Providing assurance to enhance the reliability of information for regulatory and voluntary reporting is also important.”

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Proposed ISAE 3410 has been developed through a robust program of consultation, including a series of global roundtables and feedback received on an earlier Consultation Paper. The proposed standard addresses the practitioner's responsibilities in identifying, assessing, and responding to risks of material misstatement, and contains illustrative assurance reports on greenhouse gas statements. The proposed requirements and guidance also recognize that most engagements will be undertaken by a multidisciplinary team, so they address the need for the assurance practitioner to integrate experts—in engineering or environmental science, for example—into various stages of the engagement.

“The proposed standard can be applied to a broad range of circumstances, including emissions from electricity used at a single office; emissions from complex physical or chemical processes at several facilities; or emissions calculated using information from multiple entities in a supply chain,” explained IAASB Technical Director James Gunn. He noted, “Importantly, the proposed standard covers both ‘reasonable assurance’ and ‘limited assurance’ engagements for both of which demand is increasingly evident in the marketplace.”

How to Comment

The IAASB invites all stakeholders to comment on its proposals. To access the exposure draft or submit a comment, visit the IAASB's website at www.iaasb.org/ExposureDrafts.php. Comments on the exposure draft are requested by **June 10, 2011**.

About the IAASB

The IAASB (<http://www.iaasb.org/>) develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance. The structures and processes that support the operations of the IAASB are facilitated by IFAC.

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