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JICPA Comments on the Consultation Paper, *Assurance on a Greenhouse Gas Statement*

The Japanese Institute of Certified Public Accountants (“we”, “our” and “JICPA”) is pleased to provide you with our comments on the Consultation Paper, *Assurance on a Greenhouse Gas Statement*.

Request for Specific Comments

<p>1. Would the requirements of paragraphs 12(a) and (b) of the working draft preclude any <i>competent</i> 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.</p>
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Comment

“Engagement Partner” in this ISAE should be “Professional Accountant in public practice or individual who is subject to equivalent ethical requirements and has specialist skills, knowledge and experience in assurance engagement in the firm which ISQC1 is applied”. Accordingly, definition of Engagement Partner will be consistent with that in ISQC1.

Subparagraph 12(a) of draft ISAE limits the engagement partner to professional accountants, and precludes individuals and organizations other than firms from using this ISAE. Also professionals other than professional accountants in the firms can not be the engagement partner in the teams.

As for the organizations or individuals other than the firms, ISO certification bodies may be primary parties that are precluded. But, they do not have strong need to use ISAE developed by IAASB because they can provide their verification services using ISO 14064-3 and 14065. In case this ISAE gain the confidence from regulatory bodies, the exclusion will result in disadvantages for these organizations.

In our opinion, this ISAE should limit the users to the firms at the moment for the following reasons.

- This ISAE is a publication from IFAC.
- This ISAE should be used within the set of standards including ISAC1 and the Code of Ethics.

IAASB should be very careful as not to cause any misunderstanding by regulatory bodies, and other assurance providers, to the effect that by proposing this ISAE the accountancy professions intend to exclude other assurance providers. We propose that this ISAE, in the introduction or application material, includes sufficient reasons.

Individuals other than professional accountants in the firms should be allowed to be the engagement partners providing that they are subject to ethical requirements and quality control standards, and have sufficient professional skills and experiences. The first reason is that GHG assurance engagement does not require financial accounting skills but rather assurance skills. Secondly, considering the current situation, since many individuals, other than professional accountants (“non accountants”) are involved in this type of engagements, the exclusion of non-accountants may have negative effects on the assurance practices.

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.

Comment

If non-accountants are allowed to be engagement partners, qualification requirements should be stipulated primarily on:

- Full understanding of assurance practices and standards;
- Continuous professional education related to assurance practices with requirements for

CPE;

- Minimum years of practical experience.

It is expected that the assurance engagements on non-financial information such as GHG emission information will increase. Considering this trend, IFAC should consider developing a code of ethics and education standards for non-accountants who are involved in such engagements. The basis may be the International Education Standards and Code of Ethics for Professional Accountants.

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?

Comment

The working draft adequately addresses relevant points.

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

Comment

We do not recognize a need for additional guidance.

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?

Comment

Although it is important to ensure the independence of external experts, so that their work is performed in an objective manner there is no strong reason for ISAE to stipulate on stricter requirement than in ISA620. Therefore, we believe it is reasonable for the independent assurance practitioners to assess the objectivity of external expert, and use their work within

their responsibilities.

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?

Comment

Engagement in accordance with this ISAE can be more costly compared to verification engagements by other bodies. Also, in a case where a regulatory body stipulates verification procedures, engagements using this ISAE can be more costly than engagements which meet minimum requirements in the regulation. In some engagements such as in cases where most of the assurance processes may involve verification of electricity used, costs of providing reasonable assurance can exceed the benefits expected to be brought about by applying all of the requirements to be reasonable assurance such as assessment procedure of internal control

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?

Comment

It should be considered if this ISAE cover verification engagements for annual GHG emission in baseline-and-credit type emission trading schemes such as Clean Development Mechanism (CDM). In such project, the independent bodies assure the GHG emissions which are quantified in accordance with the quantification criteria composed by the Methodology, Project Design Document (PDD) and Monitoring Plan, which are approved and registered by the Executive Board of CDM in United Nations Framework Convention on Climate Change.

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

Comment

In Japanese Emission Trading Scheme in trial, written representation is not required by the verification guideline. But, the requests for the representation by practitioners should be required in this ISAE since assurance engagements need to clarify the assertion by entities and it will be possible to obtain it if the requests are properly made by practitioners.

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?

No comments.

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?

Comment

Overall, the concept of analytical procedures in this engagement is widely and appropriately stated. In practice, guidance would be helpful (such as “practice aid”) on precise procedures. Paragraphs 59, 60 and A65 of the working draft use terms “substantive analytical procedures” and “analytical procedures”. We would suggest the review of differentiation and consistency of the terms. .

Paragraph 59(a) of working draft would be improved by including the point that practitioners should consider the access to, and availability of, the data used for practitioner’s expectation of recorded quantities or ratios.

Also, processes to evaluate the reliability of the data used for the expectation need to be stated in the ISAE. An example may be “Practitioners should assess the reliability of the data by considering the effectiveness of the control on information”.

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.

Comment

We are of the view that paragraphs 45 and 46 of working draft appropriately state the understanding of control in an entity.

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?

Comment

We recognize that it is appropriate to require practitioners to perform risk assessment procedures at assertion level, and 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.

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?

Comment

Followings are examples of GHG statement level risks we assume.

- Risks that an entity and its staff are not familiar with GHG quantification practice and do not have the enough experience.
- Risks that an entity and its staff may report the GHG emission at less than the actual amount. The factor in such improper conduct may be high allowance price, excess of actual emission over the allowance or target, non-realistic target, deterioration in financial performance and position.

Also, we recommend that this ISAE states the nature of this type of engagement, which may involve material misstatement. One of the examples is nature that the GHG emission information is not “Stock” information but “Flow” information.

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.
- (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?
- (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?
- (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?
- (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)?
 - (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?

Comment

- (a) Although requirements and the application materials refer to materiality in terms of intended users' "economic" decisions, such decisions should not be limited to "economic" decisions. There are users of GHG information such as national or local governments, and they use the information as basis for "political" decisions.

The alternative approach in this ISAE may be as follows:

- ISAE refers only to intended users' "decision" instead of "economic decision" in the requirements section;
- the application material refers to economic decisions and the other types of decisions by various types of users, with examples and explanations as to how the differences in decision can influence the determination and application of materiality in each type of assurance engagement;

- (b) Providing that GHG statement deals with different type of emissions, it may be appropriate to set the different materiality levels reflecting the differences.

- (c) We recognize paragraph A39 appropriately states the frame of reference when the applicable criteria do not discuss the concept of materiality.

- (d) Paragraph A41 (d) also refers to "economic" decision. It should not be limited to "economic" decisions, as noted in comment to question 14(a).

- (e) In such a case, materiality should be determined based on assured emissions considering the impact on total emissions. Since the practitioner has responsibility for the assurance engagement, the materiality level should be determined by being based on assured emissions. It is necessary to consider the impact on total emissions, because the intended users' interest of the information may be on the total emissions, and the impact of misstatement on the total emission may be important for them;

- (f) Appropriately stated.

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.

No comments.

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?

No comments.

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.

No comments.

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?

Comment

We believe the points are appropriately stated in terms of both length and contents.

19. Should the ISAE include requirements with respect to Emphasis of Matter paragraphs and Other Matter paragraphs adapted from ISA 706,¹⁷ 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?

Comment

There will be some cases, depending on intended users, where the Emphasis of Matter

paragraphs should be included. Some of the examples are about change in quantification methodology or boundary or material uncertainties.

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?

Comment

In Japan,

- long-form GHG assurance reports are not issued both in ETS and Voluntary Disclosure framework; and
- Verification reports in Japanese ETS are not disclosed, but it is possible that the reports may be disclosed.

In this regard, our opinions on this issue are as follows.

- Example assurance report in this ISAE is appropriate in respect of length and content as assurance report to be presented to a regulatory body;
- there may be cases where a practitioner issues a longer form assurance report responding to a request from entity in the engagements such as for voluntary sustainability report. There need to be some statements in this ISAE which require practitioner to pay attention to the presentation in the report so as not to cause misunderstanding from intended users.

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.

Comment

We think there are no circumstances when it is appropriate to include recommendations in the assurance report. If the report also includes recommendations, there is a risk of misunderstanding of the conclusion by the users.

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.

Comment

The GHG reporting standards for the Emission Trading Scheme are considered to be compliance criteria. On the other hand, standards for disclosure framework or reporting of Scope3 emission can be viewed as fair presentation criteria. For example, exposure draft of CDSB reporting framework states that it takes a principle based approach, therefore it forms a better basis for fair presentation.

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.

Comment

Guidelines for GHG reporting, which the Government provides for the quantification of GHG emissions in the Emissions trading scheme may be categorized as special purpose criteria because it is prepared for regulatory purposes.

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.

Comment

It should be stated in this ISAE as to how the assurance practitioners deal with deductions when the practitioners themselves verify the GHG emissions reductions, which are the source of the deductions.

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?

Comment

As there are wide varieties in “reliability” of deductions, the discussions on this issue should not focus on merely whether deductions are within the scope or not. We recommend that this ISAE present how the assurance report deals with deductions, by categorizing the deductions by: 1 the

approach as to how the reporting criteria deal with deductions; 2 the type of schemes where credits, etc. are issued; and 3 validation of the project and verification of the GHG emission reductions.

1. The approach which the reporting criteria deal with deductions
 - 1-1 Reporting criteria stipulate credits, etc. available for the deductions and presentation of deductions in the report.
 - 1-2 Reporting criteria does not stipulate credits, etc. available for the deductions and presentation of deductions in the report.

2. Type of schemes where credits, etc. are issued
 - 2-1 Credits which are issued in the Kyoto-scheme, which may be CDM and JI
 - 2-2 Credits which are issued in the scheme which the national or other official Government manage or authorize
 - 2-3 Credits which are issued in the scheme which private organizations manage or authorize
 - 2-4 Credits which are issued in the scheme not managed or authorized by relevant organization

3. Validation for the project and verification on the GHG emission reductions
 - 3-1 Assurance practitioner validates the reduction project or verifies the GHG reductions.
 - 3-2 The other organization validates the reduction project and verifies the GHG reductions.
 - 3-3 No validation or verification is provided for the project.

Also, the presentation of deduction, which may mislead the intended users, should not be made, although this is the matter need to be dealt with by the criteria. We expect this ISAE to properly respond to the issue whether or not practitioners provide assurance on “Net GHG emission”, calculated by “actual emissions – deducing emissions”, because there are differences in the characteristics between the actual GHG emissions and the deductions.

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?

No comments.

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.

Comment

We recognize that it is appropriate for this ISAE to include cautionary language with respect to Scope 3 emissions. We recommend for this ISAE to include a statement which requires the assurance practitioner to confirm that the Scope 3 reporting has clear bases as to the criteria and premises because, at present, there may be no generally accepted suitable criteria for Scope 3 GHG emissions quantification..

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?

No comments.

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?

Comment

At present, there appears to be no regulatory scheme in Japan which requires a direct reporting engagement at this moment.

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?
- (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?

Comment

There are high needs for Limited Assurance Engagements because users of information need different levels of reliability of the subject information.

Followings are the points which practitioners should consider when they provide a limited assurance engagement:

1. practitioners should decide their procedure based on the “Risk Approach”;
2. practitioners should assess as to whether the entities have established internal control (control environment) for the quantification and reporting of GHG emissions with faithful representation, completeness, consistency, transparency and accuracy; and have implemented these appropriately;
3. internal controls for the quantification and reporting of GHG emissions are categorized to (a) the controls for quantification of GHG emission and (b) preparation of the GHG statement report. As for the controls of quantification, it is necessary that practitioners undertake risk assessment procedures, in limited assurance engagements, especially on issues as to whether monitoring system was well established and effectively implemented; and decide the level of reliance on interview and analytical procedures. As for the controls for preparation of the report, there may be the engagements where practitioners can use substantive procedures as being necessary, considering inherent risks and materiality, and being more effective than relying on internal controls.

In closing, we wish to express our appreciation for this opportunity to comment on this Consultation Paper.

Sincerely,

Kimitaka Mori
Executive Board Member - Auditing and Assurance Practice
The Japanese Institute of Certified Public Accountants