



June 6, 2011

Via website posting: <http://www.iaasb.org/>

Re: Exposure Draft Comment: **ISAE 3410 Assurance Engagements on Greenhouse Gas Statements**

Dear Sir/Madam:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the Exposure Draft: **ISAE 3410 Assurance Engagements on Greenhouse Gas Statements**. In addition to providing responses to specific questions, we have also provided additional comments on related matters.

Question 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?

Comments

We note that, at this time, reporting of the GHG statement is voluntary in most jurisdictions and, hence, the cost benefit analysis would be an important consideration for the reporting entities. The cost for a reasonable positive assurance engagement may be significant because the proposals are structured to align with assurance engagements on financial information, and also because assurance on GHS statements is an emerging practice area requiring specialized knowledge and expertise. Hence, it is likely that many reporting entities would opt for alternative form of assurance engagement stipulated in the proposals, viz. “Limited Assurance”. We believe that the practitioners will be expected to provide value-added services such as advice on reducing GHG and improving key performance indicators including profitability. We also expect that most engagements will limit themselves to scope 1 emissions because of uncertainty associated with scope 3 emissions.

Question 2

Do respondents agree with the general approach taken in proposed ISAE 3410 to limited assurance engagements on GHG statements, as outlined above? In particular:

(a) Do respondents agree that for such engagements a risk assessment is necessary in order to obtain a meaningful level of assurance; and

(b) In responding to the assessed risks, do respondents agree that the standard should direct the practitioner to design and perform further procedures whose nature, timing and extent are responsive to the assessed risks having regard to the level of assurance?

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

Comments

- (a) We concur that even in the case of a limited assurance engagement; risk assessment is *de rigueur* for enabling the practitioner to provide a meaningful level of assurance to the users. We believe that an assurance engagement on GHG statement is conceptually similar to any other assurance engagement on financial information and, hence, the risk assessment of material misstatement should be evaluated *ex-ante*. For this purpose, there is little theoretical or practical justification to distinguish between a reasonable assurance and limited assurance.
- (b) We support the proposals to 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. We believe that such proposals espouse principles-based standards, and allow the practitioner to exercise his professional judgement and respond appropriately to the specific circumstances of his engagement. We do not support the alternative to specify only certain types of procedures (such as inquiry and analytical procedures) as the primary means of obtaining evidence because a limited assurance engagement on GHG statement is inherently different from such an engagement on a financial information statement, and relationships between different GHG measurements are non-linear. We believe that such alternative is prescriptive, inflexible and may not be appropriate for all the circumstances that a practitioner may encounter.

Question 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?

Comments

The document clearly separates the two concepts “limited assurance” and “reasonable assurance”. We agree with the following areas wherein lesser degree of work is expected in the case of a limited assurance engagement:

- Understanding the entity and its environment,
- Identifying and Assessing Risks of Material Misstatement.

However, we do not concur with the proposed differential requirements for overall responses and further procedures for reasonable assurance and for limited assurance engagements on GHG statements, including discussion of the followings:

- The emphasis placed on the nature of various procedures;
- The extent of further procedures; and
- The nature of analytical procedures.

We believe that the limited assurance does not imply lower quality assurance, and we are concerned that less rigorous procedures sanctioned in the above-mentioned areas may result in the practitioner providing not limited but inadequate assurance, which will not be helpful to the users. We believe that the

differential procedures in these areas will not enhance usefulness of limited assurance as a practicable alternative to reasonable assurance.

Question 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?

Comments

We agree with the use of the columnar format to differentiate the two types of engagement, *per se*. However, we are concerned that the use of the term “limited assurance” has positive connotation and can be interpreted subjectively. This is particularly true in case of the users of GHG statements who are not likely to be well versed in the assurance methodology. Instead, we suggest use of the term “negative assurance” which appropriately captures the subtle difference between the two types of assurance engagements. We also recommend more application guidance for the practitioners so that their communication to the stakeholders clearly states the import of a limited assurance engagement relative to a reasonable assurance engagement.

Question 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?

Comments

We note that application guidance articulated in paragraphs A135 and A136 require summary of procedures in short-form for reasonable assurance and in long-form for limited assurance. We do not see any justification for this differentiation, and suggest that, for both types of engagements, the level of details achieve an ideal trade-off between clarity and brevity. We are concerned that the requirements and guidance as proposed are not likely to enlighten the users regarding the level of assurance conveyed by the practitioner’s report. By reading the summary of procedures in the practitioner’s report as proposed, the users of reasonable assurance reports will garner insufficient data to comprehend the nature of work performed by the practitioner, while the users of limited assurance reports will not be able to properly assess the level of assurance conveyed by the practitioner’s report.

Question 6

Do respondents agree with the requirements and guidance in the proposed ISAE for a limited assurance engagement describing the trigger point at which additional procedures are required? Do respondents agree with the related requirements concerning the practitioner’s response when there are matters that cause the practitioner to believe the financial statements may be materially misstated?

Comments

We are in general agreement with prescribing a lower threshold or trigger point at which additional procedures are required and, for this purpose, the use of phrase “the GHG statement *may* be materially misstated” instead of the phrase “the GHG statement *is likely to* be materially misstated” is appropriate. We believe that limited assurance engagement implies lesser work but not lower quality, relative to reasonable assurance engagement. However, as articulated in the application guidance A107, if the practitioner is not able to obtain sufficient appropriate evidence either, to conclude that the matter(s) is not likely to cause the GHG statement to be materially misstated, or to determine that it does cause the GHG statement to be materially misstated, a scope limitation exists. We suggest more guidance when a practitioner confronts scope limitation in a limited assurance engagement.

Question 7

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

Comments

We note that the proposed requirements, and application material, assign the task of dealing with the performance of procedures on location at an entity’s facilities to the professional judgement of the practitioner. We believe that the absence of detailed guidance will result in disproportionate inconsistency and divergence in practice and that it is highly desirable to provide principles-based guidance on this matter.

Question 8

With respect to uncertainties associated with emissions:

(a) Do respondents believe the proposed ISAE explains clearly the differences between scientific uncertainty and estimation uncertainty?

(b) Do respondents agree that the assurance report should include a statement identifying the uncertainties relevant to emissions? If so, do respondents agree with the example wording of that statement, and its placement in the illustrative reports included in Appendix 2 to the proposed ISAE?

Comments

(a) We note that the differences between scientific uncertainty and estimation uncertainty are clearly stated for the limited purpose of the practitioner’s objective. However, the given example of the rate of GHG sequestration is contradictory. For example, if the practitioner is uncertain regarding scientific impacts of a certain project, how can the practitioner report the emissions in carbon dioxide equivalents? We suggest that, in such circumstances, instead of reporting in quantitative terms (CO₂ equivalents), a qualitative description of the project would be more appropriate.

(b) We believe that the assurance report should include a statement identifying the uncertainties relevant to emissions for enlightening the users and enabling them to make an educated guess on the level of assurance conveyed by the practitioner’s report on the GHG statement. For this purpose, we agree with the example wording of that statement, and its placement in the illustrative reports included in Appendix 2 to the proposed ISAE

Question 9

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

Comments

We agree with the form and content of the illustrative assurance reports included in Appendix 2 to the proposed ISAE. However, we would note that the future success of this initiative is contingent upon the political will to make GHG statement mandatory instead of voluntary, as is the case now in most jurisdictions. We believe that progressive entities with long term vision should increasingly employ integration of financial reporting which demonstrates the linkages between an organization's strategy, governance and financial performance, and the social, environmental and economic context within which it operates. We believe that, in today's complex world, reporting based on historical financial information is becoming increasingly irrelevant, and that integrating reporting represents a credible way to meet the challenges of effective reporting to stakeholders and decision makers; both inside and outside the entity.

Additional Comments

We note that the proposed standard employs, without formal codification, a conceptual framework that differs from the regular framework in significant ways, although aligned in major parts. We believe that it would be better to have a common conceptual framework applicable to all types of assurance engagements. Also, the proposals do not provide guidance on the measurements of GHG statements in monetary units. We believe that presentation of GHG statement in monetary units along with comparative statistics will enhance its usefulness. We also have a concern regarding how material misstatements are identified. For example, a company with two projects, one reducing the production of GHG and one increasing the production of GHG, might show the net effect resulting from these two projects, which would be clearly misleading. We suggest that merits and demerits of the two projects must be disclosed separately.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Kamallesh Gosalia at kgosalia@cga-canada.org or alternatively the undersigned at rlefebvre@cga-canada.org.

Sincerely,

[Original signed by:]

Rock Lefebvre, MBA, CFE, FCIS, FCGA
Vice-President, Research & Standards