



Grant Thornton

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Dear Tony

Exposure Draft 2012-9

Grant Thornton New Zealand Limited (Grant Thornton) is pleased to provide the New Zealand Auditing and Assurance Standards Board (NZAuASB) with its comments on the International Auditing and Assurance Board's (IAASB) *International Standard on Assurance Engagements (New Zealand) 3410, Assurance on a Greenhouse Gas Statement*.

Grant Thornton's response to both documents reflects our position as auditors and business advisers to listed companies, privately held businesses, not for profit entities and the public sector entities in New Zealand.

General comments

We generally support the proposals contained in this Exposure Draft. It is pleasing to see the IAASB producing a document that has fairly balanced consistency, quality and cost. Our view is that an appropriate and important distinction has now been made between limited and reasonable assurance.

One of the very important and powerful aspects of the proposed standard is the explicit acknowledgment of both uncertainty in the measurement of emissions and the existence and relevance of a materiality threshold. Given the degree of estimation uncertainty present in financial reporting today, perhaps all attestation standards should address this concept?

We believe that practitioners would benefit from some more guidance on determining and applying the concept of materiality given the explicit recognition of measurement uncertainty (paragraphs A44 – A51). Areas the NZAuASB may wish to consider include:

- Whether the impact of the method used to disclose measurement uncertainty impacts the application of the concept of materiality. For example, if a point estimate of \$1,000,000 is off by \$150,000, a practitioner might judge that amount to be a material misstatement.

However, should the practitioner come to the same conclusion if the entity was aware and disclosed that the measurement is \$1,000,000 plus or minus \$200,000?

- The direct relationship between measurement uncertainty and the quantitative value of performance materiality. In other words, can performance materiality be lower than the measurement uncertainty? If so, further guidance on this point would, in our opinion, add to this proposed standard's value. If not, the standard would be clearer if it made such a statement.
- Whether the IAASB expects a single materiality maximum amount be used (thereby changing existing practice) or whether different values should be used based on the uncertainty or each disclosure or other factors associated with the disclosure. Paragraph A49 addresses how the GHG statement is prepared and assured to levels of materiality. This guidance indicates that practitioners are expected to use more than one quantitative amount for materiality. Speaking with our firm in the United States we were told that practitioners presently use a higher materiality for assurance with respect to Scope 3 disclosures than are used for the other disclosures. However to us, paragraphs 20 and 21 strongly imply a single materiality should be used to assess the GHG statement. If the former is the intention, perhaps the preamble could state the IAASB's intentions. If the latter is the intention, the proposed standard would be strengthened with explicit requirements and application material, including whether and how to convey these different levels of materiality in the practitioner's report.
- Whether there is a need for application material on applying the concept of materiality to the non-quantitative disclosures in the GHG statement. For example, for scientific uncertainty, the quality of the disclosures would determine whether the GHG statement is materiality misstated (that is, the disclosures do not omit or distort relevant information).
- Whether there is a need to include in the assurance report a discussion of the relationship between materiality and measurement uncertainty.

So in summary, we do not want to see assurance responsibilities misunderstood or diluted through the ambiguity we believe is present in around the concept of materiality.

Request for specific comments

1. **Do you consider that there are any additional requirements that need to be addressed in the New Zealand context?**

Given the NZAuASB has tailored certain aspects of this proposed standard, we think it would be very helpful to provide some New Zealand specific wording in the illustrative Assurance report included in Appendix 2 under the heading **Report on Other Legal and Regulatory Requirements**. Both illustrative examples state the "form and content of this section of the assurance report will vary depending on the nature of the assurance provider's

other responsibilities”. Although this wording is consistent with Illustration 1 in ISA (NZ) 700 *Forming an Opinion and Reporting on Financial Statements*, it is not, in our opinion, very helpful. We would like to see the NZAuASB providing some further New Zealand specific guidance in this area (particularly for those entities that are/will be mandatorily required to report under this country’s GHG legislation) so that greater consistency in reporting will result.

Appendix 2 also signals in italics that this section will only be “applicable for some engagements only”. Our view that this type of engagement (be it a limited or reasonable assurance assignment) would always be against a backdrop of compliance with New Zealand’s environmental legislation, so is this comment still appropriate? Given this standard has been developed for use in New Zealand, we believe this remark could be removed.

2. Are you aware of any regulatory or other issues in the New Zealand environment that may affect the implementation of the proposed standard?

No. We note the effective date of this standard and agree with the NZAuASB’s determination.

3. Are there any issues relating to the proposed ISAE (NZ) 3410 that you consider the NZAuASB should raise with the IAASB when ISAE 2410 is next updated?

Yes, given our general comments above we would like to see the NZAuASB raise the issue of materiality with the IAASB.

Other comments for consideration

There will inevitable be additional compliance costs and risk management challenges going forward with this proposed standard, but on balance we believe that public interest and investor needs will be better served.

Finally, Grant Thornton would like to thank the NZAuASB for this opportunity to comment and would welcome the opportunity to meet with representatives from the External Reporting Board or the NZAuASB to discuss these matters further. My contact information is below.

Yours sincerely
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