

February 26, 2010

Mr. James Gunn
Technical Director, Professional Standards, IAASB
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Re: Consultation Paper: Assurance on a Greenhouse Gas Statement

Dear Mr. Gunn:

The American Institute of Certified Public Accountants (AICPA) is pleased to respond to the questions in the above referenced consultation paper regarding the working draft of the proposed International Standard on Assurance Engagements (ISAE) "Assurance on a Greenhouse Gas Statement." We commend the International Auditing and Assurance Standards Board (IAASB) on its work in developing a proposed ISAE that would establish requirements and provide guidance to practitioners reporting on a greenhouse gas statement.

As stated in our response to question 8, we believe that the IAASB should also develop an assurance standard for moderate or limited assurance engagements on greenhouse gas statements. Additionally, we believe that there is also a need for an assurance standard that provides practical guidance on applying ISAE 3000 to sustainability reports.

The appendix to this letter provides our responses to the questions presented in the consultation paper.

Thank you for the opportunity to present our views on the working draft of the proposed ISAE. If you have any questions regarding the comments in this letter, please contact Judith Sherinsky at +1-212-596-6031, jsherinsky@aicpa.org.

Respectfully submitted,

/s/ Darrel Schubert

Chair, Auditing Standards Board

Appendix

Responses to Questions in the Consultation Paper, “Assurance on a Greenhouse Gas Statement”

The Engagement Partner and the Team

Skills Knowledge and Experience of the Engagement Partner

Questions

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.

An integral part of the performance of an assurance engagement is adherence to a code of professional conduct and to quality control standards such as the IFAC *Code of Ethics for Professional Accountants* and ISQC 1, “Quality Control For Firms That Perform Audits And Reviews Of Financial Statements, And Other Assurance And Related Services Engagements,” designed to ensure the quality of the work performed. Because individuals other than professional accountants in public practice are not subject to these additional requirements, only professional accountants should be permitted to report under the proposed ISAE.

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.

In general, we believe that the requirements and guidance regarding the skills, knowledge, and experience of an engagement partner included in paragraphs 12 and A5-A12 of the working draft are sufficient. However, we recommend that the following sentence be added in the application guidance to clarify the extent of knowledge required of the engagement partner:

Regardless of whether the practitioner uses a practitioner’s expert, the practitioner needs to possess sufficient competence and knowledge to challenge management’s assumptions.

Multidisciplinary Teams

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?

Paragraph 10(o) of the working draft states that the term *practitioner* refers to the person or persons conducting the engagement, usually the engagement partner or other members of the engagement team or, as applicable, the firm. Paragraph 10(p) of the working draft defines a *practitioner's expert* as either a practitioner's internal expert (who is a partner or staff, including temporary staff, of the practitioner's firm or a network firm), or a practitioner's external expert.

Both definitions are consistent with the definitions in "Glossary of Terms" in the International Federation of Accountants Handbook. Further, the consultation paper reflects the concepts of International Statement on Auditing (ISA) 620, "Using the Work of an Auditor's Expert." However, because the definition of *practitioner* also encompasses an internal expert, such construct creates some unintended issues for these engagements, in which the structure of the engagement team could significantly differ from that of an audit. In the latter, the internal expert may have an important role in the financial statement audit, but the internal expert's role would likely be limited to a specific subject matter rather than affecting the entire audit more pervasively. In the former, an internal expert could conduct a much more significant part of the examination described in the proposed ISAE under the direction of the engagement partner.

The overlap of the definitions of *practitioner* and *internal expert* could make it acceptable for the practitioner's internal expert to evaluate his or her own capabilities, competence, and objectivity based on the requirement in paragraph 84 of the working draft, that the practitioner evaluate whether the practitioner's expert has the necessary competence, capabilities, and objectivity for the practitioner's purposes. [Note: in any event, it should not be necessary for the practitioner to evaluate the internal expert's objectivity because an internal expert would be required to be independent, while an external expert would not.] Clarification is needed as to whether the proposed ISAE intends to require a member of the engagement team other than the practitioner's expert to evaluate the competence, capabilities, and objectivity of the practitioner's expert.

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

No. The guidance on objectivity is sufficient; however, we believe that internal experts should be excluded from the objectivity considerations for the reason stated in our response to question 3.

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)?

In a financial statement audit, the external expert is not required to be independent, nor is the auditor required to evaluate the independence of an external expert. With respect to an external expert, the practitioner's responsibility under the working draft of the proposed ISAE should be no more onerous than it is in a financial statement audit. In addition, it is questionable how an independence framework could be applied to external experts and whether such a framework could be governed.

- (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?

ISA 620, "Using the Work of an Auditor's Expert," requires the auditor to evaluate whether the auditor's external expert has the necessary objectivity for the auditor's purposes, and identifies what that evaluation should include. It does not, however, require the practitioner to determine whether the external expert is independent. Furthermore, we believe that it is not feasible to require the practitioner to evaluate the independence of external experts.

Number and Nature of Requirements, and Cost and Benefit Considerations

Questions

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?

We have not performed a thorough comparison of ISAE 3000 to the proposed ISAE, but did not note any requirements in the working draft of the proposed ISAE that go beyond the general requirements of ISAE 3000, "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information." One possible approach would be to include specific application guidance that addresses the subject matter with cross-references to the general requirements in ISAE 3000, rather than repeating such requirements in this ISAE. We recognize, however, that many practitioners may find it more useful for a standard on providing assurance on a GHG statement to address all aspects of the engagement in one place.

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?

We recommend that the working draft include guidance addressing issues related to the following:

- Restatements to correct an error in the prior year information, including assurance considerations.

- Assurance considerations related to adjustments to the prior year's information as a result of changes in the measurement methodology (e.g., whether the entity needs to recast prior period information and whether the practitioner needs to perform procedures thereto).
- Association with information included in the GHG statement that is not covered by the practitioner's report, such as prior period information, offsets or reductions, or Scope 3 emissions.

We also believe that a more in-depth discussion regarding differentiating between estimates, uncertainties, and errors would be helpful.

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

Some of the topics addressed in the working draft, such as engagement acceptance and continuance, are applicable to all assurance engagements and are covered in ISAE 3000. We recommend that the IAASB consider replacing generic material with cross-references to the related requirements in ISAE 3000, and retaining only material that is unique to the subject matter of the proposed ISAE. However, we do recognize that a self-contained standalone document that addresses the specific subject matter of assurance on GHG statements may be most useful to practitioners.

Relationship with Regulatory Requirements

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?

We are not aware of such matters. However, we believe that there may be a number of regulatory regimes that require limited assurance and, accordingly, we recommend that the IAASB consider a future project that addresses performing and reporting on limited assurance engagements related to GHG statements, and clarifies when such engagements should not be performed. For example, we believe that such a document should clarify that a practitioner should not provide a limited assurance engagement if he or she believes that there would be insufficient evidence for an examination engagement (e.g., an entity that lacks controls over the preparation of its GHG statement).

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?

We believe that the requirements in the proposed ISAE should be applied the same regardless of whether the entity is required to report, voluntarily reports, is required to engage a practitioner to report on the GHG statement, or is not required to do so. Accordingly, all of the requirements applicable to engagements in which an entity voluntarily prepares a GHG statement should also be applicable to engagements in which the entity is required to report. For example, in all engagements, the practitioner should be required to obtain written acknowledgement from management of its responsibility for the fair presentation of the GHG statement. If management is unwilling to do so, even in the context of a regulatory requirement, the practitioner probably should not accept or continue

the engagement. If the IAASB believes there are reasons for differences in the requirements for voluntary and regulatory reporting, the rationale should be presented in the proposed ISAE.

The Assurance Process

Analytical procedures

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?

The paragraphs on analytical procedures used in GHG statement assurance engagements are appropriate.

Internal Control

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.

We believe the approach is appropriate.

Assertions

Questions

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?

Yes, we believe that risk assessment procedures should be performed at the assertion level. Further, we believe that the requirements in paragraph A49 are appropriate.

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?

We believe that some of the most significant risks at the GHG statement level may be the following:

- Omitting sources of greenhouse gas emissions, either inadvertently or purposefully to present the situation in a more positive light

- Management and shareholder pressures to reduce GHG emissions
- Inappropriately presenting statements for more than one year that are not comparable.
- Risk of fraud in connection with the monetization of carbon through emissions trading markets (cap and trade)

Materiality

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.

We believe it is appropriate for materiality with respect to GHG statements to be limited to intended users' economic decisions.

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

We believe that the determination of materiality in the aggregate and for particular types of emissions set out in paragraph 36 is appropriate.

(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?

We believe that paragraph A39 provides the practitioner with an appropriate frame of reference when the applicable criteria do not discuss the concept of materiality.

(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?

We believe that the assumptions about intended users stated in paragraph A41 are appropriate.

(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)?

We believe that when the engagement covers many, but not all, of the component elements of a GHG statement, materiality should be based on the portion of the GHG statement that is covered by the assurance engagement.

(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?

We believe that the guidance regarding quantitative and qualitative factors in paragraphs A42-A46 is appropriate.

Estimates and Uncertainty

Questions

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.

We believe that the manner in which the working draft has treated assurance with respect to estimates is appropriate, except for paragraph 106(d)(iii), which is stated as being applicable only to voluntary presentations. We believe that this requirement should be applicable to all presentations.

To be useful to practitioners, the term “surrogate activity data” in paragraph A53 should be defined or additional context should be provided.

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?

We believe that disclosure regarding estimates in the GHG statement is adequately covered in paragraphs 107, A85, and A87. Further, we believe that the working draft should not identify disclosure requirements but rather should provide guidance to the practitioner on considering the adequacy of disclosures in the GHG statement.

Fraud

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.

We believe that the definition of fraud, the requirements in paragraph 30, and the discussion of fraud throughout the application material is sufficient and appropriate.

Reporting

The Assurance Report

Questions

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?

We believe that the illustrative report is of a suitable length, and appropriately structured and worded to meet the needs of users with respect to the matters listed in question 18. However, we recommend that paragraph 111(c) of the working draft be revised so that the identification of any information that is not covered by the practitioner's report is an optional rather than required element of the report. Although we believe that it is good practice to alert report users to matters not covered by the practitioner's report, the practitioner should not be required to do so. The practitioner's report should focus on what is covered by the report and if the practitioner believes that the report is not sufficiently clear, the practitioner should also indicate what is not covered by the practitioner's report.

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?

We believe that the ISAE should include guidance with respect to Emphasis of Matter paragraphs and Other Matter paragraphs adapted from ISA 706 and that such paragraphs be neither required nor precluded by the ISAE.

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?

The IAASB should consider adding a paragraph before paragraph A88 indicating that the practitioner is not precluded from adding an Emphasis of Matter paragraph to the report to direct the reader's attention to a disclosure.

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?

We cannot respond to this question without knowing what elements a long form report would contain. It would be helpful to include further elaboration in the exposure draft.

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.

We believe that the practitioner should be precluded from including recommendations for improvement in the assurance report (unless inclusion is required by law). These recommendations serve to confuse the substance of the practitioner's opinion and do not further the objective of clear communication to users of the practitioner's report. Ordinarily, practitioner recommendations for improvement are intended for management and governing board use in assessing compliance with protocols and performing cost-benefit analyses associated with internal control.

Comparability in reporting is diluted by the inclusion of recommendations in the practitioner's report. Clearly, a greater number of recommendations included in a practitioner's report suggests a less persuasive practitioner opinion on a relative basis. The variability in form and substance and lack of criteria for inclusion in the practitioner's report will serve to confuse, rather than inform, the reader. We are aware that the dual report under AccountAbility 1000 Assurance Standard (AA1000AS) requires the inclusion of recommendations, but we do not endorse this approach.

Fair Presentation versus Compliance Frameworks

Questions

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.

We believe that the proposed ISAE should not be limited to compliance criteria and that it should continue to enable the practitioner to report on GHG statements prepared in accordance with other applicable criteria.

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.

We are not aware of the existence of situations within the U.S. for which special-purpose criteria should be used.

Emissions Deductions

Questions

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.

We agree with the manner in which the working draft has addressed deductions.

25. Some purchased offsets 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?

We believe it would be difficult to operationalize an engagement in which the practitioner divides responsibility with others who provide assurance on offsets or reductions. Therefore, we believe it is appropriate for the practitioner to disclaim an opinion on offsets.

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?

We believe that the treatment of emission deductions required by paragraph 111(d) of the working draft is appropriate and that it is unnecessary to designate where the language regarding emissions deductions should be placed in the practitioner's report. We do not believe that the language in paragraph 52 of the consultation paper should be used because it is confusing regarding responsibility.

We are uncertain as to how the guidance in paragraph 111(d) differs from the guidance in paragraph 111(c) with respect to emissions deductions.

Scope 3 Emissions

Questions

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.

We believe that it is appropriate for the ISAE to include cautionary language with respect to Scope 3 emissions (such as that included in paragraphs A29-A31 of the working draft).

28. What additions, if any, to the assurance report may be required when the GHG statement contains Scope 3 emissions?

We have no recommendations for additions to the assurance report 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?

We believe that wording along the lines of that in paragraph 56 would be appropriate.

If so, should such wording be included regardless of whether or not disclosed Scope 3 emissions are covered by the assurance engagement?

We believe that such wording should be included regardless of whether or not disclosed Scope 3 emissions are covered by the assurance engagement.

Types of Assurance Engagements

Direct Reporting Engagements

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?

In the U.S., direct reporting is viewed as reporting on subject matter (e.g., a schedule, a presentation, or an activity such as, compliance with laws or regulations) versus reporting on management's assertion about the subject matter. In both direct-reporting and assertion-based situations, management is responsible for the preparation of the schedule or presentation, for the activity, and for making assertions to the practitioner with respect to the schedule, presentation, or activity. We believe that practitioners should not opine on their own work (i.e., should not both compile the GHG statement and opine on it).

Level of Assurance

Question

30. How should a limited assurance engagement on a GHG statement be differentiated from a reasonable assurance engagement, for example:²¹

(a) How should the practitioner determine the procedures to be performed?

In determining the procedures to be performed, the practitioner should follow a process similar to the process used in a reasonable assurance engagement to plan and perform procedures appropriate in the circumstances in response to planning and risk assessment activities.

(b) What is the role of risk assessment in a limited assurance engagement?

Risk assessment enables the practitioner to determine which areas to focus on when making inquiries and performing analytical procedures.

(c) To what extent, if any, should the practitioner consider the effectiveness of control?

For the purpose of identifying risks of material misstatement, the practitioner needs to obtain an understanding of internal control over the preparation of the GHG statement

sufficient to evaluate the design of controls and to determine whether they have been implemented.

(d) Should evidence be primarily obtained through inquiry and analytical review?

Evidence should primarily be obtained through inquiry and analytical review. However, in addition, a practitioner might perform walkthroughs of processes to gain an understanding of the flow of data and applicable internal control, and might also perform corroborative inquiry.

(e) Which procedures that ordinarily are performed in a reasonable assurance engagement would you not expect to be performed in a limited assurance engagement?

In a limited assurance engagement, the practitioner would not test the operating effectiveness of controls over reporting in the GHG statement; nor would the practitioner perform substantive procedures necessary to form an opinion in a reasonable assurance engagement.