

EXPLANATORY STATEMENT

Issued by the Authority of the Minister for Defence Personnel, Material and Science for the
Minister for Climate Change and Water

National Greenhouse and Energy Reporting Act 2007

National Greenhouse and Energy Reporting (Audit) Determination 2009

Introduction

The *National Greenhouse and Energy Reporting Act 2007* (the Act) establishes a national framework for reporting and dissemination of information related to greenhouse gas emissions, greenhouse gas projects and energy consumption and production by Australian corporations.

The Act establishes greenhouse and energy audits (sections 73 to 74A) as a key measure in the area of compliance monitoring.

The Act allows for subordinate legislation to establish the requirements for carrying out greenhouse and energy audits, and for registration and maintenance of greenhouse and energy auditors. This is referred to as the NGER audit framework.

Section 75(1) of the Act provides that the Minister may make a legislative instrument prescribing requirements to be met by audit team leaders in preparing for and carrying out greenhouse and energy audits and in preparing audit reports – the *National Greenhouse and Energy Reporting (Audit) Determination 2009* (the Determination).

The Act establishes the Greenhouse and Energy Data Officer (GEDO) as the regulatory and administrative decision maker under the Act.

The *National Greenhouse and Energy Reporting Amendment Act 2009* (Amendment Act) received the Royal Assent on 18 September 2009. The Amendment Act included a number of provisions to enhance the audit provisions of the Act, including expanding the scope of the legislative instrument to be made under section 75(1) of the Act.

The *National Greenhouse and Energy Reporting Amendment Regulations 2009* (the Amendment Regulations), in relation to audit, made amendments to the *National Greenhouse and Energy Reporting Regulations 2008* (the Regulations) that were required as a result of the Amendment Act. These state the registration and maintenance requirements to be a greenhouse and energy auditor. The Determination refers to the Regulations in particular for independence and code of conduct requirements for audit team leaders.

Details of the requirements of the Determination are set out in the Attachment.

The Determination would be a legislative instrument for the purposes of the *Legislative Instruments Act 2003*.

The Determination will commence on the day after it is registered.

Consultation

Comprehensive consultation was undertaken in the development of the Determination with business and other stakeholders from October 2007 and most significantly a consultation paper was released in October 2008 for public comment and included workshops held in most capital cities. Almost 300 people attended the workshops and 58 written submissions were received on the consultation paper.

During July 2009 the draft Determination along with the draft Amendment Regulations were released for public comment on the Department of Climate Change website for a period of four weeks. Submissions generally supported the Determination, particularly in relation to how auditors from different professional backgrounds could easily follow the requirements.

Many stakeholders supported the use of existing audit standards for the greenhouse and energy audit requirements under the Act, such as those used for financial auditing or existing greenhouse and energy auditing and verification standards. The Determination was developed so that it would be consistent with existing standards, but was written using commonly understood language and concepts, to enable a broader range of auditing professionals to participate in audits under the Act, including financial auditors and existing greenhouse gas verifiers.

ATTACHMENT

Details of the *National Greenhouse and Energy Reporting (Audit) Determination 2009*

Part 1 Preliminary

Section 1.1 – Name of Determination

This section is a formal provision specifying that the title of the Determination will be the *National Greenhouse and Energy Reporting (Audit) Determination 2009*.

Section 1.2 – Commencement

This section provides for the Determination to commence on the day after it is registered on the Federal Register of Legislative Instruments.

Section 1.3 – Overview of Determination

This section provides an overview of the Determination, including the power under the Act to establish the Determination, the standards referenced during the development of the Determination, to whom the requirements apply, and a brief description of the different types of greenhouse and energy audits which may be conducted.

Section 1.4 – Definitions

This section provides definitions for a number of common terms used throughout the Determination. A number of terms used in the Determination are also used in other audit frameworks. Terms such as *misstatement*, *peer reviewer* and *reasonable assurance engagement* are defined in this section and are specific to the greenhouse and energy audit framework established under the Act. Other terms used throughout the Determination, such as *greenhouse and energy audit*, are defined in the Act and in the Regulations.

Section 1.5 – Types of greenhouse and energy audits

Subsection 1.5(1) describes the types of greenhouse and energy audits that can be conducted under the Act. The Act allows for greenhouse and energy audits to be conducted under sections 73A to 74. Greenhouse and energy audits are intended to be used for compliance monitoring of entities reporting under the Act.

Subsection 1.5(2) provides for two types of greenhouse and energy audits, assurance engagements and verification engagements. The purpose of having two types of audits is to allow the Greenhouse and Energy Data Officer (GEDO) to have flexibility in the choice of greenhouse and energy audit. Both audits are to be performed by an audit team leader appointed from the register of greenhouse and energy auditors.

Subsection 1.5(3) defines *assurance engagement* as a type of greenhouse and energy audit where an independent opinion is provided by an appointed audit team leader. The opinion is provided on the reliability, accuracy and completeness of the matters being audited. There are two types of assurance engagements: a reasonable assurance engagement (see section 1.6), and a limited assurance engagement (see section 1.7).

Subsection 1.5(4) describes a *verification engagement* as being a type of greenhouse and energy audit the purpose of which is to verify or perform audit procedures on the matters

being audited. A verification engagement does not contain an opinion by the audit team leader; it only states what procedures the audit team leader conducted and the factual findings of those procedures. A verification engagement would ideally be used for matters to be audited that are not complex.

Section 1.6 – Reasonable assurance engagement

This section describes a *reasonable assurance engagement* as one type of assurance engagement where the audit team leader seeks to provide a reasonable assurance conclusion over the matters being audited. The audit team leader must provide one of the conclusions listed under section 3.17.

Section 1.7 – Limited assurance engagement

This section defines a *limited assurance engagement* as one type of assurance engagement where the audit team leader seeks to provide limited assurance conclusion over the matters being audited. In a limited assurance engagement the audit team leader must provide one of the conclusions listed under section 3.18.

Part 2 Requirements on all team leaders

Division 2.1 – Overview of Part

Section 2.1 – Overview of Part

Subsection 2.1(1) describes the following subsections 2.1(2) and 2.1(3) as providing an overview of Part 2.

Subsection 2.1(2) states that Part 2 applies to all audit team leaders who are appointed to carry out a greenhouse and energy audit.

Subsection 2.1(3) describes that the requirements of Part 2 cover preparing for a greenhouse and energy audit, providing an independence and conduct declaration under section 2.4, and the carrying out and reporting of a greenhouse and energy audit.

Section 2.2 – Preparing for audit

This section requires the audit team leader to ensure that selected audit team members for a particular greenhouse and energy audit collectively have the knowledge, skills and availability to satisfactorily conduct the audit.

Section 2.3 – Personal involvement of audit team leader required

Subsection 2.3(1) provides that an audit team leader must be personally involved when conducting an audit, including preparing for and carrying out the audit, and preparing the audit report. This does not mean that the audit team leader must undertake all the activities themselves, but rather recognises that the audit team leader will be held responsible for ensuring the audit is performed to the appropriate standard.

Furthermore, subsection 2.3(2) requires audit team leaders to supervise the work of each audit team member when carrying out the audit.

Section 2.4 – Independence and conduct declaration

Subsection 2.4(1) requires an audit team leader to sign a declaration and provide it to the appointing party prior to agreeing the terms of the engagement. By providing this declaration, the audit team leader is attesting that he or she has met the independence and code of conduct requirements outlined in the Regulations.

Subsection 2.4(2) states the declaration is called an independence and conduct declaration and requires the audit team leader to ensure that the declaration be given for each professional audit team member.

Subsection 2.4(3) outlines the requirements that must be addressed in the declaration in relation to the audit team leader, including:

- Paragraph 2.4(3)(a) - compliance with the Code of Conduct, as specified by regulation 1.03;
- Paragraph 2.4(3)(b) - conflict of interest situations described in regulation 6.49;
- Paragraph 2.4(3)(c) - compliance with the independence requirements outlined in Subdivisions 6.6.3 and 6.6.4 of the Regulations;
- Paragraph 2.4(3)(d) - compliance with the auditor rotation requirements outlined in regulations 6.59 and 6.71.

Subsection 2.4(4) describes the requirements that must be addressed in the declaration in relation to professional audit team members. In relation to each professional member of the audit team, the declaration must indicate if the member will comply with the independence requirements outlined in subregulations 6.47(4), 6.47(6) and 6.47(7). The declaration must also indicate if the member will be in a conflict of interest situation under regulation 6.49, and if so, whether an exemption has been provided in relation to the conflict.

Subsection 2.4(5) requires an audit team leader to include the details of any exemption that has been granted under regulation 6.71 in the declaration. This information will be used by the GEDO to ensure audits are meeting the independence requirements outlined in the Regulations.

Subsection 2.4(6) requires an audit team leader to provide the details in the declaration, of procedures undertaken to manage a conflict of interest situation if an exemption has been granted under regulation 6.71. This information reassures the GEDO that the audit team leader is aware of any conflicts of interest and is managing them appropriately.

Section 2.5 – Audit to be carried out in compliance with Regulations etc

This section requires an audit team leader to carry out a greenhouse and energy audit in compliance with the Regulations and the terms of the engagement for that particular audit. The terms of the engagement in most circumstances will be in the form of a contractual agreement between the appointing party and the auditor. This section ensures the audit team leader complies with that agreement. It is also noted that subsection 75(3) of the Act requires audit team leaders to comply with the requirements outlined in the Determination.

Section 2.6 – Audit team leader to prepare documentation

Subsection 2.6(1) states that an audit team leader must document the process that he or she used in a greenhouse and energy audit. This will include the preparation, carrying out and reporting of the audit in compliance with the Determination.

Subsection 2.6(2) requires the audit team leader to document the processes in subsection 2.6(1) before signing and dating an assurance engagement report or a verification engagement report. It is envisaged that an audit team leader will prepare documentation on a timely basis when conducting the audit. The documentation is intended to provide some evidence that a registered audit team leader has complied with the requirements of the Determination and may be used by the GEDO when reviewing or inspecting a registered greenhouse and energy auditor under Subdivisions 6.5.3 and 6.5.6 of the Regulations. An audit team leader may document the process in the audit plan or in other documents that are appropriate.

Part 3 Assurance engagements

Division 3.1 – Overview of Part

Section 3.1 – Overview of Part

This section provides an overview of Part 3 of the Determination which covers the requirements for preparing for, carrying out and reporting on an assurance engagement.

Division 3.2 – Requirements relating to preparing for an assurance engagement

Section 3.2 – Overview of Division

Subsection 3.2(1) provides that section 3.2 is an overview of Division 3.2 which relates to preparing for an assurance engagement.

Subsection 3.2(2) describes that in preparing for the assurance engagement the audit team leader will prepare the assurance engagement terms.

Subsection 3.2(3) states that the audit team leader and the person who appointed the audit team leader to undertake the audit, must agree on the assurance engagement terms in writing.

Section 3.3 – Assurance engagement terms

Subsection 3.3(1) states that the audit team leader must prepare the terms of the assurance engagement prior to carrying out the assurance engagement. This is to ensure that the audit team leader considers whether he or she is capable and available to carry out the audit to the required standard. This is an important document as it sets out the scope of the engagement.

Subsection 3.3(2) states that the terms of the assurance engagement must include:

- the objective of the assurance engagement - this will be specified by the GEDO in the notice given under sections 73 to 74A of the Act ;
- the matter being audited - this will similarly be stated in the notice provided by the GEDO under sections 73 to 74A of the Act. The matters refer to the subject matter

that is being audited and may range from a single item to a number of matters;

- the kind of assurance engagement to be carried out – either a verification engagement, a limited assurance engagement or a reasonable assurance engagement;
- the name and address of the audited body;
- the provisions of the NGER legislation that relate to the matter being audited;
- the period of time covered by the audit – this may be anything from a single month to a full reporting year;
- the period within which the audit is to be carried out. This would be the time from when the audit team leader agrees to the assurance engagement terms until the time the assurance engagement report is submitted to the appointing party;
- the responsibilities of the audited body in relation to the assurance engagement – this may include required access to the body’s records or facilities;
- the names and contact details of the professional members of the audit team and the audit team leader;
- an indication of the expertise of the professional members of the audit team and the audit team leader. This could be a brief summary of expertise or experience relating to the audit; and
- a statement as to who will receive a copy of the assurance engagement report. This is to clarify and ensure that all parties acknowledge the recipient of the report.

Section 3.4 – Assurance engagement terms to be agreed

Subsection 3.4(1) requires an audit team leader to ensure that the terms of engagement are agreed to in writing by the person who appointed the audit team leader, which is either the GEDO or the audited body.

Paragraph 3.4(2) requires the terms to include a statement that they have been agreed to by the audit team leader and the person who appointed the audit team leader to carry out the audit. The terms of the engagement must be signed by the audit team leader and the person who appointed the audit team leader.

Subsection 3.4(3) provides that if the assurance engagement terms are not agreed and signed, then the audit team leader must not commence the audit and must inform the GEDO in writing. This is required for administrative purposes for the GEDO.

Subsection 3.4(4) provides that if the terms are amended during an audit any such amendment must be agreed to in writing and signed by the audit team leader and the appointing body.

Division 3.3 – Requirements relating to planning and performing assurance engagement

Subdivision 3.3.1 – Overview of Division

Section 3.5 – Overview of Division

Subsection 3.5(1) states section 3.5 provides an overview of Division 3.3, which sets out requirements relating to planning and performing assurance engagements.

Subsection 3.5(2) describes an assurance engagement as a cumulative and iterative process the goal of which is to find sufficient evidence to provide a reasonable assurance conclusion or limited assurance conclusion. In carrying out the greenhouse and energy audit, the audit team leader must use his or her professional judgement.

Subsection 3.5(3) states that the assurance engagement needs to be planned so that is conducted in an efficient and effective manner.

Subsection 3.5(4) provides for the key elements of an assurance engagement as:

- assessing the risk of material misstatements in order to determine the type and extent of other audit procedures required for the audit;
- substantive procedures designed to detect misstatements that are material in the matter being audited; and
- tests of systems and processes of the audited body that relate to the matters being audited.

Subsection 3.5(5) requires audit team leaders to collect evidence and assess the materiality of any misstatements found throughout the audit.

Subsection 3.5(6) requires audit team leaders to form a conclusion about the reliability, accuracy and completeness of the matters being audited. Refer to sections 3.17 and 3.19 for details on the types of conclusions.

Subdivision 3.3.2 – Planning assurance engagement

Section 3.6 – Preparing assurance engagement plan

Subsection 3.6(1) requires audit team leaders to prepare in writing an assurance engagement plan that complies with the requirements of this section.

Subsection 3.6(2) requires audit team leaders to use their professional scepticism when preparing the assurance engagement plan in recognition of the fact that there may be misstatements in the matters being audited. Professional scepticism involves a questioning mind. For example, being alert to conditions which may indicate a possible misstatement, or critically assessing evidence.

Subsection 3.6(3) requires audit team leaders to have regard to the purpose of the plan (outlined in subsection 3.6(4)) when preparing the assurance engagement plan.

Subsection 3.6(4) describes that the assurance engagement plan is a tool that the audit team leader uses to assist him or her to carry out the assurance engagement in an effective and efficient manner and in compliance with the assurance engagement terms, the Regulations and the Determination.

Subsection 3.6(5) sets out the items that need to be included in the assurance engagement

plan, including:

- the assurance engagement terms as required by section 3.3(2);
- any issues that may require particular attention during the assurance engagement;
- the intended timeframes for completing the assurance engagement;
- a description of any aspects of the matters being audited that may impact how the assurance engagement is carried out, such as emissions sources that are inherently difficult to measure;
- a summary of the procedures that will be performed during the assurance engagement;
- the role of each professional member of the audit team and the procedures they will carry out;
- the audit team leader's understanding of the matters being audited, in particular:
 - relevant operations, business objectives and strategies of the audited body,
 - the audited body's systems and processes (e.g. quality control processes),
 - the audited body's risk management systems and procedures;
- the industry sector (that has the meaning of regulation 2.06) in which the audited body operates; and
- the name of the peer reviewer for the assurance engagement (see section 3.7).

Subsection 3.6(6) requires that the audit team leader's understanding of the matters being audited and the audit body's systems and processes must be such that they are able to identify and assess the risks of material misstatement and be able to perform appropriate audit procedures in response to those risks.

Section 3.7 – Peer reviewer

Subsection 3.7(1) requires audit team leaders to ensure the judgements that the audit team leader has made in conducting the assurance engagement are evaluated by a peer reviewer. This person should be impartial, objective and have sufficient and appropriate experience and authority to be able to undertake the evaluation. Compliance with the independence requirements for registered greenhouse and energy auditors outlined in the Regulations could be one way to demonstrate that the person is objective and impartial.

Subsection 3.7(2) sets out the activities the audit team leader must ensure the peer reviewer undertakes in conducting the evaluation, including:

- reviewing key documentation used by the audit team leader in conducting the assurance engagement;
- reviewing the draft assurance engagement report;

- challenging the work of the audit team leader in an objective and impartial manner; and
- documenting how they performed the evaluation and the outcome of the evaluation.

It is best practice that if there are differences of opinion between the peer reviewer findings and the audit team leader, that these differences are resolved before the end of the assurance engagement.

Section 3.8 – Ongoing nature of plan

This section requires the audit team leader to regularly review the assurance engagement plan throughout the engagement. If the assurance engagement procedures deviate from what was originally planned then the audit team leader must amend the plan accordingly to reflect the changes. This ensures the audit plan is up to date with the most current information on the procedures being carried out.

Subdivision 3.3.3 – Performing assurance engagement

Section 3.9 – Audit procedures to be done while performing an assurance engagement

Subsection 3.9(1) requires an audit team leader to carry out a risk assessment on the matters being audited. In doing so, the risk assessment will determine the nature, timing and extent of evidence gathering that needs to be performed during the assurance engagement in order to support their conclusion. It will also determine the approximate amount of time necessary to carry out the assurance engagement.

Subsection 3.9(2) provides that depending on the risk assessment results, an audit team leader must do one or both of the following:

- test the operating effectiveness of the systems and processes used to prevent, detect or correct misstatements (see section 3.11). The risk of a misstatement takes into account the systems and processes that the audited body has in place to ensure the reliability and accuracy of the matters being audited, such as quality control procedures. If these systems and processes are assessed by the audit team leader as unsatisfactory then this may lead to an increase in the extent or scope of the substantive procedures to be performed under paragraph 3.9(2)(b); and
- design and undertake procedures to detect misstatements in the matters being audited. Generally the greater the risk of a misstatement, the greater the extent of these procedures.

Subsection 3.9(3) states that while the audit team leader carries out procedures in subsections 3.9(1) and 3.9(2), the *assurance engagement* procedures, they must also gather evidence and consider whether any misstatements are material.

Subsection 3.9(4) describes that the assurance engagement process is an iterative and cumulative one and an audit team leader continues to perform the assurance engagement procedures outlined in the previous subsections until they are able to provide one of the conclusions described in sections 3.17 to 3.19.

Section 3.10 – Risk assessment

Subsection 3.10(1) requires audit team leaders to undertake certain activities when performing a risk assessment, including:

- analysing the matters being audited;
- consulting the audited body's management;
- observing the audited body's systems and processes;
- inspecting documents of the audited body; and
- performing such other relevant activities as identified by the audit team leader in their professional judgement.

Subsection 3.10(2) requires an audit team leader to consider the risk of fraud during the assurance engagement. The distinguishing factor between fraud and misstatement is whether the underlying action that results in the misstatement is intentional or unintentional. Fraud refers to an intentional act by one or more persons of the audited body involving the use of deception to obtain an unjust or illegal advantage.

Subsection 3.10(3) requires an audit team leader to consider not only if a risk increases the possibility of a misstatement in the matters being audited but also if the risk, in combination with other identified risks, increases that possibility.

Section 3.11 – Tests of audited body's systems and processes

Subsection 3.11(1) requires audit team leaders to design tests of the systems and processes that the audited body has in place if appropriate. By performing these tests of 'controls' the audit team leader determines the reliability and accuracy of the matters being audited throughout the period to which the audit relates.

Subsection 3.11(2) provides that audit team leaders may rely on evidence in relation to those systems and processes gained from previous greenhouse and energy audits.

Subsection 3.11(3) requires if an audit team leader relies on evidence from a previous greenhouse and energy audit, then they must: gather evidence to evaluate if changes have occurred in those systems and processes since the last audit; and determine the continuing relevance of the previous audit's evidence.

Subsection 3.11(4) requires the audit team leader to consider the following matters when testing systems and processes:

- the frequency of the performance of the systems and processes;
- the length of time that the audit team leader is relying on the operating effectiveness of the systems and processes;
- any evidence about the reliability and accuracy of the systems or processes in detecting and correcting misstatements; and
- the extent to which the audit team leader plans to rely on the systems and processes

when assessing the risk of misstatements.

Section 3.12 – Use of evidence from previous audits

This section requires that if an audit team leader intends to use evidence from previous greenhouse and energy audits of the audited body, then the audit team leader must undertake procedures in the current assurance engagement to determine the continuing relevance of the evidence gained from the previous audit.

Section 3.13 – Gathering evidence

Subsection 3.13(1) requires the audit team leader to gather sufficient evidence to form an opinion in order to appropriately support the conclusion of the assurance engagement.

Subsection 3.13(2) stipulates that the evidence needs to be reliable and relevant to the objective of the assurance engagement.

Subsection 3.13(3) requires the audit team leader to use his or her judgement and professional scepticism in evaluating whether the evidence gathered is sufficient to support the conclusion of the assurance engagement. Professional scepticism in this case may involve the assessment of evidence with a critical eye. In circumstances where the evidence gathered is not sufficient to support the conclusion, and more evidence is required, then the audit team leader should continue gathering evidence until this requirement is met.

Section 3.14 – Types of evidence

Subsection 3.14(1) lists the types of evidence that may be gathered in an assurance engagement including:

- physical evidence such as an observation of a process or procedure being performed, or inspection of an item;
- documentary evidence such as copies of records of the audited body;
- oral responses from employees of the audited body or other relevant parties (such as contractors working on site);
- written representations from the audited body; and
- evidence from previous greenhouse and energy audits.

Subsection 3.14(2) requires the audit team leader to seek a written representation from the audited body acknowledging its responsibility for the evidence it provides as part of the engagement, and for the systems it has in place to ensure the reliability and accuracy of that evidence. These written representations assist the audit team leader when assessing the risks of material misstatements and the reliability of evidence.

Subsection 3.14(3) allows for audit team leaders to seek written representations from the audited body in place of other evidence if sufficient evidence that could reasonably be expected to exist is not available. Such representations are considered less desirable than other kinds of evidence, and should be used with caution.

Subsection 3.14(4) requires an audit team leader to further investigate if evidence gathered

during the assurance engagement contradicts a written representation provided by the audited body. During the investigation of the contradiction the audit team leader must reconsider the reliability of all written representations made by the audited body's management during the assurance engagement.

If the audited body refuses to provide a written representation under subsections 3.14(2) or 3.14(3), subsection 3.14(5) requires the audit team leader to report the refusal in the assurance engagement report. In this circumstance, an audit team leader must not give a reasonable assurance or a limited assurance conclusion. However, these requirements only apply if the audit team leader believes that the refusal affects the conclusion they were proposing to give, as stated in subsection 3.14(6).

Section 3.15 – Methods for gathering evidence

Subsection 3.15(1) specifies that there are various methods for gathering evidence during the assurance engagement. It is up to the audit team leader's professional judgement to decide which method/s to use.

Subsection 3.15(2) lists the methods of evidence gathering including:

- confirmation of existing information or processes by a third party. Third party could be any other party besides the audited body or the audit team leader;
- recalculation of mathematical calculations;
- re-performance of systems and processes systems and processes that ensure the reliability and accuracy of the matters being audited;
- applying analytical procedures;
- inspection of records or documents or a physical examination of the audited body's tangible assets;
- observation of processes, or others performing procedures;
- inquiry by seeking information from persons within or outside the audited body; and
- sampling or extrapolating the results from sampling.

Section 3.16 – Consideration of materiality of misstatement

Subsection 3.16(1) requires an audit team leader to consider materiality of a misstatement in the matter being audited, including:

- the significance of the misstatement;
- the pervasiveness of the misstatement; and
- how the misstatement effects the matters being audited as a whole.

Subsection 3.16(2) requires an audit team leader to identify whether the misstatement is material individually or when it is aggregated with other identified misstatements.

Section 3.17 – Giving conclusions in a reasonable assurance engagement

Subsection 3.17(1) provides for four types of conclusion in a reasonable assurance engagement. When an audit team leader carries out a reasonable assurance engagement, sufficient and appropriate evidence must be gathered and considered to give one of the following conclusions:

- a reasonable assurance conclusion;
- a qualified reasonable assurance conclusion;
- an adverse conclusion; or
- a conclusion that he or she is unable to form an opinion about the matters being audited.

Reasonable assurance conclusions and qualified reasonable assurance conclusions are specific to reasonable assurance engagements, and are described in subsections 3.17(2) and 3.17(3) below. Adverse conclusions and a conclusion that an auditor is unable to form an opinion are also possible under limited assurance engagements, and are described in section 3.19 below.

Reasonable assurance conclusion

Subsection 3.17(2) describes a reasonable assurance conclusion as a conclusion that an audit team leader provides as their overall opinion in relation to the matters being audited. The conclusion is expressed in the positive which means that, in the auditor's opinion, there are no misstatements in the matters being audited that are material or pervasive enough to affect the matters being audited as a whole.

The note to this subsection includes examples of how a reasonable assurance conclusion might be expressed.

Qualified reasonable assurance conclusion

Subsection 3.17(3) describes a qualified reasonable assurance conclusion as an audit team leader's opinion expressed in the positive that:

- there are one or more misstatements that are material but not pervasive enough to affect the matters being audited as a whole; or
- there is insufficient evidence in relation to one or more aspects of the matter being audited but this lack of evidence is not material or pervasive enough to affect the matters being audited as a whole.

The notes to subsection 3.17(3) provide examples of how a qualified reasonable assurance conclusion might be expressed.

Subsection 3.17(4) requires that an audit team leader must only provide a conclusion if the conclusion is supported by sufficient and appropriate evidence.

Section 3.18 – Giving conclusions in a limited assurance engagement

Subsection 3.18(1) provides for four types of conclusions in a limited assurance engagement. When an audit team leader carries out a reasonable assurance engagement, sufficient and appropriate evidence must be gathered and considered to give one of the following conclusions:

- a limited assurance conclusion;
- a qualified limited assurance conclusion;
- an adverse conclusion; or
- a conclusion that he or she is unable to form an opinion about the matters being audited.

Limited assurance conclusions and qualified limited assurance conclusions are only possible under a limited assurance engagement.

Limited assurance conclusion

Subsection 3.17(2) describes a limited assurance conclusion as a conclusion where an audit team leader expresses his or her opinion on the matters being audited. The conclusion is expressed in the negative which means that they are not aware of any misstatements that are material or pervasive enough to affect the matters being audited as a whole.

The note to this subsection includes examples of limited assurance conclusions.

Qualified limited assurance conclusion

Subsection 3.18(3) describes a qualified limited assurance conclusion as a conclusion provided by an audit team leader expressed in the negative that:

- there are one or more misstatements that are material but not pervasive enough to affect the matters as a whole; or
- there is insufficient evidence in relation to one or more aspects of the matters being audited but that this lack of evidence may not be material or pervasive enough to affect the matters being audited as a whole.

The notes to this subsection provide examples of how a qualified reasonable assurance conclusion might be expressed.

Subsection 3.18(4) requires that an audit team leader must only provide a conclusion if the conclusion is supported by sufficient and appropriate evidence.

Section 3.19 – Other conclusions

Section 3.19 allows for adverse conclusions and a conclusion that an auditor is unable to form an opinion to be made under reasonable assurance engagements and limited assurance engagements. These are described in subsections 3.19(1) and (2) below.

Adverse conclusion

Subsection 3.19(1) specifies that if an audit team leader provides an adverse conclusion

they are attesting that there are misstatements that are material and pervasive enough to affect the matters being audited as a whole.

Paragraph 3.19(1)(b) further clarifies that an adverse conclusion should be provided in assurance engagements where the audit team leader is unable to give a:

- reasonable assurance conclusion;
- limited assurance conclusion;
- qualified reasonable assurance conclusion; or
- qualified limited assurance conclusion.

An example of an adverse conclusion may be expressed as follows:

“In my opinion, because of the significance of the misstatement “X”, this [report] does not give a true and fair view of the matters that were audited in all material respects, in compliance with the requirements of the NGER legislation”.

“X” represents any misstatement that is material and or pervasive enough to affect the matters as a whole.

Conclusion that unable to form an opinion about matter being audited

Subsection 3.19(2) explains the circumstances in which an audit team leader might be unable to form an opinion about the matters being audited.

This conclusion is provided when the audit team leader is unable to obtain sufficient appropriate audit evidence on which to base their opinion. The audit team leader will conclude that the possible effects on the matter to be audited of undetected misstatements, if any, could be both material and pervasive. Due to the audit team leader being unable to reasonably gain sufficient and appropriate evidence he or she is unable to give any other type of conclusion.

The auditor’s inability to obtain sufficient appropriate audit evidence may arise from:

- circumstances beyond the control of the audited body;
- circumstances relating to the nature or timing of the audit team leader’s work; or
- limitations imposed by the audited body’s management.

This type of conclusion may be expressed as follows:

“Because of the significance of “X” I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an opinion. Accordingly, I do not express an opinion on the matters that were audited.”

“X” represents any lack of evidence relating to the matters that were audited.

If this conclusion is reached, the reasons for providing this conclusion must be documented in the assurance engagement report, as required under subparagraph 3.22(2)(b)(ix).

Division 3.4 – Requirements relating to reporting on assurance engagement

Section 3.20 – Overview of Division

This section provides a brief overview of Division 3.4, which relates to requirements for reporting on assurance engagements.

Subsection 3.20(2) states that Division 3.4 requires an assurance engagement report to be prepared by an audit team leader for the assurance engagement.

Subsection 3.20(3) briefly describes that an assurance engagement report includes the greenhouse and energy audit's objective, a summary of the assurance engagement procedures and a conclusion for the assurance engagement.

Section 3.21 – Requirements for assurance engagement report

Subsection 3.21(1) requires that the assurance engagement report must be in writing.

Subsection 3.21(2) lists what must be included in the assurance engagement report including:

- a cover sheet;
- Part A, which must be prepared in accordance with the requirements set out in section 3.22; and
- Part B, which must be prepared in accordance with the requirements set out in section 3.23.

Although the assurance engagement report is intended for the use of the GEDO, the assurance engagement report is structured in a way so to allow the disclosure of certain parts of the report, such as Part A, without having to disclose the whole report. The GEDO does not currently intend to disclose the results of greenhouse and energy audits. Any decision to disclose such information would take into consideration the possible impacts on the relevant corporation's reputation.

Subsection 3.21(3) lists the requirements to be set out in the cover sheet of the assurance engagement report. The cover sheet is intended to provide information for administrative purposes for the GEDO. The following information must be included in the cover sheet:

- the name of the audited body;
- the type of assurance engagement conducted;
- the date the terms of engagement were signed;
- the date the audit team leader signed Part A and Part B of the report;
- the period of time to which the audit applied;
- details of the main contact at the audited body during the assurance engagement;
- the audit team leader's name and contact details, and the contact details of the person

the audit team leader worked for if appropriate;

- details of any exemptions provided from the independence and auditor rotation requirements outlined in the Regulations;
- details of how any conflicts of interest were managed if an exemption was granted; and
- the names and contact details of the professional team members. This will assist the GEDO in creating a database of relevant experts.

Section 3.22 – Part A requirements

Subsection 3.22(1) describes the purpose of Part A of the assurance engagement report, which is to provide a summary of the assurance engagement procedures and to include the audit team leader's conclusion for the assurance engagement.

Subsection 3.22(2) requires Part A of the assurance engagement report to be prepared having regard to the purpose of Part A and requires the inclusion of:

- the name of the audit team leader;
- the objective of the assurance engagement and the kind of assurance engagement carried out;
- the matters that were audited;
- the name and address of the audited body;
- the provisions of the NGER legislation that relate to the audit;
- the period of time in respect of which the audit was conducted;
- a statement that the assurance engagement was carried out in accordance with the assurance engagement terms, the Regulations and the Determination;
- the audit team leader's conclusion and the reasons for the conclusion; and
- a summary of the assurance engagement procedures performed.

Subsection 3.33(3) requires the audit team leader to sign and date Part A upon completion.

Section 3.23 – Part B requirements

Subsection 3.23(1) requires Part B of the assurance engagement report to contain:

- any issues that required particular attention during the assurance engagement;
- details of aspects of the matters that particularly impacted on the carrying out of the assurance engagement. This could include complexity of a process or difficulties in retrieving relevant documentation to support the audit team leader's opinion;
- the details of potential contraventions of the Act or Regulations found during the

assurance engagement. This information will assist the GEDO in compliance monitoring;

- the name of the peer reviewer and a summary of the peer reviewer's findings; and
- any other matters the audit team thinks relevant.

Subsection 3.23(2) requires the audit team leader to sign and date Part B upon completion.

Part 4 Verification engagements

Division 4.1 – Overview of Part

Section 4.1 – Overview of Part

Subsections 4.1(1) and 4.1(2) provide an overview of Part 4 of the Determination, which establishes the requirements for verification engagements.

Subsection 4.1(3) notes there are three steps in carrying out a verification engagement: preparing for the engagement, planning and performing the procedures and reporting.

Subsection 4.1(4) clarifies that a verification engagement differs from an assurance engagement in that the audit team leader performs procedures that are agreed to by the appointing body rather than using their judgement to determine the extent and scope of procedures.

Subsection 4.1(5) notes that the verification engagement terms are prepared prior to conducting the engagement.

Subsection 4.1(6) requires a verification engagement to be planned so that it will be performed efficiently, effectively and in compliance with the verification engagements terms, the Regulations and the Determination.

Subsection 4.1(7) requires audit team leaders to provide a report about the procedures performed and the factual findings at the end of the engagement.

Division 4.2 – Requirements relating to preparing for verification engagement

Section 4.2 – Verification engagement terms

Subsection 4.2(1) requires the audit team leader to prepare the terms of the verification engagement before agreeing to perform the verification engagement. This ensures that the appointing party and audit team leader are in agreement before the audit team leader commences work.

Subsection 4.2(2) requires the verification engagement terms to include:

- objective of the verification engagement. This would be specified by the GEDO in the notice given under sections 73 to 74A of the Act;
- matters being audited;
- type of greenhouse and energy audit to be carried out - a verification engagement;

- name and address of the audited body;
- relevant provisions of the NGER legislation that relate to the audit;
- period of time covered by the audit;
- period within which the engagement is to be carried out. This should be from when the verification engagement terms are agreed to when the audit team leader provides the verification engagement report;
- responsibilities of the audited body during the engagement, such as providing access to documents or facilities;
- contact details and names of the professional audit team members and the audit team leader;
- indication of the expertise of the professional audit team members and the role those professional team members will have in the verification engagement;
- details of the verification engagement procedures that will be undertaken. These procedures should be provided by the appointing body and relate to the objective of the verification engagement; and
- a statement as to who will receive a copy of the verification engagement report. This could be the GEDO, the appointing body or a third party.

Section 4.3 – Verification engagement terms to be agreed

Subsection 4.3(1) requires audit team leaders to ensure the verification engagement terms are agreed to between the appointing body and the audit team leader. This ensures that both parties understand and agree to what will be carried out in the verification engagement. The appointing body could be either the GEDO or the audited body.

Subsection 4.3(2) requires a signed statement in the verification engagement terms that the terms have been agreed by the audit team leader and the appointing body.

Subsection 4.3(3) requires audit team leaders to inform the GEDO if the terms are not agreed and signed. It also states that the audit team leader must not to carry out the engagement if the terms are not agreed.

Subsection 4.3(4) states the requirements to be met if the verification engagement terms are amended during the engagement. The amendment must be in writing, signed and must indicate that the appointing body and the audit team leader agree on the amendment.

Division 4.3 – Requirements relating to planning and performing verification engagement

Section 4.4 – Planning verification engagement

Subsection 4.4(1) requires audit team leaders to prepare a verification engagement plan after agreeing to the verification engagement terms. The verification engagement plan must be in writing and is used as a tool for the audit team leader to ensure that the verification

engagement is carried out efficiently and effectively.

Subsection 4.41(2) requires the verification plan to include the verification engagement terms as outlined in subsection 4.2(2).

Section 4.5 – Ongoing nature of plan

Subsection 4.5(1) requires the audit team leader to regularly review the verification engagement plan and if the verification engagement procedures change during the engagement to update the plan accordingly to reflect the changes.

Subsection 4.5(2) requires the audit team leader to report on the amended verification terms in the verification engagement report if the changes to the verification engagement plan effect the terms of the engagement.

Section 4.6 – Performing verification engagement

Section 4.6 requires the audit team leader to perform the procedures agreed to in the verification engagement terms. The audit team leader must then use the evidence gathered to verify the matters being audited (if possible) and provide his or her findings in the verification engagement report.

Division 4.4 – Requirements relating to reporting on verification engagement

Section 4.7 – Reporting on verification engagement

Subsection 4.7(1) describes that section 4.7 provides for the preparation of the verification engagement report by the audit team leader.

Subsection 4.7(2) requires the audit team leader to explain the purpose of the procedures they performed during the verification engagement in their report to enable the GEDO to understand the nature, timing and extent of the procedures.

Subsection 4.7(3) requires the audit team leader to prepare the verification report in writing and to have it signed and dated.

Subsection 4.7(4) requires the verification report to include a cover sheet which contains the information specified in subsection 4.7(5) below, and also the contents specified in subsection 4.8(1).

Subsection 4.7(5) requires the following to be included in the cover sheet for a verification engagement report:

- name of the audited body;
- type of greenhouse and energy audit conducted;
- date the verification engagement terms were signed;
- date the audit team leader signed the verification engagement report;
- the period of time in which the matter was audited;

- details of any exemptions provided under the Regulations for the independence or auditor rotation requirements;
- details of how any conflicts of interest were managed, if an exemption was granted under the Regulations;
- contact details of the main contact in the audited body for the engagement;
- the audit team leader's name and contact details, and the contact details of the person the audit team leader worked for, if appropriate; and
- the names and contact details of the professional audit team members.

Section 4.8 – Contents of verification engagement report

Subsection 4.8(1) requires the verification engagement report to include:

- objective of the verification engagement;
- matters that were audited;
- type of greenhouse and energy audit to be carried out- a verification engagement;
- name and address of the audited body;
- a statement that the verification engagement was carried out in accordance with the verification engagement terms, the Regulations and the Determination;
- a statement that the engagement was not an assurance engagement, therefore no opinion is provided by the audit team leader;
- details of the procedures performed in the verification engagement;
- details and reasons for the findings in relation to the objective and matters that were audited;
- details of matters that particularly impacted on the carrying out of the assurance engagement. This could include complexity of a process or difficulties in retrieving relevant documentation to perform the verification engagement procedures; and
- details of any potential contraventions of the Act or Regulations found during the verification engagement. This information will assist the GEDO in monitoring compliance of reporting entities.

Subsection 4.8(2) requires the audit team to sign and date the verification engagement report upon completion.