



**FEE DISCUSSION PAPER**

**KEY ISSUES IN  
SUSTAINABILITY ASSURANCE  
AN OVERVIEW**

**June 2006**



**FEE**

The Fédération des Experts Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe. FEE's membership consists of 44 professional institutes of accountants from 32 countries. FEE member bodies represent more than 500,000 accountants in Europe.

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## EXECUTIVE SUMMARY

This Paper analyses Swedish, French, Dutch and German standards for assurance on sustainability reports. The analysis is structured by reference to the international framework and the generic standard for assurance issued by the International Federation of Accountants (IFAC).

The analysis examines areas where reporting sustainability performance gives rise to the need to go further than a generic assurance standard and associated guidance. The analysis also deals with the way standards are prepared: taking into consideration their scope and interaction with other authoritative pronouncements, such as those relating to independence.

The purpose of the analysis is to highlight national similarities and differences and, by commenting constructively on them through providing FEE positions, assist national and international standard setters in the development of future standards. The Paper will also be of interest to stakeholders in the assurance process who wish to understand more about the key issues.

FEE concludes that the international generic material for assurance is not itself sufficient in the area of sustainability reporting, primarily because of the complexity of the subject matter. Nevertheless, it provides an appropriate starting point for more-specific standards.

FEE encourages IFAC to move towards issuing a specific international standard for assurance on sustainability reports, the precise form and content of such a standard will be determined by the standard setter's due process. FEE recognises that the IAASB has to allocate its resources in the overall public interest and strongly supports a current major project to clarify the IAASB Engagement Standards that is both highly important and requires considerable resources. This project may render it inappropriate, therefore, for the IAASB to allocate resources so as to be able to issue a standard for assurance on sustainability reports as early as 2007. FEE is pleased to offer its expertise and resources in the area of assurance on sustainability information to assist the IAASB in progressing towards a global standard.

## 1 INTRODUCTION

FEE's discussion paper *Providing Assurance on Sustainability Reports* (April 2002), included a statement that: 'There are no specific standards dealing with the contents of assurance reports on sustainability reports.' At that time, professional accountants in public practice ('practitioners'<sup>1</sup>) issuing reports intended to convey assurance could only draw on the generic International Standard on Assurance Engagements 100<sup>2</sup> (ISAE 100) issued by the International Federation of Accountants (IFAC).

In the intervening period, data is available that indicates that the number of companies of global significance issuing sustainability reports has continued to grow rapidly as has the number and proportion of their reports with independent assurance<sup>3</sup>.

In February 2004, FEE issued a *Call for Action – Assurance for Sustainability*. That paper recorded the then recent issue by the International Auditing and Assurance Standards Board (IAASB) of IFAC of an *International Framework for Assurance Engagements* (the *Framework*) and a general International Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (ISAE 3000)<sup>4</sup>.

The FEE *Call for Action* also referred to a new assurance standard issued by the Institute of Social and Ethical AccountAbility (known generally as 'AccountAbility'), the AA1000 Assurance Standard (AA1000 AS). However, AA1000 AS was part of a general series of publications to promote accountability for sustainable development and it was envisaged that supplementary material, such as guidance notes, would be necessary before it could be considered for practical use in assurance engagements<sup>5</sup>.

While these standards were welcome, the FEE *Call for Action* recognised the need for a specific standard for assurance on sustainability reports and sought to encourage stakeholders in the development of assurance to co-operate towards that end. Some two years later, national standard setters, particularly in the European Union (EU), are leading the development of specific assurance standards.

In this Paper FEE attempts to identify areas of commonality in the national pronouncements issued to date and to analyse and comment on their differences. Paragraphs, often starting 'FEE believes' and identified by grey shading, highlight issues which we consider merit further consideration. Where a FEE view is expressed, we welcome comments. By examining where national standard setters have gone beyond the general requirements in ISAE 3000 and where guidance has been provided, it is hoped that FEE's views will provoke debate that will enhance the ability of standard setters to meet the needs of the marketplace for suitable standards for assurance that will increase the credibility of sustainability reports.

<sup>1</sup> The term 'practitioner' can refer to an individual or a firm.

<sup>2</sup> ISAE 100, which has now been superseded, was also known as International Standard on Auditing 100 *Assurance Engagements*.

<sup>3</sup> The KPMG International Survey of Corporate Responsibility Reporting 2005, which examines data including the top 250 companies of the Fortune 500 and the top 100 companies in 16 countries, reports a three-year growth of almost 50% in reporting, with a large number of reporters moving from environmental reports to full sustainability reports (this may be downloaded as set out in Appendix 2 References).

<sup>4</sup> ISAE 3000 (R) replaced ISAE 100 from December 2004.

<sup>5</sup> For further information see Appendix 1 *Summary of the AA1000 Assurance Standard*. Because of the substantial differences between AA1000 AS and the national standards developed in reference to the IFAC pronouncements for practitioners, it has not been included in this paper's comparative analysis.

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Sections of this Paper:

- Introduce the national pronouncements and explain translation issues (Section 2);
- Summarise the requirements of ISAE 3000 in order to provide the structure against which to consider the national pronouncements (Section 3);
- Deal individually with the main features of assurance on sustainability reports, showing where national standards agree or differ and giving FEE's views on the issues arising in the context of developing new specific standards for assurance on sustainability reports (Sections 4 to 16):
  - Accepting an engagement / agreeing on its terms,
  - Subject matter, suitable criteria and sufficient appropriate evidence,
  - Materiality,
  - Planning and performing the engagement,
  - Reasonable assurance and limited assurance engagements,
  - Using the work of an expert,
  - Subsequent events,
  - Documentation,
  - Compliance with laws and regulations,
  - Fraud,
  - Assurance report,
  - Changing the engagement / negative findings,
  - Other reporting responsibilities;
- Highlight other important issues relevant to standard setting (Section 17); and
- Summarise the public interest and technical cases for an international standard (Section 18).

Appendix 1 summarises AA1000 AS and Appendix 2 provides references to relevant publications.

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FEE welcomes feedback on this Paper. Please send any comments to:

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All comments will be treated as being on the public record and may be published on FEE's website (<http://www.fee.be>).

## 2 NATIONAL STANDARDS / EXPOSURE DRAFTS ANALYSED

This section introduces the national standards and exposure drafts ('pronouncements') that are analysed in this Paper<sup>6</sup>. These are presented in chronological order of date of issue.

Within the text of this Paper, references to parts of the text of a pronouncement are made differently, depending on the usual national method and whether individual paragraphs are numbered. References are to authorised English translations, except for the French guidance, which is available only in French. The standard-setting body in each country concerned is a national accountancy body.

### Sweden

*Independent review of voluntary separate sustainability report*

Issued: February 2004 by FAR<sup>7</sup>

Current status: standard – updating being considered

References: To numbered paragraph, for example (FAR 6).

The document refers to itself as a 'proposed recommendation'. In practice, FAR regards it as having the authority of a standard and being available for use.

### France

*Pratique professionnelle relative au rapport du Commissaire aux Comptes sur certaines données ou informations environnementales et sociales ou sur les procédures d'établissement de ces données ou informations, contenus dans le rapport rendant compte en matière de développement durable*

Finalised: November 2004 by Compagnie Nationale des Commissaires aux Comptes (CNCC)

Current status: informal guidance (not published)

References: To section ('*paragraphe*') then to paragraph (the paragraphs are not numbered in the original), for example (CNCC s1 6).

Note that the text of this guidance only exists in French. An unofficial translation of the title, for the purpose of this Paper might be: Professional practice for providing assurance, by the *commissaire aux comptes*, on specific environmental or social data or information, or on the processes to obtain such information, included in a sustainability report.

### The Netherlands

*Practitioners working with subject matter experts from other disciplines on non-financial assurance engagements (ED 3010) and Assurance engagements relating to sustainability reports (ED 3410)*

Issued: January 2005 by Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA)

Current status: exposure draft – comment period ended 31 July 2005

References: To document then numbered paragraph, for example (NIVRA ED 3410 18).

<sup>6</sup> Although not directly comparable to ISAE 3000 and so not analysed in detail in this paper, a summary of AA 1000 AS is given in Appendix 1. Appendix 2 *References* provides a reference to its source and to other information that may be of interest.

<sup>7</sup> The Swedish issuer, previously named 'Föreningen Auktoriserade Revisorer', is now known simply as 'FAR'.

## Germany

*Generally Accepted Assurance Principles for Audit or Review of Sustainability Reports (ED AsS 821)*

Issued May 2005 by Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)

Current status: exposure draft – comment period ended January 2006

References: To document (IDW Exposure Draft Assurance Standard 821) then numbered paragraph, for example (IDW ED AsS 821 22).

### 2.1 Language and translation

It is not the purpose of this Paper to address general issues about language or translation. Nevertheless, some appreciation of the issues is necessary to assist in understanding the difficulty in analysing the national pronouncements; especially when that involves some direct comparison of their requirements to those of ISAE 3000.

In preparing this Paper it has been necessary to consider four national pronouncements originally written in languages other than English. The French guidance has been dealt with in French, although the outcomes of that analysis are reported in English. Authorised translations into English have been used to analyse the Swedish, Dutch and German pronouncements. Of these, the latter two are particularly interesting linguistically as they were issued after ISAE 3000 and draw heavily on it. The two pronouncements exhibit significant differences in the way requirements are worded. This is illustrated by the following requirement from ISAE 3000 and the German equivalent:

*The practitioner should conclude whether sufficient appropriate evidence has been obtained to support the conclusion expressed in the assurance report (ISAE 3000 45).*

*The Wirtschaftsprüfer should assess whether sufficient appropriate evidence has been obtained to justify the audit conclusion or the assertion on the results of the review in the assurance report (IDW ED AsS 831 72).*

In interpreting the German standard (in English) it is important to know whether ‘conclude’ and ‘assess’ or ‘support’ and ‘justify’ are intended to have the same meanings. If they are not, there needs to be consideration of the reasons for, and effects of, the differences. However, as the intention of the national standard setters was to comply with ISAE 3000, it has been assumed in this Paper that linguistic differences between ISAE 3000 and the Dutch and German pronouncements (translated into English) generally do not represent disagreements.

The above illustration was chosen for its simplicity; in other cases, differences in wording are more structural or more pervasive. One of these relates to basic terminology and highlights a significant problem for an international standard setter issuing standards in English that are also used in translation. The term ‘limited assurance engagement’ is not used in the Dutch standard, which uses instead the term ‘review’, because ‘*In Dutch, there are currently no practical alternatives.*’<sup>8</sup>

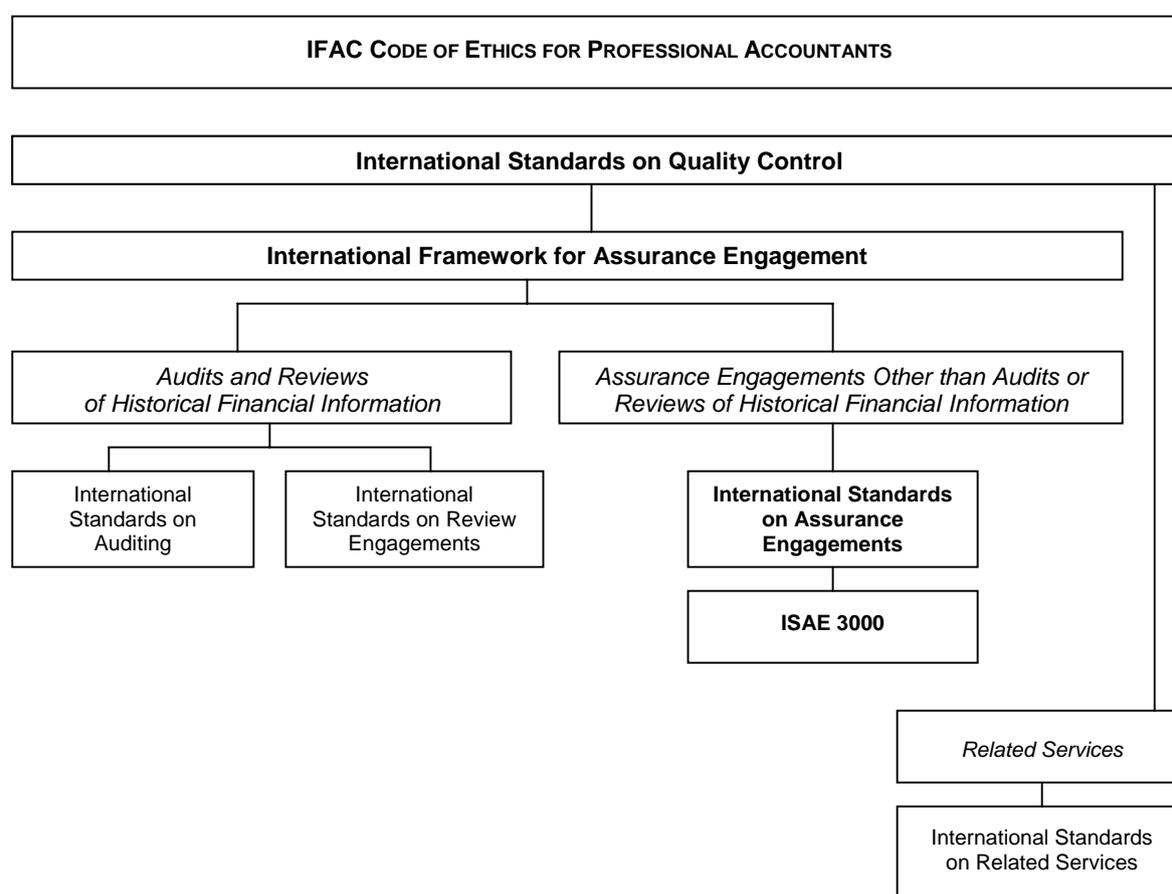
<sup>8</sup> From NIVRA ED 3410 7 (footnote 4). This terminology is discussed further in Section 17.6 ‘Audit’ and ‘review’ of this Paper.

### 3 OVERALL FEATURES OF ISAE 3000

This section summarises the requirements of ISAE 3000 in order to provide the structure against which to consider the national pronouncements. Cross-references are provided to subsequent sections of this Paper that analyse those aspects of assurance on sustainability information for which the national pronouncements go beyond ISAE 3000, as indicated by the text included in boxes in each of the sections in this chapter.

#### 3.1 Relationship with other authoritative pronouncements

ISAE 3000 is just one of the engagement standards issued by the IAASB. The following diagram illustrates its relationship to the IFAC *Code of Ethics for Professional Accountants* (the *Code*) issued by the International Ethics Board for Accountants and other pronouncements issued by the IAASB.



Those applying ISAE 3000 are required to comply with the requirements of Parts A and B of the *Code*. Part A requires professional accountants to comply with the five fundamental ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Part B of the *Code* requires practitioners carrying out assurance engagements to be independent<sup>9</sup>.

Practitioners are required to comply with IFAC International Standard on Quality Control 1 *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements* (ISQC 1). Under this standard, there is an obligation to establish a system of quality control designed to provide the firm with reasonable assurance that it and its personnel comply with professional standards and regulatory and legal requirements, and that its assurance reports are appropriate in the circumstances. ISAE 3000 requires the implementation of quality control procedures applicable to the individual engagement and refers to the obligations under ISQC 1.

ISAE 3000 is to be read in the context of the *International Framework for Assurance Engagements* (the *Framework*), which does not itself establish standards or requirements. It defines and describes the elements and objectives of an assurance engagement, and identifies those engagements to which ISAEs apply. Aspects of the *Framework* are mentioned in this Paper where relevant to an understanding of ISAE 3000 or the national pronouncements.

ISAE 3000 is applicable to all assurance engagements that are not audits or reviews of historic financial information (which are subject to different standards) and that fall within its scope<sup>10</sup>. International Standards on Auditing (ISAs) and International Standards for Review Engagements (ISREs) do not apply to engagements covered by ISAEs. ISAE 3000 explains that they may, nevertheless, provide guidance to practitioners. This is particularly important to quality control over individual assurance engagements as ISAE 3000 merely mentions topics which are dealt with in detail in ISA 220 (Revised) *Quality Control for Audits of Historical Financial Information*. ISA 220 is a standard for a specific engagement. It establishes standards and provides guidance on quality control procedures for audits of historical financial information. ISQC 1 covers not only audits and reviews of historical financial information, but also other assurance and related services engagements.

ISAE 3000 might seem to have a very wide application as practitioners undertake many engagements that add credibility to information. Its scope is limited, however, by the exclusion of certain categories of engagement<sup>11</sup> and a restriction on undertaking engagements where they do not exhibit appropriate characteristics for acceptance. The latter is particularly relevant for assurance on sustainability information (see Section 3.2 *Engagement acceptance* immediately below).

The relationships between the national pronouncements and other authoritative pronouncements are dealt with in Section 17 *Standard setting*.

ISAE 3000 does not itself deal with compliance with laws and regulations or with fraud. These important topics are discussed further in Section 12 *Compliance with laws and regulations* and Section 13 *Fraud*.

<sup>9</sup> The *Code* and all other IFAC pronouncements are available for download, free of charge, from the IFAC website (<http://www.ifac.org>).

<sup>10</sup> Readers who are not familiar with the terms used in the Paper are referred to the documents set out in Appendix 2 *References*.

<sup>11</sup> The exclusions are set out in paragraph 12 to 14 of the *Framework*. These are not considered further as they are beyond the scope of this Paper.

### 3.2 *Engagement acceptance*

Under ISAE 3000, an assurance engagement may only be accepted if:

- The subject matter is the responsibility of a party other than the intended users or the practitioner (this test will be satisfied for a general-purpose sustainability report);
- Those persons who are to perform the engagement collectively possess the necessary professional competencies; and
- There is no indication that the requirements of ISAEs or the *Code* will not be satisfied.

This last bullet point is of considerable significance in the context of assurance on sustainability reports. In this context, the practitioner considers paragraph 17 of the *Framework*, which includes the need for the engagement to exhibit all of the following characteristics:

*(i) The subject matter is appropriate;*

*(ii) The criteria to be used are suitable and are available to the intended users;*

*(iii) The practitioner has access to sufficient appropriate evidence to support the practitioner's conclusion;*

*(iv) The practitioner's conclusion, in the form appropriate to either a reasonable assurance engagement or a limited assurance engagement<sup>12</sup>, is to be contained in a written report; (The need for a written report has no special features for assurance on sustainability reports.) and*

*(v) The practitioner is satisfied that there is a rational purpose for the engagement. If there is a significant limitation on the scope of the practitioner's work, it may be unlikely that the engagement has a rational purpose. Also, a practitioner may believe the engaging party intends to associate the practitioner's name with the subject matter in an inappropriate manner.'*

Acceptance of an engagement is dealt with in Section 4 *Accepting an engagement / agreeing on its terms*.

The second bullet point above (competence) is considered further in Section 9 *Using the work of an expert*.

The acceptance decision (and determining the scope of an engagement) may involve difficult judgements in relation to the characteristics set out in the *Framework*. These are considered further in Section 5 *Subject matter, suitable criteria and sufficient appropriate evidence*.

<sup>12</sup> 'Reasonable assurance engagement' and 'limited assurance engagement' are explained and discussed in Section 8 *Reasonable assurance and limited assurance engagements*.

### 3.3 *Agreeing on the terms of the engagement*

ISAE 3000 requires the practitioner to agree the terms of the engagement with the engaging party. Once the engagement is underway, the practitioner should only reduce the intended level of assurance (from a reasonable assurance engagement to a limited assurance engagement or from either to a non-assurance engagement) if there is reasonable justification.

Agreeing the terms of the engagement is considered further in Section 4 *Accepting an engagement / agreeing on its terms*.

Reducing the intended level of assurance is also dealt with in Section 15 *Changing the engagement / negative findings*.

### 3.4 *Planning and performing the engagement*

The practitioner is required by ISAE 3000 to:

1. Plan the engagement so that it will be performed effectively;
2. Plan and perform an engagement with an attitude of professional scepticism, recognising that circumstances may exist that cause the subject matter information to be materially misstated;
3. Obtain an understanding of the subject matter and other engagement circumstances, sufficient to identify and assess the risks of the subject matter information being materially misstated, and sufficient to design and perform further evidence-gathering procedures;
4. Assess the appropriateness of the subject matter;
5. Assess the suitability of the criteria to evaluate or measure the subject matter;
6. Consider materiality and assurance engagement risk when planning and performing an assurance engagement; and
7. Reduce assurance engagement risk to an acceptably low level in the circumstances of the engagement.

Section 7 *Planning and performing the engagement* addresses the general aspect of the above.

The sustainability assurance aspects of 4 and 5 above are considered in detail in Section 5 *Subject matter, suitable criteria and sufficient appropriate evidence*.

Materiality (6 above) in the context of a sustainability report is discussed in Section 6 *Materiality*.

The level of assurance engagement risk (7 above) is discussed in Section 8 *Reasonable assurance and limited assurance engagements*.

### 3.5 *Using the work of an expert*

When the work of an expert is used in the collection and evaluation of evidence, the practitioner and the expert, on a combined basis, are required by ISAE 3000 to possess adequate skill and knowledge regarding the subject matter and the criteria for the practitioner to determine that sufficient appropriate evidence has been obtained.

The practitioner is required to be involved in the engagement and understand the work for which an expert is used, to an extent that is sufficient to enable the practitioner to accept responsibility for the conclusion on the subject matter information.

The practitioner is required to obtain sufficient appropriate evidence that the expert's work is adequate for the purposes of the assurance engagement.

There is frequently expert involvement in assurance on sustainability reports. While the above requirements themselves are well understood by practitioners, there is also a need for standards to address the possibility of separate coordinated engagements. See Section 9 *Using the Work of an Expert*.

### 3.6 *Obtaining evidence*

ISAE 3000 requires the practitioner to:

- Obtain sufficient appropriate evidence on which to base the conclusion;
- Obtain representations from the responsible party, as appropriate.

There are no special sustainability features directly relating to these general requirements<sup>13</sup>.

### 3.7 *Considering subsequent events*

The practitioner is required by ISAE 3000 to consider the effect on the subject matter information and on the assurance report of events up to the date of the assurance report.

As discussed in Section 10 *Subsequent events*, it is the nature of the events and the related systems that give rise to some aspects that require consideration in standards for assurance on sustainability information.

### 3.8 *Documentation*

The practitioner is required to document matters that are significant in providing evidence that supports the assurance report and that the engagement was performed in accordance with ISAEs.

Section 11 *Documentation* deals with some documentation issues that are relevant to assurance on sustainability reports.

<sup>13</sup> Evidence in relation to engagement acceptance is considered in Section 5 *Subject matter, suitable criteria and sufficient appropriate evidence*.

### 3.9 *Preparing the assurance report*

The practitioner is required by ISAE 3000 to conclude whether sufficient appropriate evidence has been obtained to support the conclusion expressed in the assurance report.

The assurance report should be in writing and should contain a clear expression of the practitioner's conclusion about the subject matter information.

The assurance report should include the following basic elements:

- (a) A title that clearly indicates that the report is an independent assurance report;
- (b) An addressee;
- (c) An identification and description of the subject matter information and, when appropriate, the subject matter;
- (d) Identification of the criteria;
- (e) Where appropriate, a description of any significant, inherent limitation associated with the evaluation or measurement of the subject matter against the criteria;
- (f) When the criteria used to evaluate or measure the subject matter are available only to specific intended users, or are relevant only to a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose;
- (g) A statement to identify the responsible party and to describe the responsible party's and the practitioner's responsibilities;
- (h) A statement that the engagement was performed in accordance with ISAEs;
- (i) A summary of the work performed;
- (j) The practitioner's conclusion (see below);
- (k) The assurance report date; and
- (l) The name of the firm or the practitioner, and a specific location, which ordinarily is the city where the practitioner maintains the office that has responsibility for the engagement.

With respect to the practitioner's conclusion:

- j.1 Where appropriate, the conclusion should inform the intended users of the context in which the practitioner's conclusion is to be read;
- j.2 In a reasonable assurance engagement, the conclusion should be expressed in the positive form;
- j.3 In a limited assurance engagement, the conclusion should be expressed in the negative form;
- j.4 Where the practitioner expresses a conclusion that is other than unqualified, the assurance report should contain a clear description of all the reasons.

The above requirements are discussed in Section 14 *Assurance report*.

Section 8 *Reasonable assurance and limited assurance engagements* examines the two types of engagement referred to in j.2 and j.3 above.

Under ISAE 3000, the practitioner may expand the assurance report to include other information and explanations that are not intended to affect the practitioner's conclusion.

The practitioner should not express an unqualified conclusion when the following circumstances exist and, in the practitioner's judgement, the effect of the matter is or may be material:

*'(a) There is a limitation on the scope of the practitioner's work, that is, circumstances prevent, or the responsible party or the engaging party imposes a restriction that prevents, the practitioner from obtaining evidence required to reduce assurance engagement risk to the appropriate level. The practitioner should express a qualified conclusion or a disclaimer of conclusion;*

*(b) In those cases where:*

- (i) The practitioner's conclusion is worded in terms of the responsible party's assertion, and that assertion is not fairly stated, in all material respects; or*
- (ii) The practitioner's conclusion is worded directly in terms of the subject matter and the criteria, and the subject matter information is materially misstated, the practitioner should express a qualified or adverse conclusion;*

*or*

*(c) When it is discovered, after the engagement has been accepted, that the criteria are unsuitable or the subject matter is not appropriate for an assurance engagement. The practitioner should express:*

- (i) A qualified conclusion or adverse conclusion when the criteria are unsuitable or inappropriate subject matter is likely to mislead the intended users; or*
- (ii) A qualified conclusion or a disclaimer of conclusion in other cases.'* (ISAE 3000 51)

The practitioner should express a qualified conclusion when the effect of a matter is not so material or pervasive as to require an adverse conclusion or a disclaimer of conclusion. A qualified conclusion is expressed as being 'except for' the effects of the matter to which the qualification relates.

Section 14.1 *Modified conclusions* covers the above.

Section 15 *Changing the engagement / negative findings* includes reporting and other aspects of changing the nature of an assurance engagement.

### **3.10 Other reporting responsibilities**

The practitioner is required by ISAE 3000 to consider other reporting responsibilities, including the appropriateness of communicating with those charged with governance concerning relevant matters of governance interest arising from the assurance engagement.

Section 16 *Other reporting responsibilities* discusses reporting issues relevant to sustainability information.

## 4 ACCEPTING AN ENGAGEMENT / AGREEING ON ITS TERMS

This section considers general aspects of engagement acceptance<sup>14</sup>. The conditions for engagement acceptance, as stated in ISAE 3000 and the *Framework* are shown in Section 3.2 *Engagement acceptance*. The Swedish standard, issued before ISAE 3000, addresses the terms of engagement, the criteria and the expertise of the review team.

As set out below, the French, Dutch and German pronouncements give prominence to the acceptance conditions.

### France

The French guidance repeats, in generic language, the ISAE 3000 conditions for engagement acceptance and emphasises that the reporting framework, as defined by the company, must not be misleading neither to the intended users of the sustainability report nor to other potential users.

Section 4 of the French guidance requires an engagement letter in accordance with the '*norme professionnelle*' 2-102 '*termes et conditions de la mission*'. Section 11 of the French guidance requires the practitioner to obtain a letter of representation from the responsible party ('*Lettre d'affirmation*'), if considered necessary.

### The Netherlands

The draft standard refers directly to the conditions stated in ISAE 3000 and the *Framework* and includes elements with a terminology specific to the ED, such as 'targeted groups of stakeholders' 'criteria are sufficient' and 'minimum requirements for information' (NIVRA ED 3410 16). It refers to two circumstances that could limit an assurance engagement to less than the whole of a sustainability report:

- For 'audit' or 'review' purposes insufficient generally accepted criteria are available for certain elements of the sustainability report, while adhering to specifically developed criteria does not offer a solution either; and
- Elements of internal information systems that are considered essential for certain aspects of the sustainability report are missing so that it is not possible to 'audit' or 'review' them (NIVRA ED 3410 18).

When accepting an engagement, the practitioner should reach agreement with the management of the reporting organisation on what should happen if the audit or review produces negative findings (NIVRA ED 3410 21)<sup>15</sup>.

### Germany

The German draft standard takes the view that accepting an engagement is a major step in the assurance process and imposes more conditions for engagement acceptance than do ISAE 3000 and the *Framework*. There is also reference to the obligations of the engaging party. To accept an 'audit' or 'review' engagement the following conditions must be met:

<sup>14</sup> Specific matters considered during engagement acceptance are dealt with in Section 5 *Subject matter, suitable criteria and sufficient appropriate evidence* and Section 9 *Using the work of an expert*.

<sup>15</sup> The consequences of negative findings are considered in Section 15 *Changing the engagement / negative findings*.

- The subject matter of the report and the type of engagement must be specified in the engagement letter and the assurance report applicable to that type of engagement must be agreed with the engaging party (IDW ED AsS 821 13);
- The criteria for the sustainability report must be established and be specified in the report (IDW ED AsS 821 14);
- The subject matter of the report must be clearly identifiable and capable of consistent assessment (IDW ED AsS 821 15);
- On the basis of their preliminary assessment, nothing comes to the attention of the *Wirtschaftsprüfer* to indicate that the subject matter of the report is not appropriate and the criteria upon which it is based are not suitable (IDW ED AsS 821 16);
- The engaging party undertakes to:
  - o Recognise the requirements for the engagement resulting from the applicable auditing standard;
  - o Allow that the *Wirtschaftsprüfer* retains experts at the *Wirtschaftsprüfer*'s discretion;
  - o Provide the *Wirtschaftsprüfer* with all information and evidence the *Wirtschaftsprüfer* deems necessary;
  - o Declare that the performance of the engagement is not subject to any restriction imposed by the engaging party;
  - o Issue a representation letter;
  - o Use the assurance report only to the extent agreed upon; and
  - o Refer to the 'audit' or 'review' engagement only in a form approved by the *Wirtschaftsprüfer* (IDW ED AsS 821 17).

The draft standard recommends that the letter of engagement use the professional 'General Engagement Terms' (IDW ED AsS 821 20).

FEE believes that engagement acceptance is an important aspect for assurance engagements on sustainability information and that requirements and guidance are necessary. IAASB is updating ISA 580 *Management Representations*. FEE believes that matching amendments to ISAE 3000 may not be appropriate because of the wide scope of that standard but matching amendments deserve consideration in a specific standard for assurance on sustainability reports. Such engagements are not prescribed by law and are often complex, which could lead to misunderstandings with the engaging party and eventually the users of the assurance report. In addition, the lack of legal underpinning makes it important that the practitioner is able to rely on agreement with the engaging party to facilitate such matters as access to evidence.

## 5 SUBJECT MATTER, SUITABLE CRITERIA AND SUFFICIENT APPROPRIATE EVIDENCE

Subject matter, criteria and evidence are closely linked and of considerable complexity in assurance on sustainability reports. In planning and performing the engagement the practitioner is required by ISAE 3000 to assess the appropriateness of the subject matter and the suitability of the criteria and to obtain sufficient appropriate evidence.

The *Framework* uses the term ‘subject matter information’ to mean the outcome of the evaluation or measurement of a subject matter against criteria. Subject matter information can fail to be properly expressed in the context of the subject matter and the criteria, and can therefore be misstated, potentially to a material extent (F 8 and 9).

Under the *Framework*, subject matter is only appropriate if information about it can be subjected to procedures for gathering sufficient appropriate evidence to support a conclusion.

Subject matter may fail this test because of its nature or because, in the specific circumstances, evidence is not available, for example reliable management systems might not be in place to provide evidence. The nature of the subject matter may be problematic because it may not be sufficiently well defined to allow the practitioner to decide whether evidence is relevant to it. This lack of precision has to be considered for the subject matter and the criteria together (i.e. the subject matter information). For example, a statement that ‘*no child labour is employed by our suppliers*’ is not immediately assurable. Although this statement is apparently clear, there is no indication as to the upper age limit or limits for ‘children’; nor is ‘labour’ precise – it could refer to all workers or just those having contracts of employment; nor is ‘supplier’ precise – are indirect suppliers included or excluded? Without clarification, it may be impossible (or at least impracticably costly) to obtain sufficient appropriate evidence. Such clarification may be provided by the criteria, under which terms are defined and underlying technical protocols determined.

FEE believes that standard setters in the area of sustainability should provide guidance on assessing the appropriateness of the subject matter and the suitability of the criteria.

The following sections examine how the national pronouncements deal with subject matter and criteria.

### 5.1 Subject matter

The nature of the subject matter of a sustainability report can make it inappropriate (see immediately above) but problems can also arise in relation to its overall limits. The subject matter of a sustainability report may vary in relation to:

- The range of entities represented by the report (‘report boundaries’)<sup>16</sup>;
- The elements within a reporting entity that are reported (certain regions or operations); and
- The aspects of sustainability included (for example, just environmental impacts).

<sup>16</sup> ‘In the GRI Guidelines, “boundary” refers to the range of entities for which the reporting organisation gathers information. “Scope” refers to issues in sustainability, inter alia, in the context of GRI “aspects” such as energy use and health and safety, for which the Guidelines include indicators’ (*GRI Boundary Protocol, 2005*).

Boundaries for reporting may extend beyond those for financial reporting and can vary depending on the information being reported. For example, labour issues in the supply chain may be reported but such suppliers would not be within the boundary for other indicators. The scope of a report may also be affected by the policies adopted for the general reporting of partly-attributable entities, such as joint ventures, or those controlled for only part of a reporting period.

Assurance may be sought on all the sustainability report or just part of it. Assurance on a part of the report may be appropriate if the acceptance criteria in the *Framework* cannot be met for the whole report or for instance the client chooses such an engagement in response to stakeholder views.

### **Sweden**

The Swedish standard gives examples of types of subject matter: facts, information or control systems, operations (such as compliance with environmental concessions) and a company's report on its stakeholder dialogue (FAR 7).

The standard states that defining and limiting the subject matter is often difficult where assurance is not on the whole sustainability report; consequently, the assurance report should give a clear description of the limits of the practitioner's work (FAR 8).

### **France and Germany**

The French and German pronouncements both state explicitly that the subject matter of the report must be clearly identifiable and capable of consistent assessment as stated in the *Framework* (CNCC s3, IDW ED AsS 821 15).

### **The Netherlands**

The Dutch draft standard describes the characteristics of the sustainability report and the differences between sustainability reports and financial statements. As discussed in Section 4 *Accepting an engagement / agreeing on its terms*, it requires that certain minimum contents be included. These include information on the boundaries of the reporting entity. The influence of the level of reporting (by location, region or worldwide) and of stakeholders is also discussed (NIVRA ED 3410 8 to 10).

The need for subject matter knowledge (and the involvement of experts) is recognised in many places in the draft standard. The relationships between subject matter and reporting materiality (NIVRA ED 3410 27) and between stakeholders and subject matter are also discussed (NIVRA ED 3410 78).

Where the subject matter is not all included in the assurance engagement the draft standard requires that the practitioner '*should always take a critical look*' at such elements (NIVRA ED 3410 19).

FEE believes that guidance on subject matter should include consideration of the issues of boundary and scope. FEE also recognises that the roles of subject matter in relation to materiality, stakeholders and the involvement of experts are important in sustainability reporting and calls for appropriate guidance to be provided.

FEE considers that standard setters should address the responsibilities of the practitioner towards those parts of a report excluded from the scope of assurance. Such material can be considered to be a

particularly important aspect of ‘other information’ (analogous to the meaning of the term in ISA 720 *Other Information in Documents Containing Audited Financial Statements*)<sup>17</sup>.

## 5.2 Suitable criteria

All the national pronouncements refer to the characteristics of suitable criteria<sup>18</sup> (FAR 9, CNCC s3, NIVRA ED 3410 47, IDW ED AsS 821 22) and state that the reporting criteria are the responsibility of management. As set out below, the national pronouncements provide for criteria that are either established or specifically developed (F 37).

### Sweden

The Swedish standard notes that the most common situation is that the company has to establish specific criteria (FAR 9). If a company states that its report is ‘in accordance with’ the GRI Guidelines the practitioner is to base the ‘review’ on those guidelines (FAR 10)<sup>19</sup>. Stakeholder dialogue is referred to as a means of deciding criteria and AA 1000 AccountAbility Framework is referred to as providing an example of how this can be performed (FAR 11). Criteria should be available to the users of the report (FAR 12).

### France

The French guidance requires that the specifically developed criteria have to be available at the headquarters of the company or on its website. A summary of specifically developed criteria also has to be part of the sustainability report. The assurance provider<sup>20</sup> has to make sure that the specifically developed criteria are not misleading. Where criteria have been specifically developed for the reporting entity compliance with the characteristics of the *Framework* must be assessed particularly critically. If the criteria are not suitable and the engaging party fails to remedy this deficiency, an assurance report cannot be issued (CNCC s3).

### The Netherlands

The Dutch draft standard notes that various organisations have published criteria for the preparation and content of a sustainability report. In addition to the GRI Guidelines, it cites as an example the Dutch Council for Annual Reporting which has issued a Guide to Sustainability Reporting<sup>21</sup>. The draft standard warns that, as these reporting criteria are still being developed, practitioners need to be aware of their limitations (NIVRA ED 3410 48).

As reporting criteria are still being developed, the practitioner is required to determine whether ‘minimum reporting requirements’ as set out in the draft standard are met (NIVRA ED 3410 9).

<sup>17</sup> Financial statements as ‘other information’ is discussed in Section 17.3 *Sustainability information and financial statements*; see also Section 14.2 *Internet reporting*.

<sup>18</sup> The characteristics of suitable criteria are: relevance, completeness, reliability, neutrality and understandability. These are explained in detail in the *Framework* (F 36).

<sup>19</sup> Reporting ‘in accordance with’ the GRI 2002 Guidelines (as opposed to ‘incremental reporting’) is defined by adherence to five conditions. Such reports are intended to give a balanced and reasonable presentation of an organisation’s sustainability performance.

<sup>20</sup> In accordance with established usage, this Paper uses the term ‘assurance provider’ to refer to practitioners and others issuing assurance reports. (Readers familiar with the *Framework* will be aware of the convention that assurance is not actually ‘provided’ but is obtained and conveyed by a written conclusion.)

<sup>21</sup> NIVRA ED 3410 Appendix 4 provides a summary of the most important relevant laws, rules, codes of conduct and standards.

While there is merit in providing guidance on the minimum level of information for which assurance is appropriate (i.e. there is a rational purpose for the engagement (F 17)), FEE cautions, nevertheless, against the use of wording that could be interpreted as setting standards for reporting rather than assurance.

The practitioner is required to consider inserting a separate sentence in the assurance report on the adequacy of reporting criteria and any limitations he believes still exist (NIVRA ED 3410 49). When evaluating the adequacy of the reporting criteria, the practitioner should also involve the views of the Supervisory Board and/or the Audit Committee (NIVRA ED 3410 50).

FEE believes that it is the responsibility of the reporting entity, not of the practitioner, to produce a sustainability report using suitable reporting criteria. ISAE3000 does not provide specific guidance for practitioners on evaluating the adequacy of reporting criteria. Instead, the standard requires that the practitioner assesses the suitability of the criteria for a particular engagement whether they reflect the required characteristics and consider the consequences of unsuitable criteria on the engagement.

### Germany

The German draft standard states that generally established criteria are those embodied in laws or regulations or stipulated by bodies of experts authorised or recognised for the purpose. It cites as current examples, criteria established by 'GRI, OECD, ILO, UNCTAD and UNEP' (IDW ED AsS 821 24).

Where criteria have been specifically developed for the entity, compliance with the characteristics of suitable criteria as presented in the *Framework* must be assessed particularly critically, paying special attention to the criteria development process (e.g. in a stakeholder dialogue). This applies equally to industry-specific criteria. If these requirements are not fulfilled, the engaging party must be notified immediately and if the deficiency is not remedied the engaging party must be notified in writing that an assurance report cannot be issued (IDW ED AsS 821 25).

FEE believes that guidance on appropriate criteria is necessary in relation to sustainability reports. This should include consideration of both generally established<sup>22</sup> and specifically developed criteria. Because the development of criteria is a process that involves stakeholder dialogue and is integral to the creation of a sustainability report, the suitability of criteria may not be fully capable of assessment by the practitioner until an assurance engagement is underway. Thus, there exists a need for standards to provide guidance on interpreting the engagement acceptance decision under ISAE 3000 and to introduce appropriate requirements and guidance in relation to deficiencies in criteria identified during the engagement. Requirements are necessary to parallel the way ISAs impose requirements relating to the evaluation of misstatements<sup>23</sup> in the context of financial statements (although in that context it is in effect assumed that the criteria are fixed and the misstatement is of the subject matter).

<sup>22</sup> Section 17 *Standard setting* includes consideration of the relationship between assurance standards and the GRI Guidelines.

<sup>23</sup> The IAASB has exposed for comment a proposed ISA to replace ISA 320 *Audit Materiality* dealing with materiality and the evaluation and aggregation of misstatements.

## 6 MATERIALITY

This section of the Paper considers how the national pronouncements address the concept of materiality in the context of sustainability reporting and assurance.

In such circumstances, materiality in the reporting context is more complex than in the preparation of financial statements because:

- The report is not prepared from just one viewpoint (traditionally, that of the shareholders) but is also relevant to other stakeholders;
- The report may include less quantitative and more non-financial, qualitative information; and
- The reporting criteria are less developed than law and standards that determine financial reporting.

The last bullet point above is important in an assurance context because the practitioner is also concerned more actively with assessing the suitability of the criteria. In contrast with what is in practice the simple decision to accept (or reject) a general financial reporting framework as appropriate, this may involve consideration not only of the suitability of, for example the GRI Guidelines, but also specifically developed criteria (such as additional performance indicators). From the practitioner's viewpoint, planning the extent of testing and dealing with the possibility of finding errors and aggregating their effects are also complicated by these factors.

In ISAE 3000 materiality is a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful. The term 'materiality' may mean different things in the context of sustainability reports. In the GRI Guidelines (G3 exposure draft), materiality together with relevance is used as one of the principles for defining the content of a sustainability report. AA1000 AS treats it as a principle requiring the assurance provider to state whether appropriate information has been included in the report<sup>24</sup>.

The national pronouncements address issues such as the viewpoints from which materiality is to be assessed and how the subject matter can itself influence materiality.

### Sweden

The Swedish standard addresses materiality in the context of the assurance process and emphasises that the assessment of the assurance provider is made from the perspective of the relevant stakeholder. The standard refers to AA1000 Framework<sup>25</sup> for guidance on the stakeholder dialogue process (FAR 11).

### France

The French guidance states that the same principles apply as for the audit or review of financial statements. The materiality level is the same, irrespective of whether the engagement conclusion conveys reasonable or limited assurance. The level of materiality has to be assessed in the light of the reporting framework and the expectations of the users of the information.

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<sup>24</sup> See Appendix 1 *Summary of the AA1000 Assurance Standard*.

<sup>25</sup> For further information on AA 1000 Framework in the context of assurance see Appendix 1 *Summary of the AA1000 Assurance Standard*

The guidance recognises that there are limitations, particularly in the environmental and social disclosures. The former is limited by such factors as the scientific method of evaluation; while the latter is affected by problems of definition, such as may occur through having operations in different jurisdictions. The *commissaire aux comptes* assesses the level of materiality for each form of disclosure separately and considers the need to highlight specific data to attract the attention of the users of the sustainability report (CNCC s6).

### The Netherlands

The Dutch draft standard discusses the two important dimensions of materiality:

- For the reporting organisation and its targeted groups of stakeholders ('reporting materiality');
- For planning and performing the assurance engagement ('tolerance') (NIVRA ED 3410 25).

Tolerance is acknowledged to be a matter for professional judgement. In respect of reporting materiality, the practitioner is required to:

- Review management's process for deciding on materiality (guidance includes a list of questions that could be asked) (NIVRA ED 3410 31);
- Review the outcome of the process (NIVRA ED 3410 32).

Guidance is given on the way reporting materiality may vary depending on the information disclosed and its importance to the stakeholders. The draft standard provides a list of questions that can be asked to assess reporting materiality (NIVRA ED 3410 31). In these reviews, the practitioner is required to establish that the report is not misleading in its emphasis on certain subject or stakeholder groups (NIVRA ED 3410 33).

Reporting materiality is assessed from the viewpoint of '*one or more of the targeted groups of stakeholders*' (NIVRA ED 3410 26). The application of materiality will also be affected by the subject matter of the report (a report on one location is contrasted with a group report) (NIVRA ED 3410 27).

### Germany

In the German draft standard, information is material if the omission or misrepresentation thereof may influence the decisions of a reasonably informed user. Factors to be considered in determining materiality include: relevant legal requirements, benchmarks, internal guidelines and operational or other requirements in relation to sustainability, or, if applicable, the results of stakeholder dialogue. Materiality also depends on the subject matter of the report (e.g. a report on a single plant will imply a lower materiality level than a report on the entire group). Additional information for the report may also be required in order to achieve completeness (IDW ED AsS 26 to 31).

The draft standard also asserts that:

- Positive and negative events and developments must be reported and not 'netted off' to justify non-disclosure (IDW ED AsS 29);
- Statements may not be omitted because the facts are already known (e.g. through a press release) or because they may have an adverse effect on the entity (IDW ED AsS 31).

FEE notes that the national pronouncements provide guidance on assessing materiality as this is both important and not specified in generally accepted reporting criteria. FEE cautions, nevertheless, against the use of wording that could be interpreted as setting standards for reporting.

FEE believes that the requirement relating to materiality ('with engagement risk, consider when planning and performing an engagement') and associated guidance in ISAE 3000 (ISAE 3000 22 and 23) are applicable to sustainability reports. However, given the public interest in sustainability reports there is a strong argument that requirements should be introduced for appropriate stages of the engagement (as is done in ISAs). Even if generally accepted reporting criteria are present, FEE believes that the need for extensive guidance for practitioners will remain.

## 7 PLANNING AND PERFORMING THE ENGAGEMENT

This section addresses the general aspects of planning and performing the engagement<sup>26</sup>.

Under ISAE 3000, the practitioner should plan the engagement so that it will be performed effectively with an attitude of professional scepticism, recognising that circumstances may exist that cause the subject matter information to be materially misstated. The practitioner:

- Obtains an understanding of the subject matter sufficient to assess the risk of the subject matter information to be materially misstated and to design and perform further evidence-gathering procedures;
- Assess the appropriateness of the subject matter and the suitability of criteria;
- Considers materiality and assurance engagement risk; and
- Reduces assurance engagement risk to an acceptably low level (by obtaining evidence).

The requirements to consider assurance engagement risk and reduce it to an acceptably low level form the core of an assurance engagement. The national pronouncements introduce requirements and guidance specific to assurance on sustainability reports. Those pronouncements that deal with limited assurance engagements necessarily establish an appropriate level of work to define the degree to which the assurance is limited compared to that in a reasonable assurance engagement. This aspect of planning and performing an audit is dealt with in Section 8 *Reasonable assurance and limited assurance engagements*.

### Sweden

The Swedish standard was issued before ISAE 3000 but in effect it implicitly includes the relevant requirements. As the standard only covers limited assurance engagements, the required work level is dealt with in Section 8 *Reasonable assurance and limited assurance engagements*. It is worth noting, however, that site visits and work on stakeholder dialogue are required. The latter may include direct observation and the standard warns of dangers to the practitioner's impartiality and independence.

### France

The French pronouncement provides general guidance for evidence-gathering procedures.

### The Netherlands

The Dutch draft standard devotes some 50 paragraphs to planning and performing the engagement (NIVRA ED 3410 71 to 119). The material covers:

- Basic concepts and assumption for the approach;
- Investigating the targeted groups of stakeholders and their justified information requirements;
- Gathering knowledge about the reporting organisation and its environment and planning and performing the work;
- Differences between 'review' engagements and 'audit' engagements;
- Multi-location investigation; and
- Obtaining additional 'audit' evidence (i.e. management representations).

<sup>26</sup> For discussion of specific aspects, see also Section 5 *Subject matter, suitable criteria and sufficient appropriate evidence*, Section 6 *Materiality* and Section 8 *Reasonable assurance and limited assurance engagements*.

The draft standard states that in principle, the same concepts, methods and procedures apply to an assurance engagement as to an audit or review of historical financial information. Consequently, ISAs apply from a conceptual perspective unless the draft standard prescribes other basic principles and guidance. In addition to this general statement, the draft standard makes specific reference to certain ISAs. In relation to gathering knowledge (third bullet point above), the draft standard specifically refers to applying the guidance in ISA 315 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, ISA 330 *The Auditor's Procedures in Response to Assessed Risks* and ISA 500 *Audit Evidence*. Reference is also made to the application ('by analogy' or 'in principle') of the basic principles and guidance in ISA 610 *Considering the Work of Internal Auditing* and ISA 600 *Using the Work of Another Auditor* (NIVRA ED 3410 71 to 76).

## Germany

The section in the German draft standard on planning and performing the engagement includes sections that are applicable to audit and review engagements, such as understanding the reporting entity and planning. This emphasises that 'understanding' and 'planning' have the same prominence for both types of engagement.

Performing the audit and performing the review are covered in separate sections. The section 'audit' includes auditing the reporting system and substantive procedures (analytical procedures and tests of detail). The section 'performing the review' is limited to providing examples for inquiries and analytical assessments (IDW ED AsS 821 55 to 57).

The national pronouncements provide different levels of guidance<sup>27</sup>. There are specific requirements that go beyond those of ISAE 3000 which are not dealt with elsewhere in this Paper. Some are implemented by applying 'by analogy' ISAs such as ISA 610 and ISA 600 as noted above. Others are explicitly included in the national pronouncements. These relate to:

- Site visits;
- Stakeholder dialogue and the responsiveness of the report to their requirements;
- Impact of also carrying out the financial statement audit;
- Carrying out substantive procedures for all assertions; and
- Overall evaluation of the report.

FEE believes that assurance on sustainability reporting is complex and the degree of public interest is such that standard setters should implement requirements over and above those of ISAE 3000 in areas not addressed by ISAs, or where the matter is so important that reference to an ISA requirement does not provide sufficient certainty.

<sup>27</sup> See Section 17.2 *Level of detail and relationship with other authoritative pronouncements*.

## 8 REASONABLE ASSURANCE AND LIMITED ASSURANCE ENGAGEMENTS

Under the *Framework* and ISAE 3000, a practitioner is permitted to perform two types of assurance engagements: a reasonable assurance engagement and a limited assurance engagement. The latter provides less assurance as the practitioners' conclusion is in a negative form. Some national pronouncements continue to use the terms 'audit' for a reasonable assurance engagement and 'review' for a limited assurance engagement, which are familiar in the context of financial reporting, to distinguish the two types of engagement.

In a reasonable assurance engagement ('audit'), the conclusion is expressed in a positive form: for example: *'In our opinion internal control is effective, in all material respects, based on XYZ criteria.'* In a limited assurance engagement ('review'), the conclusion is expressed in the negative form: for example: *'Based on our work described in this report, nothing came to our attention that causes us to believe that internal control is not effective, in all material respects, based on XYZ criteria.'* (ISAE 3000 49(j)).

The Appendix to the *Framework* explains that in a limited assurance engagement *'Sufficient appropriate evidence is obtained as part of a systematic engagement process that includes obtaining an understanding of the subject matter and other engagement circumstances, but in which procedures are deliberately limited relative to a reasonable assurance engagement.'*

The Swedish standard was issued in 2003, before the *Framework* and ISAE 3000 were published, and only covers limited assurance engagements. The French, Dutch and German pronouncements cover both types of engagement and address the differences in the risk of an inappropriate conclusion ('engagement risk') and the differences in 'work effort'. This section continues by examining how the national pronouncements establish an appropriate level of work for a limited assurance engagement. A further section looks at engagements where both limited and reasonable assurance are present.

### 8.1 Work effort in a limited assurance engagement

#### Sweden

The Swedish standard requires that the risk assessment and other planning results in a programme of review work. That work is expected to be a balanced combination of review of internal control and substantive review procedures (FAR 19). The standard sets out a list of required procedures which *'does not preclude the performance of other review procedures'* (FAR 20). In summary, the required procedures are to:

- Interview representatives for the engaging party;
- Examine the reliability of the systems or use the results of internal audit for this;
- Verify whether the internal control system works in practice;
- Check that data reported have been drawn up in accordance with the company's stated principles for calculation and accounting;
- Visit one or more selected units;
- Agree qualitative information and statements to available documentation (*'In some cases the practitioner needs to supplement this with signed certificates from relevant officers confirming the information presented.'*);
- Review documentation of dialogue with stakeholders (the practitioner can be present as an observer);
- Make an overall assessment of the sustainability report;

- Review sustainability information given in the company's statutory annual report for any contradiction of the voluntary separate sustainability report; and
- Obtain written representations from management.

## France

The French guidance states that the engagement risk in limited assurance engagements for sustainability reports is the same as, for example, the one for review of interim financial statements (CNCC s1 4).

When addressing the distinction between reasonable and limited assurance, as well as the difference in 'work effort', the French guidance has regard to the characteristics of the subject matter (CNCC s1 5). For some subject matters it will not be possible to achieve sufficient appropriate evidence to support a reasonable assurance conclusion.

The French pronouncement provides general guidance for evidence-gathering procedures.

## The Netherlands

The Dutch draft standard, in an early 'Definitions' section and in a section in the body of its text (NIVRA ED 3410 105 to 107) explains how a limited assurance engagement differs from a reasonable assurance engagement. The draft standard explains that the work is directed towards obtaining an opinion on the plausibility of the information effort and so does not involve systematic gathering and verification of evidence. In comparison to an audit engagement, the application of professional scepticism is considerably less dominant<sup>28</sup> and the acceptable level of engagement risk is, by definition, higher.

For a 'review' certain limitations apply and the nature and extent of the work is different. The Dutch draft standard prescribes more work than would be necessary for a review of financial statements with emphasis on procedures relating to systems that does, however, stop short of testing controls for operating effectiveness. The following limitations can be overridden if considered necessary:

- Systems work is limited to a high level review of the design of the systems;
- The risk analysis conducted as part of the audit of the financial statements (i.e. as required by ISA 315) is, in principle, not relevant<sup>29</sup>;
- It is generally not necessary to hold interviews with 'internal outsiders' (i.e. those having no direct interest in the results of the work, such as research and development staff);
- The operating effectiveness of internal controls is not tested; and
- The substantive procedures are, by definition, also less comprehensive and less detailed (NIVRA ED 3410 106).

The nature and extent of the work to be performed, in comparison to a reasonable assurance engagement, is such that:

- Investigating the targeted groups of stakeholders and their justified information requirements is the same;
- The work on understanding the business and its environment is the same;
- The estimate of the inherent risk is made in a similar way and in similar detail;

<sup>28</sup> The concept that professional scepticism can vary is not further explained in the draft standard. In ISAE 3000, there is no link between professional scepticism and the level of assurance.

<sup>29</sup> This assumes that the practitioner is also the financial statement auditor.

- Interviews with responsible officers are held for both types of engagement (but see third bullet point in the limitations above);
- Exploring the control environment and investigating the information systems and the design of the internal controls are chiefly limited to a review of the value of the key managerial controls (including the irreplaceable internal controls) for compliance with the objective of the engagement; and
- Analytical procedures are performed in any event in review engagements. Examinations of the relationship between financial data and the data in the sustainability report (or any other relationships between data) are only carried out if considered necessary as part of the objective of the review engagement and if this is effective and efficient (NIVRA ED 3410 107).

## Germany

The German draft standard provides further explanation as to what is meant by ‘reasonable assurance’ and reflects the view that, as the criteria for and content of sustainability reports are evolving, users should be made aware of inherent limitations in assurance: *‘There remains an unavoidable risk that the Wirtschaftsprüfer will fail to detect material misstatements even when an audit is properly planned and performed. The subsequent detection of a misstatement does not, therefore, necessarily imply professional misconduct on the part of the Wirtschaftsprüfer’* (IDW ED AsS 821 11).

The German draft standard states that ‘review engagements’ are based on inquiries and plausibility tests (IDW ED AsS 821 12). A ‘review’ is limited to making inquiries of senior and other employees and analytical assessments. Further procedures in respect of information obtained and other evidence are only required when the *Wirtschaftsprüfer* has reason to believe that the information provided for the ‘review engagement’ contains material misstatements or there are signs of incorrect information or similar indications (IDW ED AsS 821 55).

There are similarities in the approaches of the national pronouncements. All except the Swedish standard (for which it is not relevant) explain the differences between reasonable and limited assurance engagements and require inquiries and analytical procedures. There are considerable differences, however, in the approaches, both in the work effort prescribed for limited assurance engagements and the way in which that is described. For example, the Swedish standard could result in a relatively high level of limited assurance, while the French guidance is explicit that the level of assurance is the same as for a financial statement review. Regarding work effort, this is described directly or in terms of how the work for a reasonable assurance engagement would be restricted.

FEE believes that a standard for limited assurance engagements must describe the extent of work effort required in order that users can readily appreciate the level of assurance obtained by the practitioner.

FEE also believes that users’ understanding of the limited assurance report will be enhanced if there is a consistent approach across the various circumstances where a limited assurance engagement is performed. For example, shareholders familiar with a review of interim financial statements involving analytical procedures and inquiry will understand a similar approach to a limited assurance engagement on a sustainability report. Such a low level of assurance may not meet user expectations, however, and if more work is done, there should be clear disclosure. This is considered further in Section 14 *Assurance report* and immediately below in section 8.2.

## 8.2 Reasonable assurance on some parts: limited assurance on other parts

In a sustainability report, some information may be suitable for a reasonable assurance engagement, even where that level of assurance is not achievable overall. Separate engagements and reports could be undertaken, but a further possibility is that one engagement could lead to a report with a two-part conclusion.

The Swedish standard only covers limited assurance engagements and so does not address this possibility.

The French guidance recommends avoiding ‘mixed reports’ conveying different levels of assurance because of the high risk of confusing the user (CNCC s12 4).

The Dutch and German draft standards permit distinct parts of a sustainability report to be ‘audited’ while other parts are only subject to a ‘review’ (NIVRA ED 3410 14, IDW ED AsS 821 86). The practitioner’s conclusion has to be drafted to reflect the difference.

The Dutch draft standard also allows for the possibility that a reasonable assurance engagement could result in an assurance report containing some wording normally associated with a limited assurance engagement (NIVRA ED 3410 135). The explanatory memorandum issued with the draft standard argues that some subject matter information cannot be verified but can only be tested for not being false. An example is given of a sentence added to a positive conclusion as follows: ‘*During our investigation, however, we did not find that any significant breaches of the codes of conduct had occurred in the year under review.*’ A further possibility is also considered, that an assurance report can contain several conclusions, for example a qualified conclusion on one part and an unqualified conclusion on another part.

FEE is aware of a divergence of views between practitioners as to whether ISAE 3000 permits separate limited and reasonable assurance conclusions to be included in one report. Consequently, FEE considers that clarification of ISAE 3000 is necessary in this regard.

FEE agrees that different levels of assurance for different parts of the sustainability report may be difficult for users to comprehend. Standards, to the extent considered practicable, should not deter the provision of assurance where it serves user needs. FEE believes that standards should not only take a stance on whether ‘mixed reports’ can be issued, but, in circumstances where that is deemed appropriate, include measures designed to promote an appropriately high degree of reporting clarity.

FEE believes that standard setters should also include measures for circumstances that may arise where, instead of a ‘mixed report’, user needs can be met within a limited assurance engagement<sup>30</sup>. In such an engagement, certain aspects of the report might be subject to evidence gathering procedures that would normally be associated with a reasonable assurance engagement. This can be made clear in the assurance report so that the nature of the limited assurance can be appreciated. For example, a practitioner’s report may refer to inquiries and analytical procedures applicable to the whole sustainability report with the addition verification of specific disclosures.

<sup>30</sup> FEE does not believe that this approach can be extended to a reasonable assurance engagement. Instead, any material aspects for which only limited assurance is obtained should be included in a separate limited assurance engagement.

## 9 USING THE WORK OF AN EXPERT

One of the criteria imposed by ISAE 3000 is that an assurance engagement may only be accepted or continued if those persons who are to perform the engagement collectively possess the necessary professional competencies. A sustainability report may cover a broad range of issues requiring specific knowledge. To be able to undertake the engagement, practitioners should include in the assurance team persons with expertise in the subject matter, or use the work of an expert third party.

A further consideration in sustainability reporting is that, in addition to the practitioner, the client may commission an external expert as an assurance provider or want the practitioner to work with an external expert to issue a joint assurance report<sup>31</sup>.

It is in respect of this further consideration that the national pronouncements differ considerably in the way they deal with external experts.

### Sweden

The Swedish standard states that the practitioner might or should consult an expert. Throughout the engagement, full responsibility stays with the practitioner (FAR 16). The issue of a joint engagement or a separate engagement undertaken by the expert is not addressed directly.

### France

The French guidance reflects the understanding of the profession that, even on sustainability issues, full responsibility stays with the practitioner. The guidance includes wording for the assurance report when the work of an expert is used. The guidance clearly states that reference in the practitioner's report to the work of an expert is not to be interpreted as a qualification or that there is joint responsibility (CNCC s10).

### The Netherlands

The Dutch draft standard is accompanied by a separate draft standard that provides extensive guidance on working with experts (NIVRA ED 3010). This draft standard permits three models:

- Model 1: Practitioner bears undivided responsibility;
- Model 2: Multidisciplinary co-operation under joint responsibility; and
- Model 3: Separate engagements for each discipline.

#### Model 1: Practitioner bears undivided responsibility

This model accords with the way using the work of an expert is dealt with in ISAE 3000 (and in ISAs, which provide useful guidance). The practitioner bears the undivided responsibility for the entire engagement. In this model the assurance report is signed by the practitioner only (NIVRA ED 3010 20 and 22).

#### Model 2: Multidisciplinary co-operation under joint responsibility

This model is based on co-operation between the practitioner and the external expert in all phases of the engagement. The aim of the co-operation is to issue one assurance report for which both the

<sup>31</sup> Some practitioners issue a report that is signed on behalf of the firm by a senior assurance professional and a senior professional in one or more aspects of sustainability. Although this may appear to be a joint report with an expert, it is not.

practitioner and the expert take full responsibility. The draft standard deals with the performance of an assurance engagement with multidisciplinary working (NIVRA ED 3010 23 and 27).

### Model 3: Separate engagements for each discipline

The engaging party commissions two separate assurance engagements. The practitioner and the external expert sign separate reports. The draft standard notes that this is not a genuine form of ‘co-operation’ between practitioner and expert but recommends that coordination should take place so that intended users are fully aware of the objectives and scope of both engagements and that there are no omissions between them (NIVRA ED 3010 31 and 32).

A key aspect of the Dutch approach is that an expert may be internal to the firm as well as external. In the draft standard, the term ‘practitioner’ no longer takes its normal meaning of the person responsible for signing the report, or the firm (depending on context). Instead, the term excludes internal experts. It is defined in terms of ‘*the responsible practitioner and the team members working with him/her from the accountancy discipline,...*’ (NIVRA ED 3010 7).

### Germany

The German draft standard prohibits joint responsibility with an expert who is not a member of the accountancy profession. If the *Wirtschaftsprüfer* lacks the necessary knowledge to utilise the work of an expert, the *Wirtschaftsprüfer* endeavours to split such an engagement such that the *Wirtschaftsprüfer* and the expert each issue separate assurance reports (IDW ED AsS 821 19).

FEE believes that standard setters for sustainability reports have to take account of both the high likelihood that experts will be involved in obtaining assurance and that practitioners may become involved in engagements where a third party is also providing assurance.

Of the models for co-operation set out in the Dutch draft standard, where the expert is external, FEE favours the use of Model 1 ‘undivided responsibility’ or Model 3 ‘separate engagement’. The separate engagement necessarily involves contact and co-operation between the practitioner and the external expert and FEE sees no reason to discourage its adoption. However, further consideration is needed as set out in Section 8.2 whether Model 3 is an appropriate interpretation of ISAE 3000.

Although Model 2 ‘joint responsibility’ might appear to be similar to an audit of financial statements carried out jointly by two audit firms (which occurs in practice) it is not, because the external expert is not subject to the same professional standards as the practitioner. For this reason, FEE cautions against working with external experts on the basis of joint responsibility.

## 10 SUBSEQUENT EVENTS

The practitioner should consider the effect on the subject matter information and on the assurance report of events up to the date of the assurance report (ISAE 3000 41).

This requirement is not included in the Swedish standard but is present in the French and Dutch and German pronouncements (CNCC s9, NIVRA ED 3410 137, IDW ED AsS 821 60).

As the requirement in ISAE 3000 is general it has to be applicable across a wide range of circumstances, FEE believes that subsequent events are potentially of considerable importance to a full sustainability report and likely to be a difficult practical aspect because certain sustainability information may be prepared only on an annual basis. FEE considers that it is important for standard setters to establish requirements that determine to what extent practitioners have to be pro-active in performing procedures to identify subsequent events<sup>32</sup>.

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<sup>32</sup> Requirements for financial statement auditors are contained in ISA 560 *Subsequent Events*.

## 11 DOCUMENTATION

Under ISAE 3000, the practitioner is required to document matters that are significant in providing evidence that supports the assurance report and that the engagement was performed in accordance with ISAEs.

This requirement is incorporated in the national pronouncements either directly or by cross-reference to ISAs (or equivalent national standards), which also provide general guidance on documentation. There are also some explicit requirements:

### Sweden

The Swedish standard requires that the engagement be documented ‘*in order to be able to verify (sic) conclusions and reporting*’. The documentation should include all elements in the engagement process, i.e. planning, performing the procedures and reporting (FAR 22).

### France

The French guidance requires the *commissaire aux comptes* to record important judgements in support of the conclusion and to document compliance with applicable professional requirements (CNCC s81).

### The Netherlands

The Dutch draft standard refers to the application of the general principles set out in the related national auditing standard (RAC 230 *Documentation*). There is also a specific requirement to include in the written engagement letter a summary of the contract between the practitioner and the expert (NIVRA ED 3410 57).

### Germany

The German draft standard requires that the *Wirtschaftsprüfer* document matters that provide important evidence supporting the assurance report, and evidence that the engagement was performed in accordance with the draft standard (IDW ED AsS 821 67).

In ISAs, documentation requirements begin with the same overall approach as in ISAE 3000, but there is a full ISA dealing with documentation<sup>33</sup> and there are specific documentation requirements in many other ISAs. FEE believes that standard setters should go further than ISAE 3000 in requiring appropriate documentation. In the long term, a similar approach to that in ISAs may better serve the public interest, however, in the short term there is a need to consider whether changes recently introduced in ISA 230 ought to be implemented for assurance on sustainability reports. These include:

- The viewpoint from which the adequacy of documentation is to be judged (e.g. so as to enable an experienced practitioner, having no previous connection with the assurance engagement, to understand...);
- Recording the identifying characteristics of the specific items or matters tested; and
- Documenting discussions of significant matters with management and others on a timely basis.

<sup>33</sup> ISA 230 *Audit Documentation* – revised September 2005.

## 12 COMPLIANCE WITH LAWS AND REGULATIONS

ISAE 3000 does not deal with compliance with law and regulation as the topic is not directly relevant to the vast majority of assurance engagements. The national pronouncements address law and regulation as shown below.

### Sweden

The standard notes that the criteria according to which the sustainability report has been drawn up and in relation to which it is reviewed, may either be established, such as laws, regulations, and recognised guidelines, or be specific for the review engagement (FAR 9).

In relation to the division of responsibility between company management and practitioner, the Swedish standard refers to the fact that the management of the company is responsible for complying with laws and regulations (FAR 13).

In order to make an assessment of the risk of material misstatements the practitioner is required to have a good knowledge of the laws and regulations concerning the company and the sector and how the company complies with the same (FAR 18).

### The Netherlands

Before accepting the engagement, the engagement team is required to have knowledge of the relevant environmental, social and/or employment law and of sectoral, national and/or international agreements, rules, conventions and/or protocols (NIVRA ED 3410 51).

As part of understanding the business, the practitioner is required to identify the relevant laws and regulations etc and assess their implications in so far as he considers them to be material to the report (NIVRA ED 3410 81).

In a multinational engagement, there should be knowledge of differences in statutory provisions and case law (NIVRA ED 3410 109).

An appendix to the Dutch draft standard provides a listing of the most important laws, rules, codes of conduct and standards.

### France

The guidance points out that in contrast to financial reporting the engagement is not in response to law and regulation (i.e. is voluntary) (CNCC s2 2).

The *commissaire aux comptes* is referred to the national auditing standard dealing with consideration of laws and regulations and, if instances of non-compliance come to light, to the national standard dealing with communication with those charged with governance (CNCCs13 4 and 5)

### Germany

The German draft standard requires that in all cases the *Wirtschaftsprüfer* should consider whether there are any indications of non-compliance with law and regulation that could have a material effect on the sustainability report and take appropriate action if there are. An associated written representation is requested from the management as part of the representation letter (IDW ED AsS 821 58 and 59).

The draft standard also refers to law when providing an example of tests of detail (e.g. waste balance sheets under the “*Kreislaufwirtschafts- und Abfallgesetz*” [Law on Waste Recycling and Disposal] (IDW Para 51).

FEE agrees with the inclusion of legal and regulatory matters in the national pronouncements as clearly, application of ISAE 3000 itself is insufficient. Any international standard setter should carefully consider whether the approach in ISA 250 *Consideration of Laws and Regulations in an Audit of Financial Statements* can be adopted to assurance on sustainability reports. National standard setters should continue to provide guidance on national law and regulation. FEE also believes that practitioners should be required to have an appropriate degree of understanding of authoritative codes and certification regimes (e.g. ISO) that are relevant in the circumstances of sustainability reporting.

## 13 FRAUD

Fraud is not addressed in ISAE 3000 as the topic is not directly relevant to the vast majority of assurance engagements. The national pronouncements address fraud as shown below.

### Sweden

Fraud is not addressed.

### France

Fraud is not addressed.

### The Netherlands

The first two bold-type requirements below are intended to ensure that the financial statement auditor is properly informed.

*'The practitioner (the team) should agree with the engaging party that, depending on the nature of any fraud, he can bring this to the attention of the practitioner charged with the audit of the financial statements of the reporting organisation...'* (NIVRA ED 3410 23)

*'If the practitioner has identified an incidence of fraud, depending on the nature of the fraud, he should bring this to the attention of the practitioner charged with the audit of the financial statements of the reporting organisation.'* (NIVRA ED 3410 45)

*'If the practitioner (the team) receives information during the performance of the engagement that fraud may have been committed, he should consider reporting this to the management of the reporting organisation.'* (NIVRA ED 3410 45)

### Germany

The German draft standard requires the *Wirtschaftsprüfer* to consider whether there are any indications of non-compliance with sustainability standards that could have a material effect and to assess their impacts. A footnote refers the *Wirtschaftsprüfer* to further materials, including ISA 240 (Revised) *The Auditor's Responsibility to Consider Fraud in an Audit of Financial Statements*.

FEE believes that fraud in the context of a sustainability reporting is at least as important as in the context of financial statements. There is merit in standard setters addressing the issues in a similar way as is done in ISAs, but an extra dimension is introduced because many frauds will also impact the financial statements. Subject to resolving any issues of client confidentiality, FEE agrees with the approach in the Dutch draft standard, which requires communication with the financial statement auditor.

## 14 ASSURANCE REPORT

The relevant requirements in ISAE 3000 are set out earlier in this Paper in Section 3.9 *Preparing the assurance report*. The national pronouncements generally comply with those requirements.

### Sweden

The Swedish standard, which was issued before ISAE 3000, nevertheless includes the majority of its reporting requirements. Omissions are mainly explained by fact that ISAE 3000 deals with reporting in greater detail than ISAE 100 on which the Swedish standard was based. In addition, the Swedish standard does not make a distinction between subject matter and subject matter information. The Swedish standard contains no explicit requirement that:

- The report is in writing;
- The report title indicates that it is an independent assurance report;
- The report includes, where appropriate, a description of any significant, inherent limitation associated with the evaluation or measurement of the subject matter against the criteria;
- The report includes, when the criteria used to evaluate or measure the subject matter are available only to specific intended users, or are relevant only to a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose; and
- The report's conclusion should inform the intended users, where appropriate, of the context in which the practitioner's conclusion is to be read (e.g. inherent limitations arising from particular characteristics of the subject matter)

### France

The French guidance includes nearly all the reporting requirements of ISAE 3000. The requirements that are not explicitly included are those that are only relevant in specific circumstances:

- The report includes, where appropriate, a description of any significant, inherent limitation associated with the evaluation or measurement of the subject matter against the criteria;
- The report includes, when the criteria used to evaluate or measure the subject matter are available only to specific intended users, or are relevant only to a specific purpose, a statement restricting the use of the assurance report to those intended users or that purpose; and
- The report's conclusion should inform the intended users, where appropriate, of the context in which the practitioner's conclusion is to be read (e.g. inherent limitations arising from particular characteristics of the subject matter)

### The Netherlands

The Dutch draft standard complies<sup>34</sup> with and goes beyond the reporting requirements of ISAE 3000. It also provides considerable guidance including, in an appendix, seven examples of assurance reports.

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<sup>34</sup> One apparent non-compliance is that the report title is not required to indicate it is an independent assurance report. The Dutch draft standard explains that in the Netherlands this has not been customary for public accountants although the body of the report includes such a statement.

The draft standard:

- Recommends that the addressee of the assurance report is the stakeholders of the reporting organisation;
- Analyses inherent limitation affecting the engagement between those arising from the subject matter and those arising from the scope of the engagement;
- Includes, in bold type, a requirement to state for a limited assurance engagement that the extent of work is more limited than in a reasonable assurance engagement and that the practitioner obtains less assurance;
- Requires a clear statement, where applicable, of the elements for which reasonable assurance and limited assurance have been obtained;
- Requires a clear statement if the report contains information on years that have not been subject to an assurance engagement;
- If prospective information is included, requires a clear statement whether the information is part of the assurance engagement;
- If specifically developed criteria are used by the reporting organisation, requires an opinion on whether they are acceptable given the purpose of the engagement (this opinion is recommended for all criteria);
- Suggests that the summary of work performed includes a statement that the engagement was performed in a multidisciplinary team and that the cooperation with experts has taken place under joint responsibility (the statement can be supplemented by further identification of the disciplines involved) or the practitioner taking full responsibility;
- Suggests that while the responsibility of the reporting organisation is stated explicitly in the report, that of the practitioner may be included implicitly through summarising the work performed;
- Suggests that, rather than including lengthy explanations in all assurance reports, websites of practitioners or standard setting bodies could provide additional background information (such as explaining the difference between ‘audit’ and ‘review’ levels of assurance)<sup>35</sup>; and
- Deals with reports containing several conclusions conveying different levels of assurance (this is considered in Section 8.2 *Reasonable assurance on some parts: limited assurance on other parts*).

The explanatory memorandum issued with the Dutch draft standard explains that the draft took account improvements in reporting standards: specifically, exposure drafts of relevant ISAs that have been issued after ISAE 3000.

## Germany

The German draft standard is very concise when dealing with reporting. It provides less guidance than ISAE 3000. While the majority of the requirements in ISAE 3000 are included, some where there is a limitation are not (as is the case also for the French guidance –see the latter two bullet points for that standard above). The order of the elements of a report is specified (ordinarily) but the requirement for a title does not include that it should indicate independence. While not explicitly explained, the position is the same as in the Netherlands, where independence is understood to be implicit in the engagement.

<sup>35</sup> FEE suggested this approach in the 2004 ‘Call for Action’ paper (paragraph 108). See Appendix 2 *References*.

Example wording indicates that if the criteria are formulated by the entity's management, they should be described in the sustainability report (IDW ED AsS 821 78)<sup>36</sup>.

FEE observes that the national standards differ considerably in the extent to which guidance (and to some extent requirements) are included. Requirements may differ because of cultural assumptions (e.g. that the practitioner is independent) or language (such that the term 'subject matter' can be used to mean 'subject matter information'). Some of the ISAE 3000 requirements that are not explicitly included in the national pronouncements relate to circumstances in which the practitioner would consider the need to inform users of limitations. Practitioners with experience of financial statement auditing are conversant with reporting and will apply their knowledge and experience to an assurance report on a sustainability report. Apparent omissions from the requirements of ISAE 3000 in the national pronouncements are not likely, therefore, to affect the quality of reporting.

FEE believes that, as can be seen from the Dutch draft standard, there are a many areas for which standard setters should consider providing guidance. For example, a long form report is preferable to explain the basis on which limited assurance is obtained, examples of such reports can be valuable in developing good practice in an area where prescription is not appropriate. Aspects of the engagement other than reporting can be affected by reporting requirements, for example the addressee may affect the way the practitioner assesses materiality.

FEE also believes that standard setters should consider the need for reporting requirements where assurance is restricted to part of a report, where more than one level of assurance is conveyed and where there are other relevant circumstances, highlighted elsewhere in this Paper, such as cooperation with experts.

FEE considers that at the current stage of development of assurance on sustainability reports, the assurance report itself is particularly important. Standard setters should not hesitate to consider enhancing the degree to which users are informed about matters such as the reasons why a practitioner is independent, how the practitioner has sufficient competence to undertake an engagement and the role of experts.

## 14.1 Modified conclusions

The relevant requirements in ISAE 3000 relating to modified conclusions are set out in earlier in this Paper in Section 3.9 *Preparing the assurance report*. The national pronouncements generally comply with those requirements. The following national material is of particular interest.

### The Netherlands

The draft standard includes the concepts of 'adequate information system' and 'minimum internal control' (NIVRA ED 3410 90). These are necessary in those parts of the assurance engagement where it is impossible to rely only on substantive testing (for example, test of information in the report about compliance with internal codes of conduct). In the absence of such systems and controls the practitioner expresses a qualified conclusion or disclaimer of conclusion as appropriate. In such circumstances the draft standard suggests that the practitioner can consider adding a statement to the conclusion that '*the engagement did not reveal, however, any evidence that significant shortcomings have actually occurred (negative assurance)*' (NIVRA ED 4310 135).

<sup>36</sup> As explained in Section 6 *Materiality*, FEE cautions against the use of wording that could be interpreted as setting standards for reporting rather than assurance.

FEE does not share the view that such a statement can be made in respect of matters arising during the engagement. It would be possible to plan to provide assurance in a different way but it is potentially confusing for users to have apparently a disclaimer of a conclusion and a conclusion, or two conclusions on the same subject matter information.

## Germany

The German draft standard does not permit an adverse or disclaimer of conclusion (as allowed for in ISAE 3000). In such circumstances no assurance report may be issued.

The German draft standard imposes strict conditions on engagement acceptance such that it would be rare for an engagement to be accepted where the above was anything other than a remote possibility; nevertheless, FEE believes that for public reporting, standard setters should retain the facility to issue an adverse conclusion or to disclaim a conclusion.

FEE considers that modifications to conclusions pose particular problems in relation to sustainability reports. There may be more than one assurance report. A report may contain multiple conclusions involving different level of assurance and other comments that, while not constituting a conclusion, might be mistaken for one, for example, an explanation of the scope of the assurance engagement may be misinterpreted as a scope limitation affecting a conclusion. FEE believes that standard setters, when developing pronouncements, should take into account in particular the need for clarity in circumstances where a conclusion is modified.

## 14.2 Internet reporting

Sustainability reports are normally published on websites and are subject to risks (common to financial statements) that the published material may differ from that on which assurance was obtained<sup>37</sup>. Indeed such risks are often higher than for financial statements, which are generally only downloadable whereas sustainability reports are also be presented on webpages. Sustainability information in those reports may be updated by the reporting company to provide the most recent information. If the assurance report is associated with sustainability information that is subject to constant updates, there is the risk that the assurance report may be considered misleading as it does not cover the updated information.

Currently, ISAs do not include requirements or guidance dealing with continuous reporting, the integrity of information maintained on a website or the extent to which a website constitutes ‘other information’ issued with financial statements. There is, therefore a lack of guidance to which practitioners can refer in such circumstances<sup>38</sup>.

In FEE’s view, standard setters for assurance on sustainability reports should consider including material on website presentation. As well as the issues mentioned above in relation to financial reporting, such material could address the suggestion in the Dutch draft standard that websites of practitioners or standard setting bodies could provide additional background information: for example, a practitioner could publish statements of competence and independence.

<sup>37</sup> Some national standard setters for auditing have addressed these issues.

<sup>38</sup> The UK Auditing Practices Board Bulletin 2001/1 *The electronic publication of auditors’ reports* addresses the issues [http://www.frc.org.uk/images/uploaded/documents/Bull\\_01-01.pdf](http://www.frc.org.uk/images/uploaded/documents/Bull_01-01.pdf).

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Where the practitioners' report is publicly made available on a website along with the sustainability report, a large number of people who have access to the website may read the report. In such circumstances, the practitioners may not be able to identify all those who may potentially read the assurance report and their interests, and consequently fail to consider their expectations.

While the Framework suggests that it is possible to limit the intended users to major stakeholders with significant and common interests, this may not be practical in a sustainability assurance engagement. FEE believes that it would be useful if there were further guidance for practitioners on how to this issue can be practically addressed.

## 15 CHANGING THE ENGAGEMENT / NEGATIVE FINDINGS

A client may respond to the possibility of a qualified conclusion by reducing the scope of the engagement in terms of the level of assurance. A further possibility, for sustainability reports, is that the content of the sustainability report can be narrowed (by changing its reporting boundaries or reducing the information reported) or the extent of assurance can be reduced.

Under ISAE 3000, once the engagement is underway, the practitioner should only reduce the intended level of assurance (from a reasonable assurance engagement to a limited assurance engagement or from either to a non-assurance engagement) if there is reasonable justification. The standard lists cases such as a change in circumstances that affects the intended users' requirements, or a misunderstanding concerning the nature of the engagement as reasonable justification. Even where the type of engagement is accepted by the practitioners, the evidence obtained prior to the change does not be disregarded.

The German draft standard has a requirement that: *'If the engagement is changed from an audit to a report to review the same report during the course of the engagement, the Wirtschaftsprüfer should not accept the change without adequate justification by the engaging party'* (IDW ED AsS 821 21). The Dutch draft standard has a similar provision (NIVRA ED 3410 22).

The Dutch draft standard anticipates problems with negative findings and has a bold-type requirement: ***'When accepting the engagement, the practitioner (the team) should reach proper agreements with the management of the reporting organisation on what should happen if the audit or review produces negative findings'*** (NIVRA ED 3410 21). Guidance is given that negative findings are always reported in writing to the Board of Directors and any Supervisory Board. The guidance goes on to state that if the client decides not to publish the assurance report, the practitioner will consider not undertaking the engagement in subsequent years.

FEE recognises that determining the boundary and scope of a sustainability report currently involves considerable management judgement and that there is, therefore, flexibility in reporting. Nevertheless, stakeholders are not well served by changes to the nature of assurance when the results would otherwise have given rise to a modified conclusion. FEE believes that standard setters should provide robust requirements and accompanying guidance to extend the provision in ISAE 3000, which only relate to reductions in the level of assurance, so that practitioners react appropriately to all requested changes in the nature of an engagement.

## 16 OTHER REPORTING RESPONSIBILITIES

ISAE 3000 requires the practitioner to consider ‘*other reporting responsibilities, including the appropriateness of communicating relevant matters of governance interest arising from the assurance engagement with those charged with governance.*’

ISAE 3000 explains that “*“relevant matters of governance interest” are those that arise from the assurance engagement and, in the practitioner’s opinion, are both important and relevant to those charged with governance.*’

The Swedish standard does not include any specific material on other reporting responsibilities.

The Dutch draft standard deals with other reporting responsibilities by cross-referring to other pronouncements.

The French guidance and German draft standard add some specific material as shown below.

### France

If the *commissaire aux comptes* identifies risks or specific problems of the company he should consider informing those charged with governance. If the *commissaire aux comptes* detects deficiencies in environmental or social information he may report in his report about internal control (CNCC s13 5 and 6 ). The guidance cross-refers to the related auditing standard.

### Germany

Any facts identified in the course of the engagement must be reported immediately to management and, when necessary to a supervisory body of the entity. Included are facts that:

- Are indicative of serious deficiencies in the management system with regard to sustainability;
- Endanger the entity’s ability to continue as a going concern;
- Significantly impair the development of the entity, or
- Are indicative of serious violations of requirements relating to sustainability (‘duty to report’) (IDW ED AsS 821 69).

FEE notes that the national pronouncements refer to auditing standards. ISA 260 *Communication of Audit Matters With Those Charged With Governance* contains both more specific requirement and more detailed guidance than ISAE 3000. In particular that guidance lists matters that ordinarily should be communicated. FEE believes that those charged with governance have a higher interest in sustainability reports than the many subject matters to which ISAE 3000 can be relevant. Accordingly, FEE believes that standard setters should provide more guidance on such reporting and consider the need for requirements equivalent to those in ISA 260.

## 17 STANDARD SETTING

This section considers the way in which the national pronouncements have been prepared and offers FEE's views on how these aspects could be treated in future national or international standards.

### 17.1 *Intended scope*

The Swedish, French, Dutch and German pronouncements are all intended to be applied to separate sustainability reports and not to information forming part of the financial statements (FAR 1, CNCC s1 1, NIVRA ED 3410 7, IDW ED AsS 821 2)<sup>39</sup>.

The pronouncements start with the presumption that a voluntary sustainability report includes the three components: environmental, social and economic subject matter information. None of the pronouncements is based on a specific reporting framework, although the GRI *Guidelines* is named as an example.

The Swedish and German pronouncements make it clear that sustainability reports need not include all the components (FAR 1, IDW ED AsS 821 8) and that the same principles apply to 'less-than full sustainability reports'.<sup>21</sup> They do not contain material on the potential impact this may have on the 'balance' of the view that stakeholders may have obtained from a full report.

The Dutch draft standard concentrates on the circumstance where entities report on all three components, although much of its contents could be adapted to narrower-scope reports.

FEE agrees that, currently, pronouncements must be applicable to comprehensive sustainability reports and to those that are less than full. This is important as entities adopt an incremental approach to reporting and to commissioning assurance. In order for standards to be appropriate FEE suggests that theoretically there must be some threshold of subject matter information below which their requirements are not intended to apply and for which application of ISAE 3000 alone is more suitable. This cut-off point depends on the nature of the standards as well as the extent of the assured subject matter information.

The current national pronouncements remain relatively close to ISAE 3000, making their application to narrow-scope engagements a cost-effective possibility. However, the question of scope is one that standard setters should consider carefully over time as the growth in sustainability reporting has been rapid and the circumstances over the lifetime of a standard may be considerably different.

The French guidance includes within its scope providing assurance on the processes to obtain specific environmental or social data or information. The approach to such subject matter is not, however, separately developed in detail other than by the provision of an example of a moderate assurance report (CNCC Annexe E5).

FEE suggests that, unless there is a need to do so for conformity with other national standards, standards for assurance on sustainability reports should not include engagements for which the subject matter is restricted to internal control, as that is best left to standards dealing generically with such engagements.

<sup>39</sup> For example, CNCC has issued specific guidance for the audit of environmental information that is part of the financial statements (*Recommandation No 2003-R02 du 21 Octobre 2003 concernant la prise en considération des aspects environnementaux dans les comptes individuels et consolidés des entreprises*).

The Dutch proposed standard states explicitly that it assumes an assertion-based assurance engagement<sup>40</sup>. This is implicit in the other national pronouncements which do not include material on direct reporting engagements.

FEE believes that direct reporting engagements in the area of general purpose sustainability reports will be rare and that any such engagements can be carried out in compliance with ISAE 3000. It is for national standard setters to decide whether to exclude such engagements explicitly from the scope of a pronouncement.

## ***17.2 Level of detail and relationship with other authoritative pronouncements***

Assurance, ethics and quality control are complex areas of professional activity. ISAE 3000 is a relatively brief document (57 paragraphs) as it does not attempt to include all the material that is relevant. Instead it requires compliance with Parts A and B of the *Code* and refers to the *Framework*, ISQC 1 and, as a source of guidance, ISAs and ISREs.

ISAE 3000 may be applied directly but IFAC envisaged that further ISAEs could be issued on topics that apply to all subject matters or be subject-matter specific. ISAE 3000 requires that practitioners also comply with other relevant ISAEs. In jurisdictions where ISAE 3000 has been adopted for use, a national pronouncement for assurance on sustainability reports might be expected to be used with it, rather than replace it, although it would be for the national standards issuing body to decide whether compliance with the national pronouncement ensured compliance with ISAE 3000.

### **National pronouncements**

The Dutch draft standard refers to the *Framework* and ISAE 3000. The French and German pronouncements are ‘stand alone’ with respect to ISAE 3000 and include material that embodies its requirements. The Swedish pronouncement (which preceded ISAE 3000) is ‘stand alone’. All the pronouncements deal with ethics by referring to the requirements of the national accounting profession, which would normally be at least as stringent as the *Code*.

FEE is of the view that practitioners find standards for assurance on sustainability generally easier to use if there is little need for cross-reference to other pronouncements. This will often be achieved by making a pronouncement ‘stand alone’ but, where that is done, it should be clear from the text where material from other pronouncements is included (to avoid conflicts). FEE recognises that, in some jurisdictions, practitioners will be accustomed to working with a ‘handbook’ containing all authoritative material and may prefer material to be concise and make more use of cross-references.

For matters not covered in detail the national standards refer explicitly or implicitly to literature usually relevant nationally for the audit of financial statements.

While, currently, national pronouncements generally remain close to ISAE 3000 in length and detail this is an inevitable consequence. Nevertheless, there are areas, where, without specific cross-reference, useful material in ISAs may not immediately be appreciated. For example, material that deals with the inherent limitation of assurance (such as in ISA 240 *The Auditor’s Responsibility to Consider Fraud in an Audit of Financial Statements*). FEE suggests that standard setters must identify and respond to the degree of public interest in assurance on sustainability reports to determine the extent to which specific requirements and guidance in ISAs are adapted and incorporated in a standard for assurance on sustainability reports.

<sup>40</sup> See paragraph 25 of the *Framework*.

The Dutch draft standard is considerably more detailed than the other national pronouncements and provides more guidance (covering, for example, the parallels and differences of providing assurance for financial statements compared with assurance for sustainability reports). While this difference may be partly explained by the time of issue of the individual pronouncements, it mainly reflects the difference in view of standard setters on the needs of the environment in which the standard will be used. This could involve factors such as the progression over time towards higher-quality standards referred to above and the need to inform those new to an emerging area of reporting and assurance.

FEE is of the view that a concise and principles-based approach to setting requirements is more consistent with the drafting style of ISAE 3000. FEE recognises, however, that national standard setters are better placed to determine the need for information and guidance in their own environments.

Looking ahead, FEE can foresee circumstances where the public interest will dictate that standards for assurance on comprehensive sustainability reports are at least as extensive as are current ISAs. For example, when those charged with governance are concerned with sustainability issues to the same extent as with financial ones it will no longer be sufficient to refer to ISAs as providing guidance; instead, detailed mandatory requirements on reporting sustainability-related matters to those charged with governance will be necessary to ensure the high quality of assurance.

### ***17.3 Sustainability information and financial statements***

With an increasing application of International Financial Reporting Standards (IFRSs) requiring extensive disclosures and the introduction of EU law<sup>41</sup> providing for reporting of information on matters such as the environment, employees and social and community issues, sustainability information may be issued as part of the financial statements. Standards on assurance on sustainability reports are not applicable in an audit, which is subject to ISAs.

In some instances, sustainability information may be presented in a separate report issued in the same binder as the financial statements or even interleaved with the annual report. The financial statement auditor applies ISA 720 *Other Information in Documents Containing Audited Financial Statements* and considers any apparent material inconsistency or material misstatement of fact. Financial statement auditors are likely to be concerned in particular with economic indicators in the sustainability information, as such matters are more closely linked to financial results and position.

The Swedish standard requires the practitioner to consider whether the information and data provided in the voluntary separate sustainability report contradicts any sustainability information given in the company's statutory annual report (FAR 20).

The German standard notes that to be credible, assumptions and intentions underlying the sustainability report should not contradict other documents of the entity, including the financial statements (IDW ED AsS 821 32).

<sup>41</sup> DIRECTIVE 2003/51/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.

Whether forming part of the financial statements (or other reports that in some jurisdictions are within the scope of the audit) or as ‘other information’, sustainability information is a topic for which auditing standard setters may wish to issue specific guidance. In the absence of such guidance, it is likely that auditors will refer to authoritative professional literature on assurance on sustainability information.

FEE believes that standard setters for assurance on sustainability reports should include requirements relating to other information issued with the sustainability report (e.g. the financial statements). Where the other information is audited, the practitioner reporting on the sustainability report may be less concerned with misstatements, but the identification of inconsistency and its resolution will remain a possibility.<sup>42</sup>

#### ***17.4 Use of AA1000 AS in combination with other standards***

AA1000 AS (see Appendix 1 *Summary of the AA1000 Assurance Standard*) is intended to support and integrate approaches to assurance using multiple providers, approaches and standards. It is possible to use it in combination with ISAE 3000 or subject-matter-specific standards that are consistent with it<sup>43</sup>. Doing so poses significant operational and reporting challenges, however, because of the considerable differences between AA1000 AS and the other pronouncements, both in concept and coverage.

For example, AA1000 AS does not address:

- Risk assessment;
- Accepting an engagement and suitable criteria;
- Using the work of an expert;
- Planning and performing the engagement; and
- Structure and detail of content of the assurance report.

Practitioners reporting in compliance with ISAE 3000, or subject-matter-specific standards that are consistent with it, implicitly assert that they have complied with associated ethical requirements and quality-control standards. This is not the case under AA1000 AS.

FEE calls on standard setters to address the possibility that assurance engagements may be performed in compliance with more than one standard and incorporate requirements and guidance on reporting to ensure that users are not confused by such practices. It is for individual standard setters to form a view as to whether, to preserve clarity, separate reports should be used under each standard or whether ‘combined reports’ are permitted and, if so, how they should be worded.

FEE is concerned that some assurance providers use wording that could be misinterpreted as a statement of compliance with ISAE 3000, for example, ‘*we have employed methods that are in keeping with ISAE 3000*’. FEE believes that standard setters should specifically prohibit ‘soft’ references that could be mistaken for a statement of compliance.

<sup>42</sup> See also Section 14.2 *Internet reporting*.

<sup>43</sup> Provide reference to report where this is done.

## 17.5 How mandatory requirements are identified

The national pronouncements specify requirements and provide guidance. The pronouncements do not themselves explain the conventions used in the text to identify mandatory aspects. The way requirements are apparently identified in the text varies:

- The Swedish standard does not have a bold-type convention. It uses a mix of ‘the practitioner should’ and present-tense statements;
- The French guidance does not have a bold-type convention. Its requirements are worded in the present tense;
- The Dutch proposed standards use bold type to identify basic principles and essential procedures. Some statements that are not in bold type are, however, also apparently mandatory<sup>44</sup>; and
- The German draft standard does not have a bold-type convention. It uses present-tense statements and explicit wording such as: ‘should’, ‘must’, ‘may only’, ‘it is not permissible’.

The IAASB ‘Clarity Project’ includes consideration of how mandatory requirements are identified within its Engagement Standards (although so far the pronouncements that have been exposed in redrafted form have all been ISAs). The provisional conclusion of the IAASB was that a change was necessary from the use of bold-type lettering to identify basic principles and essential procedures to the use of one typeface; identifying requirements by the use of the word ‘shall’ in a separate section.

FEE believes that it is helpful for national standards that refer to ISAE 3000 to use the same drafting conventions or to explain any differences. Future standards should conform to the approach decided as a result of the IAASB Clarity Project.

## 17.6 ‘Audit’ and ‘review’

ISAE 3000 and the *Framework* refer to ‘reasonable assurance’ and ‘limited assurance’ engagements.

The French guidance follows this approach but the Dutch and German draft standards both prefer to use the terms ‘audit’ and ‘review’ while the Swedish standard, which preceded ISAE 3000, also uses the word ‘review’ (it does not deal with reasonable assurance engagements).

The fact that historical financial information may be subject to audit or review and that such terms are well known has led to their continued use.

The Dutch draft standard explains that ‘audit’ and ‘review’ were used as ‘*In Dutch, there are currently no practical alternatives.*’

FEE recognises that there are translation difficulties but believes that the concepts underlying ISAE 3000 and the *Framework* are best appreciated if the terms ‘reasonable assurance engagement’ and ‘limited assurance engagement’ are used. Reference may be made to the older terms, but they should not be preferred for continuing use. In particular if the word ‘review’ is used, there may be confusion with engagements subject to International Standards on Review Engagements.

<sup>44</sup> For example, the ISAE 3000 requirement to assess the suitability of the criteria (ISAE 3000 19), is incorporated in a normal typeface: ‘The practitioner (the team) must decide whether the reporting criteria used are suitable...’ (NIVRA ED 3410 47).

## 18 INTERNATIONAL STANDARD SETTING

This section examines some of the overall implications for an international standard of the issues identified in this Paper.

Sections 4 to 17 of this Paper have highlighted aspects of assurance on sustainability reports where, over and above ISAE 3000, specific guidance would be useful to practitioners. Those Sections have also identified instances where ISAE 3000 has not imposed requirements that standard setters may consider necessary for assurance engagements in relation to sustainability reports. While FEE can suggest what might be appropriate, it is for standard setters to go through a due process to determine the nature of requirements and the extent of guidance that is in the public interest.

### 18.1 *The need for a standard*

The need for a standard for assurance on sustainability reports is determined by the public interest. A standard already exists for assurance engagements in general (ISAE 3000) because the IAASB has determined that such a standard serves the public interest.

An extensive set of standards exists for the audit of historical financial information because of the high public interest in annual financial statements, particularly those of companies with publicly listed shares.

FEE believes that the growth in sustainability reporting by the world's most influential corporations has been such that, at this time, there is a clear public interest case for a specific standard on assurance on sustainability reporting. The truth of this is evidenced by the fact that national standard setters in the EU have already sought to meet this need.

Practitioners have reported in compliance with ISAE 3000 but, because that standard is generic, it has to be relevant to the smallest and most simple assurance engagement. It does not contain, therefore, the specific requirements that are necessary to adequately safeguard the quality of assurance work in a complex engagement.

ISAE 3000 states that ISAs and ISREs may provide guidance to practitioners but their many requirements do not apply. As discussed earlier in this Paper, for assurance on sustainability reports, the guidance in ISAs and ISREs has to be supplemented by guidance on matters that are important in the context of sustainability reporting.

To the extent that requirements in ISAs and ISREs are relevant to assurance on sustainability reports, FEE believes that a specific standard is necessary to require that they be applied. Where such application 'by analogy' is not sufficient, and for other requirements necessary to safeguard the quality of assurance work in areas not addressed by ISAs and ISREs, FEE believes that a specific standard for assurance on sustainability reports is needed.

### 18.2 *When should a specific standard be issued?*

In the 2004 'Call for Action' paper, FEE called on IFAC to '*move speedily to provide high quality and usable standards for assurance on sustainability*' (paragraph 109). While there is no reason to change the view that a standard should be issued sooner rather than later, a significant event in sustainability

reporting takes place in 2006. This event increases the need for a standard that will be effective for sustainability reports issued in respect of the calendar year 2007.

IFAC is, of course, entirely aware of the fact that the third generation of the GRI Reporting Guidelines<sup>45</sup>, (known as ‘G3’) is planned to be issued in final form in early October 2006. During the exposure period, the IAASB issued a Consultation Paper on the assurance aspects of G3. One of the purposes of the paper was to invite consideration of whether the GRI Reporting Framework would prove suitable criteria for an assurance engagement.

In the ‘Call for Action’ paper, in relation to future versions of the GRI Guidelines, FEE called for *‘proper consideration of assurance issues when determining the form and content of the Guidelines and its sector supplements to ensure that the nature of indicators and other disclosures does not preclude assurance.’* FEE is hopeful that the final G3 Reporting Guidelines will prove to be suitable criteria<sup>46</sup> and that both reporting and assurance will progress more rapidly as a result.

FEE recognises that the IAASB has to allocate its resources in the overall public interest and strongly supports a current major project to clarify the IAASB Engagement Standards that is both highly important and requires considerable resources. This project may render it inappropriate, therefore, for the IAASB to allocate resources so as to be able to issue a standard for assurance on sustainability reports as early as 2007. FEE is pleased to offer its expertise and resources in the area of assurance on sustainability information to assist the IAASB in progressing towards a global standard.

### ***18.3 The form of a specific standard***

In this Paper, no instances were identified where the requirements of ISAE 3000 were considered to be inappropriate for assurance on sustainability reports. A specific international standard could be issued to be used in conjunction with ISAE 3000. Alternatively, a specific standard could be issued that embodied the relevant requirements of ISAE 3000.

As discussed, in Section 17.2 *Level of detail and relationship with other authoritative pronouncements*, in relation to national pronouncements, standards could apply certain requirements in ISAs ‘by analogy’. A further approach that could be considered, given an appropriate degree of public interest in sustainability reporting, would be the creation of a further specific series of engagement standards.

Looking ahead, FEE can foresee circumstances where the public interest will dictate that standards for assurance on comprehensive sustainability reports are at least as extensive as are current ISAs. For the nearer future, FEE suggests that the IAASB should engage with stakeholders to identify the degree of public interest in assurance on sustainability reports. This will determine the appetite for specific requirements and guidance which will assist in determining an appropriate structure for the issue of a standard (or standards).

<sup>45</sup> The term ‘GRI Guidelines’ is commonly used to mean the Guidelines with associated Technical Protocols, or even the GRI Reporting Framework, i.e. the Guidelines with associated Technical Protocols and any relevant Sector Supplement.

<sup>46</sup> A full assessment as to whether the GRI Guidelines will constitute suitable criteria for assurance cannot be undertaken until they are finalised and is, therefore, outside the scope of this Paper.

## APPENDIX 1 SUMMARY OF THE AA1000 ASSURANCE STANDARD

In March 2003 the Institute of Social and Ethical AccountAbility published its AA1000 Assurance Standard (AA1000 AS) for sustainability reporting. AA1000 AS is part of the AA 1000 Series of specialised modules related to the AA1000 Framework, which was launched in 1999 to address the need for organisations to establish a systematic accountability process involving stakeholders ('stakeholder engagement'). Accountability not only includes transparency of reporting, but also responsiveness to stakeholder concerns.

AA1000 AS defines assurance as: *'an evaluation method that uses a specified set of principles and standards to assess the quality of a reporting organisation's subject matter, such as reports, and the organisation's underlying systems, processes and competencies that underpin its performance. Assurance includes the communication of the results of this evaluation to provide credibility to the subject matter for its users'*.

AA1000 AS shares much of the thinking embedded in the AA 1000 Framework and is intended to be applicable to non-public reporting as well as public. It deals in the main with the application of principles that are familiar to organisations using other parts of the AA1000 Series and, as a result, its use of certain terms is substantially different from that in standards issued by the accountancy profession. It stresses the important relation between the organisation and its stakeholders as part of responsibility and accountability. Assurance providers judge the report against the information needs of the stakeholder groups in an objective and neutral manner.

A reporting organisation adopting any part of the AA1000 Series commits itself to the practice of *'inclusivity'*. This involves the organisation identifying and understanding its social, environmental and economic performance and the related views of its stakeholders. The organisation should consider and coherently respond to the aspirations and needs of its stakeholders in its policies and practices. In addition, it must provide an account to its stakeholders for its decisions, actions and impacts.

AA1000 AS sets out principles against which the credibility of an organisation's fulfilment of its commitment to inclusivity can be assured. These are required to be applied in the assurance process:

1. Materiality;
2. Completeness; and
3. Responsiveness.

The materiality principle requires that the assurance provider states whether the organisation has included in the report *'the information about its sustainability performance required by its stakeholders for them to be able to make informed judgements, decisions and actions.'*

The other two principles require evaluation (to the level of assurance applicable):

- Of the extent to which the organisation can identify and understand material aspects of its sustainability performance (completeness principle); and
- Whether the organisation has responded to stakeholder concerns and communicated this in its report (responsiveness principle).

The manner in which these principles are applied depends on the level of assurance pursued. Under AA1000 AS 'level of assurance' is a continuum<sup>47</sup>. Assurance levels may depend on the extent and quality of information available, sufficiency of evidence, underlying systems and processes, internal assurance systems and existing assurance for specific aspects of performance reporting.

The assurance provider is required to evaluate whether the organisation has provided adequate evidence to support the information in the report. The assurance provider must gather and consider the evidence supporting the information in the report, as well as the robustness of the systems and procedures underpinning its production and application. Evidence can be derived from qualitative and quantitative information about historical performance and underlying systems or the feasibility of targets and other commitments publicly made.

AA1000 AS does not enter into any further detail concerning the principles or procedures of the assurance process.

To comply with AA1000 AS, the assurance statement should include:

- A statement that AA1000 AS was used (with a description of any special features of how the AA1000 principles were applied);
- A basic description of the work undertaken including the level (or levels) of assurance and a description of the criteria for the engagement agreed with the reporting organisation;
- Conclusions as to the quality of the report and underlying organisational processes, systems and competencies covering aspects of materiality, completeness and responsiveness; and
- Additional commentary (which could cover progress in reporting and assurance since the last report and suggestions for improvement).

The assurance provider is also required to make information publicly available about its independence from the reporting organisation, its impartiality towards stakeholders and its own competencies. These matters are subject to standards in AA1000 AS that apply to the assurance provider and individuals involved in the assurance engagement.

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<sup>47</sup> This approach contrasts with that under ISAE 3000, which permits only two 'level of assurance' (though that term is not used) resulting respectively from a reasonable assurance or limited assurance engagement. Theoretically, 'limited assurance' may itself have a range of levels so the IFAC and AA1000 AS approaches are not inconsistent.

## APPENDIX 2 REFERENCES

### IFAC / IAASB

IFAC

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The *Framework* and ISAE 3000 (forming part of the 2006 *Handbook of International Auditing, Assurance, and Ethics Pronouncements*) may be downloaded from:

<http://www.ifac.org/Store/Details.tmpl?SID=114140585740731&Cart=1142857846166145>

The Handbook includes a glossary.

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FEE responses to the GRI G3 and IAASB consultations referred to in this Paper may be viewed at the websites of those organisations.

FEE Publications in the area of assurance on sustainability information may be downloaded as follows:

*Assurance for a Sustainable Supply Chain* (2005)

[http://www.fee.be/publications/default.asp?library\\_ref=4&content\\_ref=390](http://www.fee.be/publications/default.asp?library_ref=4&content_ref=390)

*Alert on Emissions Trading* (2005)

[http://www.fee.be/publications/default.asp?library\\_ref=4&content\\_ref=252](http://www.fee.be/publications/default.asp?library_ref=4&content_ref=252)

*Call for Action – Assurance for Sustainability* (2004)

[http://www.fee.be/publications/default.asp?library\\_ref=4&content\\_ref=256](http://www.fee.be/publications/default.asp?library_ref=4&content_ref=256)

*Benefits of Sustainability Assurance* (2003)

[http://www.fee.be/publications/default.asp?library\\_ref=4&content\\_ref=265](http://www.fee.be/publications/default.asp?library_ref=4&content_ref=265)

*Greenhouse Gases and the Accountancy Profession* (2002)

[http://www.fee.be/publications/default.asp?library\\_ref=4&content\\_ref=282](http://www.fee.be/publications/default.asp?library_ref=4&content_ref=282)

*Providing Assurance on Sustainability Reports* (2002)

[http://www.fee.be/publications/default.asp?library\\_ref=4&content\\_ref=270](http://www.fee.be/publications/default.asp?library_ref=4&content_ref=270)

This Paper includes an extensive glossary. Please note that the reference in it to a FEE 'Environmental Lexicon' is no longer valid. There are many sustainability glossaries now available on the Internet.

## NATIONAL PRONOUNCEMENTS

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URL: <http://www.nivra.nl>

An English translation of the Dutch draft standard may be downloaded from:

[http://www.nivra.nl/Downloads/MVO/Dutch\\_ED\\_Standard\\_3410.pdf](http://www.nivra.nl/Downloads/MVO/Dutch_ED_Standard_3410.pdf)

(and ED 3010 at an analogous URL)

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<sup>48</sup> The Swedish issuer was previously named 'Föreningen Auktoriserade Revisorer' and is now known simply as 'FAR'.

URL: <http://www.idw.de>

An English translation of the Germany draft standard may be downloaded from:

<http://www.idw.de/idw/generator/id=390218.pdf>

## **GRI**

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The GRI Sustainability Reporting Guidelines and related documents may be downloaded from the above website.

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URL: [www.accountability.org.uk](http://www.accountability.org.uk)

AA1000 AS may be downloaded from:

<http://www.accountability.org.uk/uploadstore/cms/docs/Assurance%20Standard%20for%20Web.pdf>

## **OTHER DOCUMENTS**

No. 23-2004 ICCSR Research Paper Series - ISSN 1479-5124 *Assurance Statement Quality in Environmental, Social and Sustainability Reporting: A Critical Evaluation of Leading Edge Practice*

David Owen and Brendan O'Dwyer

<http://www.nottingham.ac.uk/business/ICCSR/pdf/ResearchPdfs/23-2004.pdf>

*KPMG International Survey of Corporate Responsibility Reporting 2005 (June 2005)*

KPMG Global Sustainability Services

[http://www.kpmg.com/NR/rdonlyres/66422F7F-35AD-4256-9BF8-](http://www.kpmg.com/NR/rdonlyres/66422F7F-35AD-4256-9BF8-F36FACCA9164/0/KPMGIntlCRSurvey2005.pdf)

[F36FACCA9164/0/KPMGIntlCRSurvey2005.pdf](http://www.kpmg.com/NR/rdonlyres/66422F7F-35AD-4256-9BF8-F36FACCA9164/0/KPMGIntlCRSurvey2005.pdf)

*Assurance Standards Briefing AA1000 Assurance Standard & ISAE3000*

Prepared by AccountAbility in association with KPMG Sustainability, The Netherlands, April 2005

[http://europa.eu.int/comm/employment\\_social/soc-dial/csr/assurance\\_standards\\_briefing\\_en.pdf](http://europa.eu.int/comm/employment_social/soc-dial/csr/assurance_standards_briefing_en.pdf)