



June 20, 2011

Mr. James L. Gunn,
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY 10017

Re: Exposure Draft: Proposed International Standard on Assurance Engagements 3410, *Assurance Engagements on Greenhouse Gas Statements*" (ISAE 3410 ED)

Dear Mr. Gunn:

The American Institute of Certified Public Accountants (AICPA) is pleased to comment on the above referenced exposure draft. We commend the International Auditing and Assurance Standards Board (IAASB) on its proposed International Standard on Assurance Engagements (ISAE) 3410, ***Assurance Engagements on Greenhouse Gas Statements***, which would establish requirements and provide guidance to practitioners reporting on greenhouse gas emissions (GHG) statements. The AICPA's Auditing Standards Board (ASB) supports the issuance of the ISAE and believes that the objectives and requirements in the standard are appropriate. The remainder of this letter provides general observations about the exposure draft, observations regarding the need for additional application guidance, responses to the request for specific comments, and other concerns.

General Observations

Professional Accountants

The explanatory memo in the exposure draft indicates that the IAASB, in revising ISAE 3000, *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*, is considering the use of the ISAEs by assurance providers other than professional accountants in the practice of public accounting (other assurance providers). The IAASB also is proposing that the extant requirement to comply with the *Code of Ethics for Professional Accountants* issued by the International Ethics Standards Board for Accountants (IESBA Code) be changed to require compliance with (1) the IESBA Code or (2) other professional ethics requirements or ethics requirements in laws or regulations that are at least as demanding as the IESBA Code.

We are not aware of any other professional ethics requirements at this time that would meet such criteria. However, if this change is made, we recommend that such other assurance providers be required to specifically cite in the assurance reports such other requirements and include an affirmative statement that such other requirements are at least as demanding as the IESBA Code.

Consistency with ISAE 3000 Exposure Draft

We recognize the difficulty with releasing the ISAE 3410 ED prior to the release of the exposure draft of ISAE 3000 (Revised), *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* (ISAE 3000 ED), and expect that the IAASB has probably identified a number of changes that will be necessary to ISAE 3410 to conform. However, we believe that the following matters should be addressed at this time:

1. Terminology

Prior to the release of the ISAE 3000 ED, which contains definitions of certain terms used in the ISAE 3410 ED, it appeared that the ISAE 3410 ED uses certain terms inconsistently, such as the terms *engagement partner* and *practitioner* (see paragraphs 18 (c) and 18 (d) of the ISAE 3410 ED). We believe it would be helpful if ISAE 3410 referred readers to the definitions in ISAE 3000 (for example, by including a footnote to the definitions heading in ISAE 3410 referring readers to ISAE 3000 for definitions of the terms *engagement partner*, *practitioner*, etc.). We also believe that the last sentence of the definition of *practitioner* in the ISAE 3000 ED is particularly important to the performance of an engagement under ISAE 3410 because it clarifies that the term *engagement partner* rather than *practitioner* is used when the ISAE expressly intends that a requirement or responsibility be fulfilled by the engagement partner.

Paragraph 55 uses the terms *component practitioner* and *components of the GHG statement*, but neither term is included in the definitions in ISAE 3410, although examples of components are included in paragraph A109. Nor are the terms *component* or *component practitioner* defined in the ISAE 3000 ED. Although the general concepts should be addressed in ISAE 3000, application guidance specific to the subject matter should be included in ISAE 3410. For example, the relevant considerations in paragraph A109 appear to be generic considerations that would appear in ISAE 3000 rather than in ISAE 3410 (although we believe such considerations should be included in a paragraph in the main body of ISAE 3000).

2. Report elements

We noted inconsistencies between the report elements listed in paragraph 73 and the report examples in appendix 2—namely, that the report examples include a section on independence, quality control and expertise and the report elements in paragraph 73 do not. We noted that paragraph 60(i)-(j) of the ISAE 3000 ED contains report elements relating to independence and quality control that, to the extent they are retained in ISAE 3000, should be added to paragraph 73 of ISAE 3410, and recommend that guidance be included in ISAE 3410 regarding what is considered appropriate for making statements about expertise. As stated above in our recommendation regarding other assurance providers performing engagements under the ISAEs, we believe that such other assurance providers should be required to cite the other ethics requirements and make an affirmative statement that such

other requirements are at least as demanding as the IESBA Code and, accordingly, that paragraph 73 be revised to include such requirements.

3. Modified conclusions

The ISAE 3410 ED lacks any mention of modified conclusions, which is addressed in paragraphs 64-67 of the ISAE 3000 ED or qualified conclusions, adverse conclusions, and disclaimers of conclusions, which are covered in extant ISAE 3000. We are assuming that the IAASB expects that the practitioner will look to ISAE 3000 for answers in this area (as well as other areas that are not specifically addressed in ISAE 3410); however, if ISAE 3410 is issued prior to the revisions to ISAE 3000, the practitioner will need to apply considerable judgment to ascertain the form of report in such situations given the changes from the form of report under extant ISAE 3000 to that under ISAE 3410. Accordingly, some transitional guidance will be needed.

4. Written representations

Paragraph 56 states, “The practitioner shall request written representations from a person(s) within the entity with appropriate responsibilities for and knowledge of the matters concerned:....”; whereas the construct in the ISAE 3000 ED is two-fold: (1) to request from the appropriate party(ies) a written representation that it has provided the practitioner with all information of which the appropriate party(ies) is aware that is relevant to the engagement and (2) to request from the measurer or evaluator a written representation about the measurement or evaluation of the underlying subject matter against the applicable criteria, including that all relevant matters are reflected in the subject matter information. We believe that the construct in the ISAE 3000 ED is better suited to the subject matter and should be included in ISAE 3410.

Observations Regarding the Need for Additional Guidance

Comparative Information

We believe that there are a number of situations that would frequently be encountered by a practitioner concerning comparative information that are not addressed (or not sufficiently addressed) by paragraph 60 and the related application paragraphs relating to comparative information. We recommend that the IAASB consider providing additional guidance for situations in which

- the prior years’ GHG statements have not been subjected to the same form of engagement performed in the current year,
- only some of the information in the prior years’ GHG statements was previously reported on,
- no work was performed on the prior years’ GHG statements,
- another practitioner or other assurance provider reported on one or more of the prior years,
- there are changes in the basis of the preparation of the prior years’ GHG statements (for example, changes in scientific measurement assumptions or methodologies),

- there are restatements for the correction of an error, and
- the information is not comparable between years (for example, when the entity captures additional sources of Scope 3 emissions in subsequent years).

We do not believe that the guidance in paragraph A116 that “it is important that the status of such information is adequately identified in both the GHG statement and the practitioner’s report” provides useful guidance that will result in consistent application.

Responses to Request for Specific Comments

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?

We believe that proposed ISAE 3410 will enhance the quality of GHG assurance engagements and should provide a basis for consistency in practice. However, we also believe that diversity in practice will continue to exist as a result of differences in practitioner judgment when applying the standard, particularly in responding to matters encountered that may not be addressed in the standard (see our earlier comment on comparative information). Accordingly, we recommend that the IAASB monitor post-issuance practice issues that arise in implementing ISAE 3410 and that the IAASB develop a plan to provide interpretive guidance if needed.

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?

We agree that a risk assessment is necessary to design procedures to obtain a meaningful level of assurance in a limited assurance engagement. The explanatory memorandum in the proposed ISAE indicates that 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 emissions and disclosures need not be at the assertion level. However, we believe that risk assessment procedures should be performed at the assertion level for both reasonable assurance and limited assurance engagements with respect to GHG statements in order for the practitioner to design meaningful procedures. Accordingly, we believe that paragraphs 31L and 31R should be the same for items (a)-(c) and that only item (d) should be different.

(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?

Having applied judgment in identifying assessed risks, we believe it is therefore appropriate to allow the practitioner to use judgment in designing appropriate procedures that are responsive to those risks. However, we believe that in a limited assurance engagement the practitioner should consider certain aspects of

internal control in the risk assessment process, as further discussed in our response to question 3.

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

We believe that specifying only certain types of procedures may be too prescriptive, may not provide sufficient evidence or may not be the most effective or efficient approach.

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?

For a limited assurance engagement, some of the responses required of the practitioner to information gained as a result of obtaining an understanding of the entity and its environment do not appear to require much further consideration.

With respect to specific differences between limited assurance engagements and reasonable assurance engagements on GHG statements, we have the following concerns and recommendations: (New text is shown in boldface italics and deleted text is shown by double-strikethrough in the paragraphs illustrated with our recommendations):

- a. We are concerned about the absence of references to consideration of control activities in a limited assurance engagement. Although a limited assurance engagement would not ordinarily include tests of the operating effectiveness of controls, consideration should be given to those limited assurance engagements that might include such tests of controls. Further, we believe that the practitioner should obtain an understanding of each of the components of the entity's internal control in a reasonable assurance engagement and to a lesser extent in a limited assurance engagement, acknowledging that this understanding is obtained for different purposes in each type of engagement. Accordingly, we believe there should be no difference between the wording of paragraph 22L and 22R, which would result in a single paragraph, such as the following, applicable to both types of engagements,

22. Although the nature and extent of the procedures performed in a limited and reasonable assurance engagement may differ, 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)

We believe the application guidance in paragraph A55 clarifies the difference between limited and reasonable assurance engagements.

- b. With respect to analytical procedures, we believe that the practitioner may need to perform more than inquiries regarding differences; accordingly, we recommend that paragraph 41L include the following additional text:

41L...the practitioner shall inquire of the entity about such differences and **perform other procedures as necessary in the circumstances.**

(Ref: Para. A86(c))

- c. With respect to procedures regarding estimates, we recommend that “perform” be used as the operative word in paragraph 42L(b) because only considering whether other procedures are necessary would not be sufficient. The following is the recommended change:

42L(b) ~~Consider whether~~ **Perform** other procedures ~~are~~ necessary in the circumstances.

- d. With respect to procedures regarding the GHG aggregation process in paragraph 46L(b), we believe that the practitioner should do more than make inquiries; accordingly, we recommend that the words “and performing other procedures as necessary in the circumstances” be added at the end of paragraph 46L(b) as follows:

46L. The practitioner’s procedures shall include the following procedures related to the GHG statement aggregation process: (Ref: Para. A102)

- (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 **and performing other procedures as necessary in the circumstances.**

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

We believe that this is a good format; however, if there is no difference between the “L” and “R” paragraphs (for example; paragraphs 44L and 44R, paragraphs 45L and 45R), the paragraph should be stretched between the two columns so that it is clear that there is no difference. Otherwise, practitioners will spend time trying to identify differences that don’t exist between the two paragraphs. With respect to our concerns regarding reporting in a limited assurance engagement, please see our response to question 5.

5. Do respondents agree with the requirements and guidance in the proposed ISAE for a limited assurance engagement regarding the summary of procedures in the practitioner's report? In particular, will the proposed ISAE lead to reporting procedures with an appropriate amount of detail to effectively convey to users the level of assurance obtained by the practitioner?

We are concerned that the summary of procedures to be included in a limited assurance report will result in practitioners including details of procedures performed that may inappropriately cause report users to infer greater assurance from a limited assurance report than they might from a reasonable assurance report, particularly with respect to reports detailing procedures at specific locations. Likewise, it is probable that there will be differences in the extent of procedures listed in two limited assurance reports on the same GHG statement (as a result of each practitioner's judgment as to what should be included), which may also cause readers to infer greater assurance from the longer list when, in reality, both practitioners may have performed the same extent of procedures. Furthermore, we do not believe that limited assurance engagements should provide varying levels of assurance. Accordingly, we believe that the illustration for a limited assurance report should include a summary of such procedures in a manner similar to the reasonable assurance report. Alternatively, a list of generic procedures might be provided in ISAE 3410 and practitioners could be instructed to eliminate those procedures they did not perform. For example, one of the procedures might be that the practitioner "conducted certain site visits", but the practitioner should not name the locations, provide percentages of the locations visited, etc.

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?

Yes.

Do respondents agree with the related requirements concerning the practitioner's response when there are matters that cause the practitioner to believe the financial statements may be materially misstated?

Yes.

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

Yes.

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?

Yes.

(b) Do respondents agree that the assurance report should include a statement identifying the uncertainties relevant to emissions?

Yes.

If so, do respondents agree with the example wording of that statement, and its placement in the illustrative reports included in Appendix 2 to the proposed ISAE?

Yes.

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

We agree with the form and content of such reports, except for the following:

- a. The difference between the list of report elements identified in paragraph 73 and the report elements included in the illustrative reports in Appendix 2, as discussed earlier in this letter.
- b. The description of the procedures in a limited assurance engagement as discussed in our response to question 5.
- c. The differing language in the “Our Responsibilities” sections of the illustrative limited assurance report and the illustrative reasonable assurance report in Appendix 2; namely, “The procedures *selected* depend on the practitioner’s judgment” vs. “The procedures *performed* depend on the practitioner’s judgment,” respectively.
- d. The lack of instructions for the content of footnotes 24 and 26 indicating that the report might include a specific reference to where the criteria may be found.
- e. The lack of an example for comparative information and the need for clarification regarding the circumstances described for each illustration with respect to comparative information (for example, whether or not comparative information is included in the GHG statement).

We believe that the needs of report users would be best served by having consistent wording in both limited and reasonable assurance reports with respect to procedures that are common to all GHG assurance engagements. Additionally, we believe that a more standardized description of the procedures performed in a limited assurance engagement should be developed, such as the following:

A limited assurance engagement consists of:

- Obtaining an understanding of the entity and its environment, including its internal control over the preparation of the GHG statement as the basis for identifying and assessing risks of material misstatement
- Designing and performing procedures in response to such assessed risks of material misstatement, including [*identify the nature of the procedures performed, for example, inquiries, analytical procedures, and recalculation*]

- Evaluating, based on the limited assurance obtained as a result of such procedures, the appropriateness of the entity's quantification methods and reporting policies used and the reasonableness of estimates made by the entity; and
- Evaluating whether matters came to our attention that affect the overall presentation of the GHG statement.

The specific 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. Accordingly, no such opinion is expressed.

Effective Date

We believe that the effective date proposed is appropriate.

Other concerns

While we recognize that the ISAE 3000 ED permits the inclusion of recommendations in the practitioner's assurance report and that the ISAE 3410 ED is consistent with that, we continue to believe that such practice is not appropriate. As stated in our letter dated February 26, 2010, on the consultation paper entitled "Assurance on a Greenhouse Gas Statement," 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 conclusion and do not further the objective of clear communication to users of the practitioner's report. Ordinarily, practitioner recommendations for improvement are intended for use by management and the governing board in assessing compliance with protocols and performing cost-benefit analyses associated with internal control. Further, 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 implies a less persuasive practitioner's conclusion on a relative basis. The variability in form and substance and lack of criteria for inclusion in the practitioner's report only will serve to confuse, rather than inform, the reader. Accordingly, we believe it is more appropriate to include such recommendations in a separate communication to management.

Thank you for the opportunity to comment on this exposure draft. 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 R. Schubert

Chair, Auditing Standards Board