



Mr. James Gunn
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IAASB
IFAC
545 Fifth Avenue, 14th Floor
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USA

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Ref.: AUD/HvD/HB/SH

Dear Mr. Gunn,

Re: FEE Comments on the IAASB Consultation Paper on Assurance on a Greenhouse Gas Statement

FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the IAASB Consultation Paper on Assurance on a Greenhouse Gas (GHG) Statement.

FEE acknowledges that the challenge of sustainability is becoming widely recognised of which reliable GHG information is an important part for decision-making by management, investors, stakeholders, policymakers and regulators. FEE believes that the increased debate and the growth in reporting on sustainability and greenhouse gas issues by the world's most influential corporations and institutions have been such that, at this time, there is a clear public interest case for a specific standard on assurance on sustainability and greenhouse gas reporting. FEE believes that the accountancy profession has a crucial role to play in ensuring the quality, reliability and credibility of all management information, whether financial or non-financial, internal or external. Our profession can contribute to ensuring that this information is useful to business decision-making in line with strategic objectives and good governance based on a sustainability framework. FEE believes that reports provided by independent practitioners, whose work is monitored by a quality assurance system, enhance the credibility of the information reported by an organisation. FEE also believes that the involvement of an independent practitioner, in assurance services or in separate consultancy services, can allow an organisation to benefit from their external expertise and experience and as such improve the quality of sustainability reports and result in positive changes in the organisation itself.

FEE would therefore encourage all stakeholders, including standard setters, to work towards achieving a rigorous and trusted unified global reporting regime that can help to achieve a reduction in GHG emissions. FEE believes that in this context it is important that the IAASB extends the coverage of its standards in the sustainability area to reflect market demands.

FEE has previously called upon the IAASB to develop standards on sustainability assurance, notably a general standard on assurance on sustainability reporting. We therefore commend the IAASB for having published this Consultation Paper on Assurance on a GHG Statement as FEE believes that it is in the interest of all involved parties that approaches to assurance in relation to GHG statements are standardised.

Our main comments on the IAASB Consultation Paper on GHG Statements are summarised below:

- (1) The issue of whether a standard on assurance on GHG Statements should be a stand-alone standard so that it can be used by a wider group of experts outside the accountancy profession or be a standard under ISAE 3000¹. FEE is of the view that the GHG standard should in the first place aid the accountancy profession and be a specific technical standard under ISAE 3000 as the umbrella standard. FEE is aware that the revision of ISAE 3000 might not be finalised in the near future and is therefore of the view that a stand-alone ISAE addressing the issues included in the working draft on assurance on GHG Statements is acceptable as an interim solution but should be revised once the revision of ISAE 3000 is completed.
- (2) Limited assurance has been scoped out of the working draft as more debate within the IAASB is needed. Limited assurance is expected to be discussed as part of the revision of ISAE 3000. In practice, however, limited assurance is often sought in GHG statement engagements so there is an urgent need for the standard on GHG statements to also deal with limited assurance in addition to reasonable assurance. In the absence of revised ISAE 3000, FEE is of the view that some guidance on limited assurance should be included in the standard on assurance on GHG statements as a short term solution.

Our detailed comments and responses to the questions set out in the IAASB Consultation Paper are included in the Appendix attached hereafter.

For further information on this letter, please contact Mrs. Hilde Blomme at +32 2 285 40 77 or via email at hilde.blomme@fee.be from the FEE Secretariat.

Yours sincerely,



Hans van Damme
President

Encl.

¹ ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information"

APPENDIX

This appendix contains FEEs detailed comments and responses to the questions set out in the IAASB Consultation Paper on assurance on GHG statements.

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

Working in multidisciplinary teams is embedded in sustainability related work. Facilitating the operation of multidisciplinary teams is equally crucial in relation to work on GHG statements. Addressing the issues surrounding practitioners involved with assurance on GHG statements working together with competent members of other groupings is therefore highly relevant.

However, FEE is of the view that the IAASB should currently focus on standard setting for those that are within their current remit (professional accountants or members of IFAC member bodies performing assurance and auditing work). Currently, it does not seem within its remit to set requirements in addition to those applying to professional accountants, for instance in relation to accreditation, competence, experience, expertise, etc. At the same time, the existing link between assurance standards and other IFAC pronouncements, including ISQC 1², the IESBA Code of Ethics and Education Standards should be retained in drafting this assurance standard on GHG statements.

Although FEE is of the view that the IAASB at this point in time should not facilitate the use of their standards by other groups, the IAASB should not (and cannot) prevent its standards being used by parties other than professional accountants.

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

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

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

As indicated earlier, FEE would prefer that ISAE 3000 is developed as an umbrella standard with the standard on assurance on GHG statements addressing the specific requirements in relation to GHG. This would ensure that the future standard on assurance on GHG statements is much more focused on the more technical issues relevant to GHG statements than the current working draft standard.

² ISQC 1 "Quality control for firms that perform audits and reviews of financial statements and other assurance and related services engagements"

Developing ISAE 3000 as an umbrella standard would also ensure that the issues related to reasonable versus limited assurance in relation to GHG would be dealt with in ISAE 3000 instead of needing both a reasonable assurance and a limited assurance standard on GHG statements which again would make the standard on GHG statements more focused.

However, FEE is aware that the revision of ISAE 3000 is still in its development phase and that it is currently unclear when ISAE 3000 will be finished. Both standards are currently developed in parallel whereby the working draft standard on assurance on GHG statements also includes the general assurance aspects. FEE sees this approach as a pragmatic solution for the standard on GHG statements which is acceptable as a short term interim solution. For a sustainable and long term solution this issue would need to be readdressed when the revision of ISAE 3000 is completed.

FEE does not find it necessary to include qualification requirements in the proposed technical standard as an engagement partner in accordance with working draft paragraph 12 should not accept an engagement if the engagement partner and the engagement team do not have the appropriate expertise for the subject matter in question.

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

Developing agreed approaches to measurement protocols, disclosure parameters and assurance models will require the accounting profession to work in tandem with other specialist disciplines (such as scientists and engineers). This work needs to be done in a multidisciplinary environment where the practitioner cooperates with members of other professions in reaching the practitioner's own conclusion while the practitioner assumes the sole responsibility for the assurance given on the disclosed information.

The requirements relating to the engagement partner and engagement team in paragraph 12 in the working draft focus on multidisciplinary teams. For audits of financial statements the practitioner often relies on the experience and work of an expert in accordance with ISA 620³. FEE is of the view that a practitioner should also apply the requirements of ISA 620 when working in multidisciplinary teams for providing assurance on GHG statements. FEE would therefore encourage the IAASB to ensure that no additional requirements are imposed on either the practitioner or on other members of the engagement team than those that are applicable for practitioners and experts under ISA 620.

In line with paragraph 30(b) of ISQC 1, the engagement partner needs to have the appropriate competence, capabilities and authority to perform the role. FEE would recommend that paragraph 12 (b) of the working draft adopts similar wording as paragraph 30 (b) of ISQC 1, as also requiring *experience* of GHG quantification and reporting appears to be setting too high a threshold for individual engagement partners for such a relatively new area of work as GHG statements. An amended wording as suggested would also ensure that these requirements for the engagement partner would be in line with the

³ ISA 620 "Using the Work of an Expert"

requirements for the engagement team as a whole, as addressed in paragraph 12 (c) of the wording draft. In paragraph 12 (c) of the working draft the team should have the “appropriate competence and capabilities” which in FEEs view would also be the appropriate level for the skills for the engagement partner, as this would also be in line with the requirements to the engagement team for financial statements audits, as stated in ISA 220⁴ paragraph 14. FEE does therefore not find it justified that the requirements towards the engagement partner should be more strict compared to the engagement team as a whole.

The sole responsibility of the practitioner is highlighted in the application material to the working draft in paragraph A7⁵. FEE would recommend that this specific part of the application material is moved to paragraph 12 in the standard, as FEE finds it highly relevant to underline the responsibility of the practitioner when working in multidisciplinary teams.

Reference is also made to our response to question 18 which deals with reporting on the work done by the practitioner and in particular, the reference to multidisciplinary teams in the example Assurance Report.

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

As mentioned in our response to question 3 FEE is of the view that the requirements for using the work of an expert in relation to audits of financial statements in accordance with ISA 620 should be applicable for assurance on GHG statements as well.

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

(a) In what circumstances should an external expert be required to be independent?

(b) What measure of independence should be applied (for example, which elements of the IFAC Code, which has been written for application to accountants and accounting firms only, should be applied to external experts)?

(c) What would be the effect on practice (for example, the availability of experts) and the relevant cost and benefit considerations of requiring external experts to be independent?

FEE is of the view that the use of an external expert in the context of assurance on GHG statements should be similar to the way that auditors use the work of other experts, such as actuaries, valuation experts, lawyers, etc in audits of financial statements in accordance with ISA 620.

In accordance with paragraph A13 of ISA 620 experts are subject to relevant ethical requirements, including those pertaining to independence. In accordance with paragraph

⁴ ISA 200 “Quality control for an audit of financial statements”

⁵ From paragraph A7 of the working draft: “*The practitioner has sole responsibility for the assurance opinion expressed, and that responsibility is not reduced by the practitioner’s use of the work of a practitioner’s expert.*”

A14 of ISA 620 the objectivity of the expert is related to the possible effects that bias, conflict of interest or influence of others may have on the professional or business judgement of the auditor's expert. In addition the practitioner would have to consider applying appropriate safeguards to any threat to independence when carrying out the work on a GHG statement accepting the sole responsibility for the work done by the entire engagement team, including the expert.

Therefore, FEE does not see a need for a higher level of independence criteria to be applicable to experts in multidisciplinary teams for GHG statements compared to experts involved in audits of financial statements.

FEE is of the view that ideally the issue of independence of the external expert should be dealt with at a higher level in revised ISAE 3000 than in the specific assurance standard on GHG statements as such considerations are relevant for assurance engagements on other types of statements than a GHG statement.

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

The working draft standard is comprehensive and detailed and the costs attached to applying these requirements could be substantial.

It should be considered whether all requirements from a financial statements audit truly apply when performing reasonable assurance work on GHG statements. Individual requirements need to be considered from a cost-benefit perspective. For instance, some of the material could be addressed in a more summarised way and some material in the working draft standard could be included in the Application and Other Explanatory Material if the guidance is not considered to be universally applicable in all circumstances.

Question 7: In your judgment, are there any requirements that:

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

As mentioned in our responses to the questions the following issues would be considered relevant to include in ISAE 3000, instead of in the standard on assurance on GHG statements:

- Questions 5: Independence of the expert
- Question 10: Analytical procedures
- Question 14 (a): Materiality
- Question 17: Fraud
- Question 18: Reference to multidisciplinary teams in the assurance report
- Question 25: Use of an expert in relation to purchased offsets

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

In general, practitioners will always have to consider requirements set out in local laws and regulations when complying with IAASB requirements. Specifically for GHG statements local laws and regulations can contain detailed and specific requirements for the work to be carried out and the opinion to be given by the auditor.

FEE would therefore recommend that the standard on assurance on GHG statements contains guidance similar to paragraphs 7 and 8 of ISA 210⁶ that the practitioner can accept limitations to the work to be carried out, only if such limitations to the work or to the reporting framework are required by law or regulation.

Even if limitations are set out for the work to be done by the practitioner, the practitioner should be encouraged to apply the standard on assurance on GHG statements to the extent possible. This would, however, mean that the practitioner could not state compliance with the standard, parallel to the treatment of this situation in the ISAs, as mentioned in paragraph 11 of the working draft.

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

In Europe under the Emissions Trading System⁷ GHG statements usually include both mandatory and voluntary disclosures. Paragraphs 15 (b)(i)-(iii) of the working draft apply only to voluntary reporting engagements. It is not apparent why mandatory reporting is excluded from any of these paragraphs as responsibility for the information, criteria for reporting, etc are in our view relevant in both cases, i.e. for both mandatory and voluntary reporting.

FEE is therefore of the view that it is important to ensure that the preconditions for the engagement as noted in the named paragraphs are also applicable in case of a mixed assurance report including both mandatory and voluntary disclosures. As mentioned in the response to question 8 FEE also finds it important that if local laws and regulations conflict with the basic premise of the assurance work, it should still be possible for practitioners to apply this standard notwithstanding certain limitations to the work to be carried out and the wording of the report.

⁶ ISA 210 "Agreeing the terms of audit engagements"

⁷ http://ec.europa.eu/environment/climat/emission/index_en.htm

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

FEE is of the view that the characteristics of analytical procedures seem to be appropriately reflected in the working draft.

As indicated in our response to Question 7, it could also be considered whether these or part of these requirements would be more relevant for inclusion in the umbrella standard ISAE 3000, for instance by removing paragraphs 59 and 60 in the working draft and replacing them with a reference to material that is similar to paragraphs 5 and 7 of ISA 520 “Analytical procedures” in ISAE 3000.

In addition to these requirements related to analytical procedures, the application guidance in the working draft standard in paragraphs A63 to A65 makes the standard more focused and better explains the content of the analytical procedures specific to GHG statements. The IAASB should consider how to give such material appropriate authority in the standard.

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

In the EU, based on the Emissions Trading System, the assurance provider needs to consider the company’s monitoring of the internal control protocol. This entails that a practitioner performing a reasonable assurance engagement will follow the risk-based approach as the starting point for the work on GHG statements.

This would also be the case when the subject matter has been prepared and reported on on a voluntarily basis, as internal controls within the risk-based approach would be equally relevant.

Whether reliance can be put on the internal controls or not will be determined by the practitioners using professional judgment in the engagement circumstances for the assessment of the risks as required by paragraph 55 of the working draft. Some additional guidance could be considered with reference to paragraphs 45 and 46 of the working draft. For instance, guidance similar to paragraphs A2 and A3 of ISA 330⁸ could be relevant to include in the application material and would then be applicable in all types of engagements with mandatory and/or voluntary disclosures.

When referring to the COSO model without any modifications, FEE would recommend the IAASB to consider whether these requirements are not too far-reaching for the purposes of GHG statements.

FEE would like to mention that the comments on internal control refer to the old COSO model which has five levels of internal control. COSO has developed a new model, the

⁸ ISA 330 “The auditor’s responses to assessed risks”

Enterprise Risk Model, which has 8 levels of control which appear more relevant for consideration in this context.

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

FEE is of the view that the assertions are acceptable for risk assessment procedures as they appear to be the same as for financial statements audits with a comparability and consistency assertion added.

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

Risk assessment procedures should be performed on the GHG statement as a whole and on all the levels on which assurance is provided as for financial statement audits. However, in practice there is more focus on the individual aspects covered by the practitioner's opinion than on the GHG statement as a whole.

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

(a) The requirements and guidance refer to materiality in terms of intended users' —economic decisions. Is it appropriate for materiality with respect to a GHG statement to be limited to economic decisions, or are there other forms of decision made by various users that should be taken into account? If so, how can those decisions best be categorized? Please provide examples.

Economic decisions are relevant to materiality in the context of GHG statements albeit indirectly. In addition, FEE is of the view that other types of decisions in determining materiality could affect the information needs of users. Such other decisions could be decisions related to the responsibility for reporting on the public interest impact, environmental aspects, regulatory requirements, users' expectations and information needs in relation to the quality of the information.

The requirements related to Materiality in Planning and Performing the Engagement in paragraphs 36 and 37 of the working draft stem from ISA 320 paragraphs 10 and 11⁹. FEE supports this approach as the public interest of the various stakeholders in such greenhouse gas statements requires that materiality is introduced for appropriate stages of the engagement as is done for audits of financial statements in accordance with ISAs.

⁹ ISA 320 "Materiality in planning and performing an audit"

However, FEE believes that the requirement relating to materiality ('with engagement risk, consider when planning and performing an engagement') and associated guidance in ISAE 3000 paragraphs 22 and 23 would also be relevant for considering materiality especially in the context of the long-term goal of having ISAE 3000 as an umbrella standard covering the general requirements for GHG statements.

In this context, it could be considered whether it would be more relevant to have requirements for materiality included in ISAE 3000 instead of in the GHG standard. FEE is of the view that this issue should be addressed when revising ISAE 3000 in order to ensure consistency in the way the concept of materiality is applied in accordance with ISAs and for alternative assurance engagements in accordance with the umbrella standard of ISAE 3000.

Amongst other things, the consideration of materiality needs to include whether the opinion is to be given on the GHG statement as a whole, on particular parts thereof, or on both of these as these aspects impact on users' information needs. For example, whether carbon emissions reported upon are measured by adding up carbon-dioxide equivalents of other types of emissions may be highly relevant to the needs of certain users. FEE is of the view that this point needs to be more clearly explained. The level of materiality could be considered as more important for GHG statements than for financial statements because of the limited scope of such statements compared to financial statements which are significantly more comprehensive. A further consideration that may be appropriate is whether the GHG statement has been prepared according to general purpose or specific purpose criteria.

In addition FEE is of the view that the requirements on materiality should be more principles-based and the guidance material should be less detailed and specific, as an operational solution needs to be developed. For instance the use of percentages in paragraph A46 is not considered as appropriate in a principles-based environment.

(b) In light of the fact that GHG statements often deal with different types of emissions, is the determination of materiality in the aggregate and for particular types of emissions in the way set out in paragraph 36 of the working draft appropriate?

Subject to our response to part (a) above, FEE is of the view that the guidance material in paragraph 36 of the working draft standard is very helpful and the examples will be useful in practice.

(c) Does paragraph A39 of the working draft provide the practitioner with an appropriate frame of reference when the applicable criteria do not discuss the concept of materiality? If not, which elements of paragraph A39 are inappropriate, and why; or which other elements should be added, and why?

FEE would recommend that the third bullet in A39 is reconsidered as the common information needs of intended users as a group may be difficult to identify in practice. Paragraphs 28 and 30 of the *International Framework for Assurance Engagements* may provide useful explanations in suggesting a practical way forward for delineating the potential identity of users. In addition, regardless of whether total or assumed emissions are used, the level of materiality used can be highly judgmental, and could therefore be potentially misleading if not clearly explained.

(d) Are the assumptions about intended users stated in paragraph A41 of the working draft appropriate? If not, which assumptions are inappropriate, and why; or which other assumptions should be added, and why?

In deciding which kind of decisions are relevant for the level of materiality for users it should be considered that the intended users of GHG statements are different than of financial statements as the intended users for GHG statements can be extended to stakeholders at large whilst the intended users for financial statements are in the first place the shareholders. For the purpose of assurance engagements on GHG statements it is important that the description of the intended users sets out clear criteria for the user groups and is not too restrictive but also not too broad as it needs to be capable of application in practice. In this context paragraph 28 of The International Framework for Assurance Engagements which addresses intended users, could be relevant to consider.

(e) When the engagement covers many but not all of the component elements of a GHG statement, should materiality be based on the total emissions or on assured emissions only (WD, paragraph A44)?

FEE is of the view that materiality should be based on the presentation of the GHG statement as a whole as well as on particular emissions, where appropriate. This approach would be similar to the approach taken in paragraph 10 of ISA 320 where the specific circumstances of the entity may mean that additional materiality levels may be needed.

However, from the practitioner's viewpoint, only the portion of the GHG Statement upon which an opinion is to be given should be considered in respect of assessing materiality. In such situations it is vital that it is absolutely clear to users what is and what is not covered by the assurance opinion similar to financial statements audit reports.

(f) Is the guidance regarding quantitative and qualitative factors in paragraphs A42-A46 of the working draft appropriate? If not, which aspects of that guidance are inappropriate, and why; or which other aspects should be added, and why?

Subject to our response to (a) in respect of the use of percentages above, FEE is of the view that the guidance regarding quantitative and qualitative factors is appropriate.

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

Paragraph 43(c) of the working draft is derived from ISA 540 paragraph 8(c). However, bullet point 6 in ISA 540 paragraph 8(c) has not been included in paragraph 43(c). The omitted bullet point states "...whether and, if so, how management has assessed the effect of estimation uncertainty." FEE is of the view that it would be relevant to include this point in the assurance standard on GHG statement in order to underline management responsibility for the uncertainties in relation to GHG statements which is already highlighted in the example assurance report included in the working draft. FEE refers to its response to question 18 in relation to the example assurance report.

FEE would also recommend that the point made in A52 of the working draft about nearly all elements being subject to estimation uncertainty needs to be highlighted even more by

adding some guidance on the implications of these estimation uncertainties as GHG statements contain usually more uncertainty than financial statements.

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

The exact scope of disclosures will be defined by the applicable reporting framework. Depending on whether the particular framework is a fair presentation or a compliance only framework (both of which FEE believes ought to be covered by the standard) there may be a need, in some cases, for the practitioner to *consider* whether a framework override would be required to prevent the GHG statement from being materially misleading. In this context, application material to paragraph 106(d)(v) is needed.

In general, it should be highlighted that management is responsible for the disclosures included in the GHG statement whilst the practitioner is responsible for providing assurance on the disclosures provided by management. In this connection the practitioner will assess whether the techniques used to collect data are acceptable. The requirements applicable to the GHG statement itself can therefore not be included in the IAASB standard on GHG statements. However, FEE is generally of the view that the criteria applied by management and the related uncertainties should be properly described in the GHG statement.

In Europe, the Emissions Trading System contains different levels of accuracy and uncertainty for the mandatory part as compared to the voluntary part where usually Global Reporting Initiative (GRI) criteria are used.

Question 17: Are the definition of fraud, the requirements of paragraph 30 of the working draft, and the discussion of fraud throughout the application material sufficient and appropriate? If not, please provide details and suggestions for modification or elaboration of the working draft.

FEE finds the consideration of fraud equally important for GHG statements as for audits of financial statements. Fraud in the context of GHG statement engagements is focused on fraudulent reporting and disclosure resulting especially from understatements of GHG emissions. It is normally not about misappropriation of assets as can also be the case in the context of financial statement engagements. However, in all cases, considerations related to fraud are for practitioners all about professional scepticism which is to be maintained by the engagement partner and team throughout the engagement.

FEE is of the view that the requirements of paragraph 30 of the working draft are sufficient and appropriate. FEE appreciates that the application material in paragraph A33 of the working draft explains in more detail the risk of fraud in relation to the GHG statement itself. However, FEE would recommend that some additional application material is added to the requirements.

It could also be considered to include the material on fraud in the umbrella standard ISAE 3000 once revised and to also include a general statement related to fraud from the IESBA Code of Ethics for Professional Accountants in the revised ISAE 3000.

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

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

FEE supports the example assurance report in general and believes that it is of a suitable length. FEE has some comments to the contents of the example assurance report which more specifically deals with the reference to multidisciplinary teams, the comments on uncertainties and modified assurance reports.

In general FEE is of the view that the report should be comparable in structure and content to an audit report as required by ISA 700¹⁰, with adjustments for any specific circumstances related to GHG statements.

Multidisciplinary teams

The example assurance report includes a reference to multidisciplinary teams. When comparing the assurance report on GHG statements to an audit report on financial statements in accordance with ISA 700, the latter does not contain any reference to the composition of the engagement team. The ISA 700 approach underlines the fact that the practitioner signing the audit report accepts the sole responsibility for the conclusion of the audit as expressed in the audit report and its opinion regardless of any reliance of experts. In addition, when using the work of an expert, paragraph 14 of ISA 620 prohibits a reference to the work of the expert in the audit report, unless such a reference is required by law, and if the reference is included, the auditor should state that the reference does not reduce the auditor's responsibility for the opinion. A similar principle is applicable for group audits in accordance with paragraph 11 of ISA 600¹¹.

FEE acknowledges that the considerations for assurance reports on GHG statements could differ from audit reports on financial statements especially in light of the potential difference in the intended users of GHG statements as highlighted in our response to question 14.

However, FEE is of the view that any departures for GHG statements from the usual principles applied for financial statements under ISAs should be carefully considered before they are carried out as any departures from the normal approach should be considered with due care.

FEE understands that such references are common in practice and are used in order to underline that the conclusions of the work carried out are conducted with assistance from experts with highly skilled technical expertise in the subject matter, such as engineers and scientists. In practice this is used to inform users of the involvement of experts, which may increase their confidence in the work performed on the GHG statement and assurance

¹⁰ ISA 700 "Forming an opinion and reporting on financial statements"

¹¹ ISA 600 "Special considerations – audits of group financial statements (including the work of component auditors)"

opinion. FEE is therefore of the view that in this specific case the reference to multidisciplinary teams may therefore be in the interest of the users of the assurance report and therefore believes that such a reference is not harmful for the general approach to audit and assurance reports.

FEE would strongly recommend that similarly to ISA 600 and ISA 620 the auditor should clearly state that the reference to multidisciplinary teams does not reduce the auditor's responsibility for the opinion in the assurance report. In addition FEE is of the view that the assurance report on a GHG statement is signed by the practitioner only, regardless of the reference to multidisciplinary teams in the assurance report.

FEE is of the view that the issue of multidisciplinary teams preferably should be addressed in the umbrella standard of ISAE 3000 as the considerations regarding the use of the work of experts would be applicable to other assurance work anticipated to be developed under the umbrella standard ISAE 3000. As the work related to ISAE 3000 is ongoing, FEE would recommend that the issue is addressed in the standard on assurance on GHG statements as an interim short term solution.

Uncertainties

The example assurance report includes a section referring to "Uncertainty in the Quantification of Emissions". This section is located in the example assurance report following the opinion paragraph which makes it appear to be an emphasis of matter paragraph to be used generically in all assurance reports on GHG statements.

FEE believes that there could be situations in practice where it would not be relevant to highlight such uncertainties, for instance in cases where uncertainties related to the subject matter are not material. FEE is therefore of the view that such a generic paragraph that appears to be an emphasis of matter paragraph is not appropriate as in accordance with ISAs they should be included in the audit reports on a case by case basis.

However, FEE is of the view that the reference to uncertainties in the example assurance report could be relevant in most other circumstances. Instead of including this reference where it appears to be an emphasis of matter paragraph, FEE would recommend that the reference to uncertainties is included in the section "ABC's Responsibility for the GHG statement" as the reference to uncertainties as drafted addresses management responsibilities for these uncertainties instead of uncertainties related to the assurance work carried out by the practitioner. The section on practitioner's responsibilities should also address estimates to prevent any potential misunderstanding that the uncertainties inherent in the information can be reduced by the practitioner having performed an assurance engagement. In the section "Our Responsibilities" in the example assurance report, this is currently addressed as part of the second bullet point explaining what the engagement includes. We believe that the reference to estimates deserves more emphasis and therefore, we propose that this second bullet point is presented as follows:

"

- Evaluating the appropriateness of quantification methods and reporting policies used; and
- Evaluating the reasonableness of necessary estimates made by ABC.

"

The reference to uncertainties as part of management responsibilities and such reference within the section on practitioner's responsibilities would then appear in the assurance report in combination with either an emphasis of matter paragraph and/or qualification depending on disclosures made by management and based on the materiality of the uncertainties in question. Four different scenarios could therefore be envisioned:

- No material uncertainties exist and management has not commented on them: No reference to uncertainties is made under management responsibility and no emphasis of matter paragraph or qualification is added.
- Material uncertainties exist and management has commented on them: Reference to uncertainties under Management Responsibility is made and an emphasis of matter paragraph is added, if the auditor considers this to be required using professional judgement.
- Material uncertainties exist and management has not commented on them: Reference to uncertainties under Management Responsibility is made and the auditor would include a qualification in the assurance report.
- Material uncertainties exist and the practitioner is unable to obtain sufficient appropriate audit evidence on which to base the opinion and the practitioner therefore finds it necessary to provide a disclaimer of opinion, if this would be in accordance with any applicable law or regulation for GHG statements.

FEE would recommend that some additional application material is added in order to explain more in detail how the practitioner should apply professional judgement in situations where the entity has described the uncertainties in the GHG statement itself and when the entity has not described the uncertainties properly.

Modified assurance reports

In addition, FEE is of the view that the standard could benefit from having more than one example assurance report. FEE could see a need for three different examples (in order to show the use of emphasis of matter paragraphs and qualifications in assurance reports on GHG statements:

- One example assurance report without qualification or emphasis of matter paragraph (similar to the example in ISA 700);
- One example assurance report with a qualification (similar to Illustrations 1-3 in ISA 705 on "Modifications to the Opinion in the Independent Auditor's Report");
- One example assurance report with an emphasis of matter paragraph (similar to the illustration example in ISA 706 on "Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report").

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

An emphasis of matter paragraph is only for matters which the entity has referred to in its GHG statement and which the auditor wants to highlight. As described in our response to

question 18 FEE is of the view that the standard would benefit from having examples including emphasis of matter paragraphs similar to ISA 706.

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

FEE is of the view that a distinction between long-form and short-form GHG assurance reports should be made for GHG statements. In addition, FEE is of the view that only short-form reports are relevant for publication as FEE does not support promoting long-form reports as public assurance reports because such reports usually contain additional narrative and especially recommendations for possible improvements in the company's GHG reporting. FEE believes that the short-form reports meet the information needs of the intended users whilst the long-form reports contain information, such as recommendations, which FEE in line with the IAASB would discourage to be included.

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

As mentioned in our response to question 20 FEE agrees with the IAASB when discouraging the inclusion of recommendations in the GHG assurance report. However, some users might legally require or appreciate recommendations as part of the assurance report as they perceive them as balancing the assurance reports. For this purpose a solution similar to audit reports in accordance with ISA 700 could be considered as recommendations could be included in a second part on 'other (legal and regulatory) requirements' of the assurance report ensuring that such recommendations do not interfere with the first part of the assurance report containing the opinion.

Recommendations in the assurance report are in our view in contradiction with the concept of reasonable assurance and should also be discouraged for liability and other reasons. Instead separate management letters can be used by the practitioner to communicate any recommendations on the GHG statement to the company.

FEE has not identified any situations where it would be appropriate to include recommendations in the first part of the assurance report.

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

The European regulatory requirements regarding GHG statements in the Emissions Trading System are more compliance focused than they are based on fair presentation and include cost/benefit restrictions. Although the focus on GHG statements in Europe is

on the requirements in the Emissions Trading System and thus a compliance framework, a fair presentation framework is still relevant as companies normally report more widely on GHG emissions adding voluntary disclosures in practice.

Other legal requirements related to GHG, such as The Greenhouse Gas Protocol (World Business Council for Sustainable Development - WBCSD), Global Reporting Initiative (GRI), Framework for Carbon Disclosures (the Carbon Disclosures Standards Board) and ISO 14064 in addition to the European Trading Scheme could also be taken into account when considering a compliance framework.

Substance over form should still be the main principle for assurance on GHG statements, in particular where several disclosures are required, which would also be in conformity with the usual principles-based approach applied for ISAs, including consideration of framework overrides. This entails that the preference is that the assurance standard on GHG statements deals with fair presentation. FEE notes that draft ISAE 3402¹² is based on fair presentation criteria which can add to the general understanding for presentation and disclosure required to achieve fair presentation.

Some jurisdictions may require the fair presentation of GHG emissions by law or regulation or this may be desired for voluntary assurance engagements too where fair presentation is more relevant. FEE therefore believes that both frameworks are relevant and supports covering both fair presentation and compliance frameworks in the standard.

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

FEE believes the standard should provide requirements and guidance for cases where special purpose criteria are used.

Under the European Emissions Trading System companies are required to have a Monitoring Protocol which is comparable to the accounting policies in financial statements reporting. The Monitoring Protocol is approved by the local authorities and is therefore as such company specific. The practitioner refers to this Monitoring Protocol in the assurance report. Such a Monitoring Protocol can be seen as an example of special purpose criteria. FEE is of the view that in many cases GHG statements are prepared in accordance with special purpose criteria but used for general purposes.

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

FEE supports the working draft approach and the wording of gross presentation of emissions and deductions as set out in paragraph 52 of the consultation paper. We believe that gross presentation is very important as the exact impact and accuracy of deductions is

¹² ISAE 3402 "Assurance Reports on Controls at a Service Organization"

still under discussion which is an additional argument for gross presentation. In practice both completeness and accuracy of deductions as well as reliability of deductions which might not be high for some deductions (but not all deductions) can be a problem. However, FEE believes that this issue more appropriately should be addressed by those setting GHG reporting standards than those setting the assurance standard.

However, despite the issue of reliability of deductions, FEE is of the view that both the emissions and deductions should be presented gross in the GHG statement and deductions highlighted as required by paragraph 111(d) of the working draft.

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

A similar situation occurs in assurance engagements on service organisations and the general requirements in ISA 620 on using the work of an expert should be included or referred to in the standard on assurance on GHG statements as far as the reliance of assured offsets is concerned.

However, FEE is of the view that it could be more relevant to deal with this in the general ISAE 3000 standard instead of this specific standard on GHG statements. As a pragmatic solution in the short term a reference to the use of the work of an expert could be included in the standard on assurance on GHG statements.

Question 26: Where the GHG statement contains emissions deductions, is the treatment required by paragraph 111(d) of the working draft appropriate? If so, where in the assurance report should the required wording be situated? Would wording along the lines of that in paragraph 52 above be appropriate?

As mentioned in our response to question 24 we support the wording in paragraph 52 in the consultation paper which states that the practitioner can provide assurance if the work has been carried out.

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

Scope 3 emissions always contain more uncertainties than scope 1 and 2 emissions. FEE therefore agrees that it is appropriate to include cautionary language as the uncertainties stem from the lack of completeness related to scope 3 emissions. The wording of the assurance report needs to reflect the individual circumstances, for example, if, as described in the last sentence of paragraph A30, the practitioner is required to provide reasonable assurance but is unable to obtain sufficient appropriate evidence of scope 3 emissions this would constitute a limitation of scope and the assurance report would need to reflect this similarly to what ISAs would require. However, in case of a material

uncertainty which has been appropriately disclosed in the GHG statement and for which the auditor has obtained sufficient evidence, an emphasis of matter would be needed.

In addition to the above, with regards to the reporting of these uncertainties we refer to our response to question 18.

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

As FEE supports cautionary language as stated in our response to question 27 we also support adding wording regarding uncertainties to the report.

Comments on the example assurance report are included in our response to question 18, to which we refer.

However, it should be highlighted in the working draft that if the company itself has scoped out scope 3 emissions, the practitioner should not be required to repeat such an omission.

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

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

Direct reporting on GHG statements is quite uncommon in Europe and FEE does therefore not have any examples of such reports. However, FEE agrees that it needs to be clear that the working draft standard deals principally with assertion-based engagements, although it should not preclude direct reporting engagements as these may be prescribed by law or regulation in certain jurisdictions.

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

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

Limited assurance engagements on GHG statements are frequently occurring in practice both as a result of legislative requirements in various jurisdictions and as a result of voluntary reporting of GHG disclosures, as highlighted in the consultation paper.

FEE believes that the main issue when considering limited assurance for GHG statements is to clearly differentiate it from reasonable assurance in order to ensure that users understand the usefulness and the relevance of both kinds of assurance in practice.

Additionally, FEE believes that a standard for limited assurance engagements should clearly describe the extent of work effort required so that users can readily appreciate the level of assurance obtained by the practitioner.

However, it is important that the decision to perform a reasonable or limited assurance engagement is not based on uncertainties related to the subject matter in question.

In addition, users' understanding of the limited assurance report will be enhanced if there is a consistent approach across the various circumstances where a limited assurance engagement is performed. For example, shareholders familiar with a review of interim financial statements involving analytical procedures and inquiry of management in accordance with ISRE 2410¹³ will understand a similar approach to a limited assurance engagement on a GHG statement with limited assurance given that the wording of the assurance statements is similar.

When further developing the current IAASB projects on limited assurance in ISRE 2400¹⁴ and ISAE 3000 such consistency amongst the different standards and statements where limited assurance are considered, should be addressed and explained. Further developments of issues related to limited assurance on GHG statements could require some additional research to obtain a better understanding of the current practice before procedures for limited assurance engagements are formalised as requirements in a future standard. The research could focus on analysing how limited assurance is used in various circumstances, such as for GHG statements in accordance with the European Trading System compared to GHG statements from other jurisdictions.

In practice it occurs regularly that different scopes of emissions to be reported do not require the same level of assurance. For instance, it can be the case that scope 3 emissions would normally require limited assurance, whilst scope 1 and 2 emissions can require reasonable assurance. However, it is still required that all emissions, regardless of the level of scope and the level of assurance should be reported in the same assurance report. In case of such mixed assurance reports, some additional guidance on how the practitioner should report would be relevant, for instance by including an example assurance report that contains the two different levels of assurance for the GHG statement.

As recommended for reasonable assurance it would similarly be appropriate to define the general requirements for limited assurance in another standard than the standard on reasonable assurance on GHG statements. Therefore, limited assurance should be defined in an umbrella standard, which could be ISAE 3000 with the specific requirements

¹³ ISRE 2410 "Review of interim financial information performed by the independent auditor of the entity"

¹⁴ ISRE 2400 "Engagements to review financial statements"

related to limited assurance on GHG statements in a sub-standard. FEE recommends that the project on ISRE 2400 should also be taken into consideration in this respect.

However, as limited assurance on GHG statements is commonly used in practice a short-term pragmatic solution is necessary and the requirements on limited assurance could therefore be inserted in this standard on assurance on GHG statements which then would cover both reasonable and limited assurance as a short-term solution. An example assurance report for limited assurance would be relevant to include in the standard, also in this short-term solution.

Difference between reasonable and limited assurance should be explained in the standard. For each requirement the differences could be explained either in the form of a table or in a separate section. Some of the areas that could be highlighted are:

- Materiality should be considered in the same way under both assurance levels. It is the general view that the level of materiality is the same regardless of whether the engagement is a reasonable assurance or limited assurance engagement.
- The level of risk is higher for limited assurance than for reasonable assurance and this should be taken into account when performing the assessment.