



**Analysis of Responses to
FEE Discussion Paper
“Providing Assurance
on Environmental Reports”
published in October 1999**

October 2000

FEE

The Fédération des Experts Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe, currently grouping together the 38 leading institutes in 26 countries, including the 15 Member States, Cyprus, Czech Republic, Hungary, Iceland, Israel, Malta, Monaco, Norway, Romania, Slovenia and Switzerland. Between them these bodies have a combined membership of approximately 450.000 individuals of whom about 45% work in the public practice, providing a wide range of services to clients, whilst the other 55% work in various capacities in industry, commerce, government and education.

Purpose of this Comment Paper

In October 1999, FEE has published a discussion paper “Providing Assurance on Environmental Reports” with a view to stimulating the international debate on such engagement through discussions and the responses received to the questions and therefore, to provide input to IAPC which is currently engaged to issue an international standard on assurance engagements on environmental reports.

The responses to the questions raised then in the FEE’s discussion paper are presented hereby with the aim to extract FEE conclusions on each of the questions or new issues requiring further debates. The FEE conclusions have been developed based on the comments received and on further reflections within FEE on the subject of providing assurance on environmental reports since the publication of the discussion paper. The summary of the responses is by nature condensed and should be read in connection with the individual responses quoted in the paper. The comments received are quoted directly, but not in full, having discarded parts less relevant to the questions (full set of FEE comments can be obtained from FEE Secretariat). In case there were no specific responses, the commentator has not been mentioned for a certain question.

FEE’s Environmental Working Party is also working on a future discussion paper on providing assurance on sustainability reports, which will be based on the IFAC assurance framework.

Without any particular order, comments were submitted by:

Institute of Chartered Accountants in England & Wales (ICAEW)
 Alan R. Carter, Ph.D., CPA
 Institut der Wirtschaftsprüfer (IDW)
 Danish Commerce and Companies agency
 Danish Confederation of Trade Unions
 The Auditing Practices Board – London (APB)
 Royal Dutch Institute of Registered Accountants (Royal NIVRA)
 Corpul Expertilor Contabili si Contabililor Autorizati din Romania (CECCAR)
 Norwegian Institute of Public Accountants (DnR)¹

¹ New name, after merger

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1. USE OF THE TERM ‘ASSURANCE’

QUESTION 1

What matters would have to be addressed to enable the professional accountant to provide a high level of assurance in respect of an environmental report?

Position – FEE Discussion paper October 1999

In providing assurance on environmental reports, there remain certain issues to be resolved, in particular:

- *The lack of generally accepted criteria for environmental reporting.*
- *Information given in the environmental report is both quantitative and qualitative. The subjective and qualitative aspects of the matters subject to report, together with the absence of suitable criteria, may limit the quality and quantity of evidence that can be obtained for assurance purposes.*
- *Tolerances need to be considered in relation to the reliability of quantitative environmental source data.*

COMMENTS

Institute of Chartered Accountants in England & Wales (ICAEW)

The Institute considers that it is important to develop a framework of reporting and assessment standards. These standards need testing and refinement before being widely applicable. The Institute therefore recommends that standard setters use a pilot scheme to ensure that environmental reporting and assessment standards are feasible in practice and adjusted where necessary. This would also allow standard setting bodies to produce more useful guidance to accompany standards and assist users, preparers and reviewers of environmental reports.

Until those standards have been developed and agreed, professional accountants should continue to undertake agreed-upon procedure engagements, as opposed to an audit or a review assignment.

Alan R. Carter, Ph.D., CPA

Until generally environmental reporting (GAER) standards have been adopted, it will be difficult to provide a high level of assurance. This is especially important with respect to the reporting of certain “qualitative” information, how to deal with industry specific information, the use of performance indicators and the extent, coverage and incorporation of information from all sub-entities across international lines.

Institut der Wirtschaftsprüfer (IDW)

The IFAC Standard “Assurance Engagements” concludes that assurance engagements are affected by various elements, for example, the degree of precision associated with the subject matter, the criteria, the nature, timing and extent of procedures and the sufficiency and appropriateness of evidence available to support a conclusion. The question as to whether the level of assurance obtained in such an engagement is determined solely by the work effort or by a combination of elements affecting it has not been resolved.

In this respect whether the criteria are sufficiently suitable for the performance of an assurance engagement is of particular importance. A generally accepted accounting framework for environmental reports that represents a complete and sufficiently reliable and relevant set of suitable criteria does not yet exist and consequently the auditor ordinarily would develop the criteria to be applied in an individual case. We are of the opinion that such a development of suitable criteria is practicable (reference is made to IDW AuS 820, par. 22 seq.). We should like to point out, however, that the underlying criteria need to be described in the assurance report (in this context see also section 3.4. of the FEE Discussion Paper) if the underlying criteria are not detailed in the environmental report.

Danish Confederation of Trade Unions

The Confederation does not have any contribution in respect of substance and technical contents of the preparation of guidelines for the audit of environmental reports with a view to objective verification as the issue is outside the usual sphere of the Confederation.

However, the Confederation does consider it strictly required that assurance is created in respect of companies' environmental reports and green accounts in order for investors and the general public to benefit from the information. Accordingly, the Confederation agrees with FEE that guidelines should be developed enabling reliable and unambiguous audit of environmental reports based on relevance and materiality.

The Confederation's concerns relate to the question of quantifying as much information as possible. In the Confederation's opinion, FEE should consider how to avoid:

- that the significance of the reporting aspect of the environmental report is lost because many relevant environmental data will always be of a qualitative nature and the report is very important for communication purposes;
- that there is a loss of internal dynamism of the company's environmental work and inadequate development of competencies within the company because external auditors process and evaluate the company's environmental data.

The Auditing Practices Board – London (APB)^o

In the UK and Republic of Ireland environmental reporting is an evolving, but relatively immature, element of corporate reporting. Companies vary considerably in the nature, extent and style of environmental information provided and, indeed, whether a third party is invited to 'audit' any aspect of such disclosures. In the circumstances it is, perhaps, not surprising that at present 'auditor' reporting practices vary. It would be desirable for more consistency to be achieved in 'auditor' reporting practices but it is not clear to the APB that this is possible at this time. Encouraging best practice in relation to this evolving element of corporate reporting may be a more realistic way of increasing the consistency of 'audit' reporting practices at this time than attempting to describe in standards a single form of assurance report.

Standards and guidance on environmental reports will need to be consistent with the standards contained in the IAPC assurance framework. This document emphasises the need for criteria against which reporting accountants can evaluate the subject matter that are relevant, reliable,

neutral, understandable and complete. The FEE discussion paper makes it clear in the introduction, that there is no generally accepted reporting framework for environmental reports.

Completeness of reporting is a particular issue. Without a clear reporting framework it will be difficult for ‘auditors’ to ensure that all relevant information is provided by companies – especially if it relates to ‘bad news’. A clearly defined reporting framework provided it was in sufficient detail, would be an important step towards providing the criteria that reporting accountants would need to be able to express assurance on environmental reports, but even a framework may not be sufficient to support a high level of assurance.

The absence of a generally accepted reporting framework is one characteristic of environmental reporting being a relatively immature element of corporate reporting; poorly developed corporate governance processes to ensure that directors are confident as to the accuracy of environmental disclosures is another. It is important that the directors of a company have a high level of confidence in the reliability of the information before ‘auditors’ can be expected to provide a high level of assurance. While review processes are developing, in many companies environmental information does generally not receive the same level of scrutiny as financial information from executive directors, and non-executive directors are not involved in reviewing the judgements that are made. Debate amongst non-executive directors on issues such as materiality – especially relating to disclosure of contravention of law and regulations- is a valuable mechanism to ensure that directors are confident as to the accuracy of environmental disclosures.

Royal Dutch Institute of Registered Accountants (Royal NIVRA)

The matters that have to be addressed to provide a high level of assurance on environmental reports in our opinion are:

- Standards/guidelines for reporting (what and how);
- Definition of engagement risks and audit risks;
- Standards/guidelines for (necessary) co-operation with other environmental experts and responsibilities;
- Body of additional GAAS regarding environmental reports;
- Standard for reporting to client (auditor’s statement, if applicable and possible management letter);
- Knowledge about environmental issues.

Given the present state of the art, in which matters exist that reduce the quantity and quality of evidence, we doubt whether it is already possible to distinguish between a high and moderate level of assurance. The high level of assurance may in these circumstances only be suggestive rather than actual providing such level of assurance and as such may create an expectations gap. Matters that may reduce the quantity and quality of evidence include the lack of generally accepted accounting principles for environmental reporting, the existence of subjective and qualitative information, the lack of suitable criteria and the tolerances in relation to the accuracy of environmental reports.

Corpul Expertilor Contabili si Contabililor Autorizati din Romania (CECCAR)

In a period when it is more and more about the world economies, when we witness the explosion of the Internet and of the access to huge data basis, we must increasingly meet standards, standardised supports for activities, in order to help the people and organisations from different countries who receive, read, and exploit this information to find the same data, comments, analysis in the same place.

Norwegian Institute of Public Accountants (DnR)

Our experience is that the issuer of an environmental report is most interested in presenting their best performances in the environmental area. Aspects or sectors where the company is not so successful are normally not presented in detail in the reporting, or maybe not included at all.

The matters to address to enable the professional accountant to provide a high level of assurance is that the environmental reporting must be in line with all the basic reporting assumptions (as described in the FEE Discussion Paper “Towards A Generally Accepted Framework for Environmental Reporting”). Furthermore the company must understand that the professional accountant have to include all aspects of the company’s activity that could have some influence on the environment, and not restricted to some agreed part of the company’s environmental reporting.

As an overall premise for a high level of assurance is off course that the professional accountant have the necessary expertise to be able to assess the company’s environmental impact, ref. section 4.1 in the discussion paper.

Summary of comments

There is a general opinion that environmental reporting appears to have a lack of consistency and that it varies considerably in the nature, extent and style of environmental information.

The primary importance would be to develop a generally accepted framework of environmental reporting and related assessment standards.

FEE Conclusion

In order to provide a high level of assurance, the following matters should be considered:

- *standards/guidelines/criteria for environmental reporting and related assessment,*
- *precision associated with the subject matter,*
- *nature, timing and extent of procedures,*
- *sufficiency and appropriateness of the evidence available to support the conclusion.*

QUESTION 2

Do you agree with the use of the term ‘assurance engagement’ in connection with environmental work?

Position – FEE Discussion paper October 1999

In the case of assurance engagements on environmental reports, in practice a variety of terms are currently used, such as ‘verification’, ‘review’ (although not necessarily intended to limit the assurance to a moderate level) and ‘audit’. To avoid confusion, this discussion paper uses the term ‘assurance’ but views on the term are invited.

COMMENTS

Institute of Chartered Accountants in England & Wales (ICAEW)

Whilst the term ‘assurance’, introduced by IAPC during the development of the discussion paper, would be difficult for some readers to understand, it is difficult to find another term that is acceptable for this work.

However, there is a danger in using the term ‘assurance engagement’ that does need to be considered. It covers a wide range of reports and different professionals may have different expectations about the level of assurance being provided. It must be clear what degree of comfort is being given in the environmental assurance report and what the respective responsibilities of the accountants and the entity are.

Alan R. Carter, Ph.D., CPA

The term «assurance engagement» is fine. In our practice we have used the term “attestation”.

Institut der Wirtschaftsprüfer (IDW)

The term “assurance engagement” is used in the relevant IFAC Assurance Standard. We agree with this usage.

The Auditing Practices Board – London (APB)

The APB considers that the terms used should reflect the level of assurance intended.

The APB would not wish to limit ‘audit’ engagements on environmental reports to those intended to provide a high level of assurance. Currently many engagements are of the nature of ‘review engagements’ or ‘agreed upon procedures’ and, given the evolving environment described above, this seems entirely appropriate.

Variations in the characteristics of environmental reporting engagements may not be understood by users unless they are clearly explained in the ‘auditors’ report. The APB believes that, in the absence of a generally accepted reporting framework for environmental reports and Standards that provide the basic principles and essential procedures of an assurance engagement, ‘auditors’ should be encouraged to describe the scope of their engagements, the criteria applied and subjective aspects of the engagements in some detail.

Royal Dutch Institute of Registered Accountants (Royal NIVRA)

We prefer to use similar terms as IAPC does in its framework on assurance engagements. Therefore we agree with using the term ‘assurance engagement’. In addition IAPC distinguishes between ‘audit’ and ‘review’. However we have serious doubts in using the term ‘audit’. Another alternative term could be Eco-assurance engagement.

Corpul Expertilor Contabili si Contabililor Autorizati din Romania (CECCAR)

The term "assurance engagement" containing somehow a guarantee should be measured by the part of data containing uncertain information or information hard to be measured.

Norwegian Institute of Public Accountants (DnR)

We think that the term “assurance engagement” is the most appropriate term for this kind of work. In our experience this is also the term that is used among the professional accountants for such engagements.

We fully agree to the discussion in section 1.2 regarding this term compared to use of the term “audit”.

Summary of comments

There is a general agreement for the use of the term “assurance engagement”.

FEE Conclusion

The term “assurance engagement” is appropriate.

2. RESPONSIBILITY FOR ASSURANCE

QUESTION 3

Do you agree with the reference to competence and experience required for the engagement? Is the flexible approach regarding the use of multidisciplinary teams appropriate?

Position – FEE Discussion paper October 1999

To perform an assurance engagement on an environmental report, the professional accountants may supplement their own competence and experience with the advice and assistance that may be obtained from others with appropriate expertise.

Co-operation with environmental experts in an assurance engagement on environmental reports may be organised in different ways. For example, the expert can be:

- *employed by the professional accountant's firm, including the firm's management consultants specialised in environmental consulting;*
- *a third party expert (such as an independent environmental consultant); or*
- *a person employed by the client, an environmental expert or an internal or operational auditor with expertise in environmental auditing. In this case, the professional accountant considers safeguards to ensure the independence of the engagement.*

Whether third party environmental experts are included in the team or not is a matter of professional judgment, taking into account the circumstances of the individual case.

COMMENTS

Institute of Chartered Accountants in England & Wales (ICAEW)

The Institute agrees in principle with the use of multidisciplinary teams and with the need for staff with appropriate competence to carry out the assignment. The Institute would also agree that the approach has to be flexible and dependent on the nature of the engagement.

The Institute is concerned with the wording of the first bullet point in the penultimate paragraph of section 2.1, which suggests that the input of an environmental expert may be important in order to 'ensure a sufficient understanding' of the processes, nature and risks. In many cases, we do not believe it likely that the reporting accountant would be required to have this sufficient understanding. Instead of implying that environmental reporting teams would have to include an environmental expert, the Institute considers that this should be left flexible and should be dependent on the terms of the engagement and the matters under consideration.

Alan R. Carter, Ph.D., CPA

I agree with the comments in the discussion paper. I guess the necessity to use a team incorporating environmental experts will be determined by the rules and regulations governing the professional conduct and diligence of the firm engaged, which means if the firm engaged to provide assurance is an accounting firm, it has a duty to secure expert advice on technical issues that would significantly impact the firm's ability to form an opinion.

A flexible approach to using multidisciplinary teams seems appropriate.

Institut der Wirtschaftsprüfer (IDW)

We agree with the approach set forth in the FEE discussion paper -- in particular with regard to multidisciplinary and flexible composition of the engagement team (reference is specifically made to the last paragraph of section 2.2. of the FEE discussion paper).

In addition, we should like to draw attention to the professional rules governing consultation of experts, which should also be considered for assurance engagements relating to environmental reports (ISA 620, and IDW AuS 820, section 4.3.): If the professional accountant is unable to assess significant matters (such as technical data etc.), experts should be consulted. Existing written opinions of experts and audit results of third parties may also be used. It is not sufficient to simply rely on the results of third parties. The professional accountant should at least critically assess the investigations and findings of third parties. Whether the investigations and findings of third parties can be used by the professional accountant for the purpose of the assurance engagement depends on those parties' competence and professional qualification, to be judged in terms of their independence, conscientiousness, impartiality and professional autonomy.

Danish Commerce and Companies agency

Since several professional disciplines will probably in many cases have to be involved in the audit of environmental reports, considerable flexibility will probably have to be allowed in the use hereof. Any involvement of experts should probably be indicated in the auditors' report, since that will increase the assurance value of the report.

The Auditing Practices Board – London (APB)

The knowledge, skills and abilities of staff performing the work is of critical importance. Standards that provide the basic principles and essential procedures of an assurance engagement should emphasise the importance of assigning staff with the competencies needed or be cross-referenced to appropriate quality control standards.

The paper seems to be based on a model of a 'professional accountant' co-operating with 'environmental experts' and exploring issues such as 'reliance on experts' and 'reporting'. Some attempt is made to describe the 'essential input' of the professional accountant but this may not convince all readers. In reality, at least in the UK and Republic of Ireland, most engagements to provide assurance on environmental reports are not undertaken by 'audit firms', but by entities that employ both professional accountants and environmental experts. More useful guidance might be developed if a multidisciplinary service provider is assumed and the involvement of separate firms (audit and expert) is treated as the exception. An important issue to consider as part of this is the continued applicability of ISA 620 'Using the work of an expert' when the expert is employed within the firm.

Royal Dutch Institute of Registered Accountants (Royal NIVRA)

We agree with the competence and experience as it is proposed in the discussion paper. In our opinion, the flexible approach in relation to the use of multidisciplinary teams is appropriate.

Corpul Expertilor Contabili si Contabililor Autorizati din Romania (CECCAR)

The FEE approach confirms once more the necessity to refer to the minimum required level of competencies that are indispensable, and we agree with this.

Norwegian Institute of Public Accountants (DnR)

We think that section 2.1 to 2.4 is successful in addressing the challenges for the professional accountant regarding the demand for competence and experience related to environmental work. Obvious there will often be a co-operation between different disciplines. Hence, it is necessary to discuss the impact of this regarding planning, organizing of the multidisciplinary team, evaluating and responsibility. We find that the discussion paper gives a good introduction for such discussions.

However, we think the discussion paper should highlight to a greater extent the potential independency conflicts by using an environmental expert. It might also discuss the potential independency conflicts within the professional accountant firm if they do extended environmental work (consulting services etc) and is also the financial accountant for the same company.

We think the approach proposed regarding the use of multidisciplinary teams is appropriate. However, we think it would be a major problem to use an expert that is employed by the client.

Summary of comments

There is a general agreement with the competence and experience as it is proposed in the discussion paper and the flexible approach in relation to the use of multidisciplinary teams.

An important issue to consider as part of this is the applicability of ISA 620 'Using the work of an expert'.

FEE Conclusion

Assurance engagements for environmental reports should ordinarily be performed by multidisciplinary teams.

QUESTION 4

Where two or more parties are involved in providing assurance, which party should have the ultimate responsibility for reporting on the assurance engagement?

Position – FEE Discussion paper October 1999

The decision as to which professional should assume the ultimate responsibility for the engagement process as a whole, including publicly reporting thereon, is dependent upon the circumstances. This will depend upon the degree to which each of the contributions of different disciplines involved in the engagement is predominant for the overall evaluation of the environmental report. In practice this could be:

- *the professional accountant. In this case, only the professional accountant will sign the report;*
- *the environmental expert (excluding environmental experts employed by the client). In this case, only the environmental expert will sign the report; or*
- *joint responsibility. In this case, both professionals will sign the report jointly - or two reports will be issued, each one clearly referring to the other.*

COMMENTS

Institute of Chartered Accountants in England & Wales (ICAEW)

The Institute agrees with the first sentence of paragraph 2.4, which makes it clear that the ultimate responsibility will depend on the nature of the engagement. However, it considers that there are several issues that ought to be addressed:

- If the accountant has to rely on experts for the bulk of comfort in order to give an opinion, should the accountant be giving an opinion at all? The more specialist the report, the more reliance that an accountant is likely to place on the work of experts and the less able the accountant is likely to be in assessing the results of that work.
- The accountant may not be permitted to sign a joint report in conjunction with an expert belonging to a non-regulated body.

The second bullet point of paragraph 2.4 suggests that an environmental expert, other than one employed by the client, could sign the report. The Institute suggests that more guidance should be given on the independence requirements for an expert.

Alan R. Carter, Ph.D., CPA

Naturally, this would depend on the engagement contract and agreed upon scope. An accounting firm would have the ultimate responsibility for its own agreed upon scope and required conformance with professional audit or review standards.

Institut der Wirtschaftsprüfer (IDW)

If a professional accountant uses the work of an expert, the ultimate responsibility should lie with the professional accountant. It should be borne in mind in such situation, that a professional accountant who takes the ultimate responsibility, should be able to independently judge the findings of the expert's work.

In situations where the professional accountant is consulted as expert by an environmental expert and where the public at large is not informed of the activity of the professional accountant (for instance the professional accountant is only handing out his report to the environmental expert), then the professional accountant has no ultimate responsibility to the general public. In these circumstances the professional accountant need only assume ultimate responsibility for the part of the engagement performed by him and only in relation to the environmental expert.

A condition for application of joint responsibility would be that the professional accountant – in order to take on responsibility for the work performed by the expert – be competent to assess the latter’s work in the same way as his own - a condition which in our opinion cannot ordinarily be fulfilled unless the professional accountant is such an expert (in which case he would not need to rely upon the work of another expert). Consequently, we believe that joint responsibility is not appropriate. Furthermore, no International Standard on Auditing (ISA) dealing with the issue of joint engagements currently exists. We believe that the difficulties experienced within this area could increase if members of different professions were called upon to cooperate in a joint engagement in which each took responsibility for the work of the other.

In cases where the professional accountant does not use the work of an expert (separate responsibility; for instance, the expert and the professional accountant verify two different parts of the environmental report or the expert verifies environmental aspects not covered by the professional accountant in his audit engagement - e.g. the expert assesses measurements but the professional accountant only attests that the results of these measurements are correctly presented) the professional accountant should issue a separate conclusion and a separate assurance report. It is of importance that under such circumstances the scope of the professional accountant’s engagement is clearly defined – especially if the expert’s report will also be published.

We believe that no unambiguous definition of the divided responsibility exists: responsibility is either joint or separate.

Danish Commerce and Companies agency

It could be debated whether, when rendering the auditors’ reports on supplementary reports, the auditor should be able to co-sign.

In situations where the auditor chooses to co-sign, it would be preferable, from an assurance point of view, for the auditor to describe the distribution of work to give the reader of the auditors’ report a clear impression of the procedures performed.

If responsibility can be shared, a joint auditors’ report must be preferable to several separate reports.

The Auditing Practices Board – London (APB)

See response to question 5.

Royal Dutch Institute of Registered Accountants (Royal NIVRA)

Providing assurance on environmental reports requires both subject matter knowledge and audit knowledge. In relation to assurance engagements on environmental reports this subject matter knowledge includes knowledge of environmental reporting and of environmental issues in order to make the accurate interpretations of the data provided. The responsibility should be with the professional who has the most significant impact for the work of the engagement. Where possible the accountant should take the lead given his/her knowledge of auditing and the code of conduct he/she has to comply with (independence, objectivity, integrity, professionalism, competence).

Corpul Expertilor Contabili si Contabililor Autorizati din Romania (CECCAR)

The professional accountant signing a contract for the services offered with the company is the one who will sign the final document and will take most of the responsibilities.

Norwegian Institute of Public Accountants (DnR)

If the company is a client of the professional accountant we think he should have the ultimate responsibility for reporting on the assurance engagement. If the company is not a client, the responsibility would depend upon the circumstances like described in section 2.4 in the discussion paper.

Summary of comments

There is no common view on that matter. Some believe that it will depend on the nature of the engagement and other think that the responsibility should lie with the professional accountant.

FEE Conclusion

The ultimate responsibility should depend on the nature of the engagement as well as the scope of the engagement. The respective responsibilities of the accountant and the environmental expert need to be clearly described in the expert's statement(s) / assurance report(s) in order to avoid misunderstandings and incorrect interpretations. Variations in professional standards and exposure to litigation may mean that the conclusions of the work cannot be combined into a single statement/report.

QUESTION 5

If the assurance engagement is performed by a multidisciplinary team, to what extent is it necessary, or acceptable, that:

- a) **If one report is issued, it is signed by the professional accountant only, with the responsibilities of environmental expert specified in the report?**
- b) **If one report is issued, it is signed by the environmental expert only, with the responsibilities of the professional accountant specified in the report?**
- c) **The professional accountant and the environmental expert each sign and publish their own reports, including a reference to the report of the other professional?**

d) The environmental assurance report is signed jointly by the professional accountant and the environmental expert?

Position – FEE Discussion paper October 1999

In practice this could be:

- *the professional accountant. In this case, only the professional accountant will sign the report;*
- *the environmental expert (excluding environmental experts employed by the client). In this case, only the environmental expert will sign the report; or*
- *joint responsibility. In this case, both professionals will sign the report jointly - or two reports will be issued, each one clearly referring to the other.*

In each case the report could be signed in their own name by the individuals involved or in the name of the audit firm. In the latter case, the audit firm bears the ultimate responsibility.

COMMENTS

Institute of Chartered Accountants in England & Wales (ICAEW)

The Institute agrees with the statement in paragraph 2.4 that the ultimate responsibility is dependent on the circumstances and on the degree of contributions from the various disciplines involved. However, we would not generally favour the provision of two separate reports, as this would probably cause confusion amongst users of the assurance report.

However, differing professional standards and legal systems may mean that two reports have to be produced in some jurisdictions.

Alan R. Carter, Ph.D., CPA

The discussion paper covers the topic adequately, but it would not be appropriate for both professionals to sign a report jointly.

Institut der Wirtschaftsprüfer (IDW)

- a) The report should differentiate between the responsibility of the professional accountant and that of the management of the entity subject to audit.

On principle it should not be appropriate to name in the assurance report to the use of the results of a particular expert third party since this could create the impression that the professional accountant does not assume the ultimate responsibility. It may, however, be considered to insert such reference in the long form report or to insert a general reference (without names) to the use of experts in the short-form report.

In our opinion a general reference (without names) in the assurance report to the fact that the results of an expert third party have been used should be required in cases where the professional accountant's work results in a qualification of his report and where the qualification has been issued on the basis of the expert opinion used.

- b) If the assurance report is not issued by the professional accountant, we advise that a professional accountant who participated in the engagement should not specifically be mentioned in the report. There is the danger that such a reference may make the accountant liable for the work to third parties. The professional accountant should conclude the necessary agreements to this effect when the engagement is accepted.
- c) If both the professional accountant and an expert not member of the accounting profession issue one report each, such procedure can be appropriate since in particular it ensures clarification of the relevant responsibilities. The afore procedure is, however, only adequate if there is no overlap of the areas or aspects examined by the environmental expert on the one side and the professional accountant on the other side and if it is ensured that the results of the other party are not used (separate responsibility).

Reference to the assurance report issued by the other party involved is a useful additional information for the addressee of the report to the extent that it clarifies the responsibilities of the parties involved. In the assurance report of the professional accountant this reference would take the form of an emphasis of matter.

- d) The alternative indicated under 5d) would not be appropriate based on our previous answers. There are doubts, for instance, whether the strict professional rules applicable to professional accountants would – for this engagement – also be binding for non-professional experts.

Danish Commerce and Companies agency

It could be debated whether, when rendering the auditors' reports on supplementary reports, the auditor should be able to co-sign.

In situations where the auditor chooses to co-sign, it would be preferable, from an assurance point of view, for the auditor to describe the distribution of work to give the reader of the auditors' report a clear impression of the procedures performed.

If responsibility can be shared, a joint auditors' report must be preferable to several separate reports.

The Auditing Practices Board – London (APB)

As explained in response to question 3 above in the UK and Republic of Ireland, many engagements to provide assurance on environmental reports are performed by entities that employ both professional accountants and environmental experts (a multidisciplinary firm).

In the rarer situations where more than one firm is involved it may be possible to provide a single report but great care needs to be taken to ensure that the descriptions of the responsibilities of the environmental expert / accountant in 5(a) and 5(b) are not misunderstood and interpreted as a qualification of the opinion or a division of responsibility.

Variations in professional standards and exposure to litigation may mean that the conclusions of the work cannot be combined into a single report.

Royal Dutch Institute of Registered Accountants (Royal NIVRA)

The disadvantage of issuing separate assurance reports is that the reader has no overall view. An advantage is that each responsibilities can be clearly separated. In our opinion, it will depend on the actual situation who will sign the assurance report. We agree that an assurance report can also be signed by both the accountant and the environmental expert. In our opinion the FEE guidance should focus only on those situations in which the accountants (jointly) signs the report.

Corpul Expertilor Contabili si Contabililor Autorizati din Romania (CECCAR)

We support the issuance of one report signed by the environmental expert only, with the responsibilities of the professional accountant specified in the report.

Norwegian Institute of Public Accountants (DnR)

We think that alternative a) or d) should be the preferred alternatives. The decision of which of them to use should be based on a consideration of the level of contribution from the parties.

Summary of comments

- (a), (b) In general, both are considered acceptable and the choice will depend of the ultimate responsibility. There is a preference to specify the responsibilities of each party in the report.
- (c) There is a general consent that the issuance of two reports could be confusing for the intended users. It is acceptable if the responsibility of each can be clearly defined.
- (d) The jointly signed report is in general considered acceptable within the framework of the legal system and professional standards.

FEE Conclusion

(a), (b) The ultimate responsibility will depend on the nature of the engagement as well as the scope of the engagement, and, the respective responsibilities of the accountant and the environmental expert need to be clearly described in the expert's statement(s) / assurance report(s) in order to avoid misunderstandings and incorrect interpretations. Variations in professional standards and exposure to litigation may mean that the conclusions of the work cannot be combined into a single statement/report.

(c) A single assurance statement/report, involving single responsibility, would always be preferable to several separate statements from the user's perspective.

(d) Within multidisciplinary firm, it should be allowed that the professional accountant and an environmental expert, employed by the same firm, might sign the assurance report under the firm's overall name.

3. ACCEPTANCE OF THE ENGAGEMENT

QUESTION 6

Are scope limitations acceptable, for instance the exclusion of qualitative information, or indirect impacts, or a restriction to information provided on certain environmental impacts, for example only waste and emissions to water?

Position – FEE Discussion paper October 1999

As there are no mandatory reporting requirements, the client is free to choose the subject matter of the engagement. The client may require assurance on only part of the environmental report, possibly those aspects where the company's environmental performance is best. In providing assurance, the professional accountant will consider whether there is adequate evidence to support an opinion that the overall presentation of the environmental report is not misleading and that both positive and negative matters are adequately reflected in the report.

It is often suggested that environmental reporting should not be restricted to the direct environmental impacts of an entity but should also include the indirect impacts of activities elsewhere in the supply chain.

COMMENTS

Institute of Chartered Accountants in England & Wales (ICAEW)

Limitations of scope are part of current practice and acceptable to both professional accountants and the issuer's management. However, there is a need to consider the implications of a limitation of scope imposed by the engagement terms that prevent the assurance provider from obtaining evidence that one might reasonably expect to be available. This will be a difficult question to consider in what is still a developing area, and should be addressed when issuing guidance for professional accountants.

The Institute notes the reference to the involvement of stakeholders other than the issuer's management in paragraph 3.1 of the discussion paper. The phrase does not make it clear what form this participation should take and the Institute is concerned that there is a danger of creating an open-ended liability by referring to other stakeholders in this paragraph. Other stakeholders should not be part of the line of responsibility for environmental reports, but may be consulted when determining the extent of the assurance engagement. The Institute considers that it would be better to refer to the entity's Audit Committee here, who would normally provide a bridge between the professional accountants and the issuer's management, as well as considering the interests of shareholders and other stakeholders.

The fourth paragraph of section 3.2 states that 'the professional accountant will assess compliance with applicable environmental law and regulations'. The Institute stresses that it is the management's duty to ensure that an entity complies with all necessary laws and regulations. The professional accountant cannot be expected to ensure compliance with those laws.

The Institute considers that this sentence is misleading by suggesting that the professional accountant should assess compliance – a duty that goes beyond that expected for a high-level assurance engagement like the statutory audit and that is not likely to be feasible in practice.

The professional accountant can only perform procedures to help identify possible or actual instances of non-compliance with applicable environmental laws – these procedures would not constitute a full assessment of compliance, merely an indication of any major breaches.

The Institute does not therefore agree with the suggestion in the fifth paragraph of 3.2 that environmental reporting ‘should not be restricted to the direct environmental impacts of an entity but also include the *indirect* impacts of activities elsewhere in the supply chain’. This imposes an unacceptably onerous duty on the professional accountant that would probably be impossible to satisfy. The management system should be adequate to assess indirect impacts in the supply chain but such matters should not be assessed directly by the professional accountant. The Institute considers that the discussion paper should not suggest that assessment of indirect impacts would be possible and that the difficulty in obtaining information, noted in the final paragraph of 3.2, should be emphasised strongly.

Alan R. Carter, Ph.D., CPA

Scope limitations are acceptable, although it will continue to be a difficult to determine what constitutes a scope limitation until GAER standards are adopted. If the entity is claiming to be reporting in conformance with a set of GAER standards, then the scope restrictions relative to the standards adopted should be described clearly in the assurance report, especially where omissions are material to an entities environmental impacts, financial or otherwise.

Institut der Wirtschaftsprüfer (IDW)

The examples mentioned could normally be interpreted as determination of the subject matter which is required as part of the acceptance of the engagement. As part of the acceptance process, it should be agreed whether the verification of the environmental report consists of examining the accuracy of individual environmental data and which environmental data are included or whether the scope of the audit should be extended to determine whether the (comprehensive) environmental report adequately presents, in all material respects, the environmental impacts of the company.

Consideration should also be given to matching the scope of the engagement with the wording of the resulting assurance report and agreeing this with the client.

To the extent that the scope of the engagement comprises specific areas for which an examination is not possible, the professional accountant should perform his work in accordance with the general principles in the assurance standard and assess whether a qualification will be necessary.

If the agreed scope of the engagement determines that specific procedures are to be performed and if the professional accountant at the time of accepting this engagement is aware of the fact that examination of these areas is not feasible, such scope limitation is not acceptable.

With regard to the scope of the engagement reference is made to ISA 720 "Other Information in Documents Containing Audited Financial Statements". The auditor should read the other information, on which the auditor has no obligation to report, to identify material inconsistencies with the audited information. In case of material inconsistencies the professional accountant has to determine whether the audited information or the other information needs to be amended. If an amendment is necessary in the audited information and the client refuses to make the amendment, the professional accountant should express at least a qualification.

The Auditing Practices Board – London (APB)

The question seems to imply that an engagement to provide assurance on specific aspects on environmental information involves a ‘limitation of scope’. It would, perhaps have been helpful for the discussion paper to have distinguished between accepting an engagement to report on a sub-set of the environmental information disclosed and a limitation of scope of the engagement within the terms of engagement. There are different implications for the assurance provider.

Providing assurance on specific aspects on environmental information. It is desirable, that in the event that the ‘whole’ environmental report is not covered by the assurance report that the report should be very specific as to what it covers. This raises the question as to the auditors’ responsibilities in relation to the remainder of the ‘environmental report’.

The discussion paper notes potential difficulties with obtaining evidence in relation to subjective information and proposes that in such circumstances the assurance provider will ensure that the overall report is not misleading and that positive and negative matters are reflected. The APB believes that this sets an unreasonable expectation as to what can be achieved as:

- in the absence of a reporting framework the scope of an engagement is not defined and it will be very difficult to require management to ensure that all negative matters are disclosed,
- what is misleading needs to be considered in the context of the likely views of the intended users of the information – as noted in 5.2 environmental reports are used by a broad variety of stakeholders.
- what is misleading is often a judgement rather than a factual matter. A distinction is drawn in UK Auditing Standards (SAS 160) between a matter of fact and a matter of judgement - it is noted that it is generally more difficult for the auditors to take issue with a matter of judgement than a factual error. SAS 160 does not establish a requirement to consider whether other information in documents containing audited financial statements is ‘misleading’. There is a requirement to ‘read’ for material inconsistencies or apparent misstatements. This approach may be desirable in relation to environmental reports.

A limitation of scope of the engagement within the agreed terms. A limitation of scope implies that the assurance provider is unable to obtain the quality or type of evidence, which may reasonably be expected to be available. This concept is difficult to apply without some agreed basis for what comprises ‘reasonable evidence’.

Obtaining a view as to what comprises ‘reasonable evidence’ would appear to the APB to be an important aspect of guidance on environmental reporting and should precede the development of standards. Until this has been done it would be difficult to develop meaningful guidance on limitations of audit scope. The APB recognises that it may not be possible to develop material on reasonable evidence in the absence of a generally accepted reporting framework for environmental reports.

Royal Dutch Institute of Registered Accountants (Royal NIVRA)

Limitations in scope are only acceptable if there are no mandatory requirements in relation to the scope. Since at this time, no such mandatory requirements exist, scope limitations are unavoidable if a client wishes a piecemeal-opinion. However, the accountant has to assess the scope limitation. If they are being used to give credits to the good news only, the accountants has to evaluate whether it does not create an unbalanced reflection of the company's environmental performance. Accepting such engagements may be harmful for the accountancy profession. We have concerns that the information in a report on certain aspects of a company's environmental performance (what is the case when accepting restrictions) gives no overall view of the total environmental performance and may therefore be misleading.

Corpul Expertilor Contabili si Contabililor Autorizati din Romania (CECCAR)

According to the objectives of an audit and the potential use of the data obtained from the audit function, this can have a limited scope focused on one aspect or another.

The professional has the duty of making a clear and precise offering stating clear what he can offer and what he is not able to offer. However, the activity must be governed by the rules of ethics and professional conduct.

Norwegian Institute of Public Accountants (DnR)

This answer to this question will depend on the level of assurance provided. If the professional accountant provide a moderate level of assurance (review engagement) a limitation of the scope is acceptable. This limitation should then off course be addressed in the assurance report.

For a high level of assurance we think the discussion paper in a very good way highlights the issues to be aware of regarding this matters.

Summary of comments

Two types of scope limitations are dealt with in some answers: scope limitations in subject matter – specific aspects on environmental information – and scope limitations with obtaining the proper evidence.

Scope limitations – specific aspects on environmental information

There is a general consent that this type of scope limitations in the engagement is acceptable but with all the necessary cautions taken to avoid misleading report. This raises also the question as to the auditors' responsibilities in relation to the remainder of the "environmental report".

Scope limitations with obtaining the proper evidence

Without some agreed standards to define what is "reasonable evidence" in the environmental matter, it is difficult to apply this concept.

FEE Conclusion

Scope limitations may be, depending on the situation, unavoidable in environmental reporting. Any scope limitation should be clearly mentioned in the assurance statement/report. The accountant has to assess each scope limitation to ensure that it does not create an unbalanced reflection of the company's environmental performance. When the accountant meets scope limitations in obtaining proper evidence the accountant should consider whether a qualification is necessary

QUESTION 7

Can the professional accountant provide assurance on qualitative environmental information, such as statement about environmental policy or environmental performance, or the effectiveness of EMS (Environmental Management System)?

Position – FEE Discussion paper October 1999

Qualitative information such as a statement about environmental policy, is invariably more subjective than quantitative information. Because of this, it may be more difficult to challenge, whereas quantitative information, such as environmental impact data, will usually be supported by related records, even if these require appropriate expertise to interpret.

COMMENTS

Institute of Chartered Accountants in England & Wales (ICAEW)

Many firms of professional accountants are already giving limited levels of assurance on qualitative environmental information under proper terms of engagement. Such firms will work with environmental management experts where necessary, e.g. in-house experts, ISO auditors or independent certification companies. The Institute therefore concludes that it is possible for the professional accountant to give some assurance on specific aims and intentions, having regard to the advice of independent experts where appropriate.

However, it would be more difficult to report on more general aims, such as causing no damage to the environment. Indeed, many of these generalised aims are long-term goals for the future, as opposed to short-term objectives.

The Institute is concerned with the suggestion that assurance can be given on completeness in environmental matters. Due to the inherent uncertainty of such matters, it is generally not possible to confirm that all material information has been given.

Alan R. Carter, Ph.D.,CPA

This depends on the yardstick by which we are judging such information. Until Generally accepted environmental report standards are adopted, the report should describe clearly the scope of the engagement and how qualitative information was evaluated, if at all.

Perhaps a standard assurance report for corporate sustainability or environmental reports (comparable to the standard financial audit reports) could address the quantitative and qualitative attributes and respective levels of assurance in separate pro-forma paragraphs using standard language.

Institut der Wirtschaftsprüfer (IDW)

In our opinion qualitative information as well as quantitative information can be subject to an assurance engagement. In order to examine the presentation of assumptions, conclusions and intentions IDW AuS 820, par. 20 requires a number of procedures to examine whether the information provided is reasonable and consistent and, in particular, not inconsistent with the companies' actions.

Nevertheless, we note that - due to the fact that a generally accepted accounting framework does not exist for environmental reporting - serious problems arise, if statements of an advertising nature and non-environmental information, for example social information, are included in the environmental report. This information should be excluded from the scope of the engagement.

The Auditing Practices Board – London (APB)

It may be possible to distinguish between qualitative statements that:

- relate to specific aims and intentions and constitute commentaries on performance in relation to those aims and intentions - for example 'to significantly reduce the level of CO2 emissions over the next 10 years' or 'to make maximum use of CFC-free refrigeration technology in our hotels and conference centres'; and
- are more general statements relating to indirect impacts or the overall change in direct or indirect impacts - for example 'our policies and EMS have resulted in a significant reduction in environmental damage over the last ten years' or 'our policies encourage the use of public transport amongst our employees'.

It may be possible to provide assurance on the former type of statement but not the latter. However, in both cases, the statements can be read for apparent misstatements and material inconsistencies with other, more verifiable information.

Royal Dutch Institute of Registered Accountants (Royal NIVRA)

The accountant can also provide assurance on qualitative environmental information. In fact, this already happens in practice. A condition is that the criteria that have been used to assess the subject matter are made public.

Norwegian Institute of Public Accountants (DnR)

It is impossible to give any assurance of environmental data without making any comments to whether an EIS is established and, in case, the effectiveness of the EIS. Obvious this demands that the professional accountant, or his expert, has sufficient competence and expertise in this area.

As a general rule there should not be any principle dissimilarities between an environmental assurance report and a financial auditors report. In the latter it is natural (and obligatory) for the professional accountant to give a statement to the effectiveness of the clients financial control systems. This should be the same for environmental assurance engagements.

Summary of comments

There is a general consent that the professional accountant can provide a level of assurance on qualitative environmental information.

FEE Conclusion

The accountant can provide assurance on qualitative information. There may be a difference in level of assurance compared to quantitative data. Purely descriptive information can be verified but not necessarily to a “high” level of assurance. Policies and aims may be more difficult (or even impossible) to verify and will often be at a lower level of assurance. Normally assertions that cannot be verified should not be allowed to be included in the report.

QUESTION 8

How do the ‘suitable criteria’ need to be enhanced to provide an effective benchmark in providing assurance on environmental reports?

Position – FEE Discussion paper October 1999

Individual criteria to assess completeness for such an analysis need to be specifically developed. These criteria should also be designed to enable the professional accountant to evaluate errors or omissions. The professional accountant may agree with the client that the objectives of the engagement include assurance that the requirements of a specified guideline have been met.

Given the lack of generally accepted criteria to assess the assertions in the environmental report, particularly their completeness and accuracy, it may be necessary to include in the assurance report a description of the suitable criteria used.

COMMENTS

Institute of Chartered Accountants in England & Wales (ICAEW)

It is difficult to answer this question when the existing ‘suitable criteria’, mentioned in the discussion paper, are not very detailed. Both the GRI and UNEP guidelines are high-level documents and would have to be supplemented to provide useful information for users of environmental reports. As commented in the answer to question 1, it is more important to concentrate on developing suitable reporting standards, or criteria, before considering in detail the level of assurance that a professional accountant could provide.

The third paragraph of section 3.4 suggests that ‘these criteria should also be designed to enable the professional accountant to evaluate errors or omissions’. The Institute stresses that the management should be evaluating errors or omissions in the information – the professional accountant assesses the evidence and considers whether he is able to give an opinion on that work.

Alan R. Carter, Ph.D., CPA

Generally accepted environmental report standards need to be adopted as soon as possible. The most difficult part of the exercise is the establishment of meaningful criteria against which to judge the report. This is especially so when the scope or level of assurance for an engagement and report content can be changed at the discretion of the client. Not all readers of such a report might appreciate the implications of scope and report content issues.

Institut der Wirtschaftsprüfer (IDW)

There is no need to enhance the “suitable criteria”. In order to facilitate assessment whether the environmental report is comprehensive the catalogues specifying the required minimum contents of the environmental report need to be adapted. This requirement is in line with the proposals set out in the discussion paper, section 3.4. and in IDW AuS 820, par. 9 and 27.

The Auditing Practices Board – London (APB)

The efforts should be directed, in the first instance, towards establishing a generally accepted reporting framework for environmental reports. Professional accountants have an important contribution to make in ensuring that such a framework contains adequate criteria and guidance on materiality to support an assurance opinion.

There may also be benefit in professional accountants encouraging, or undertaking, research to establish the needs of stakeholders, and in particular whether assurance should be provided on the substance of the information contained in the environmental report (and if so whether high or moderate assurance is required), or on management’s arrangements to establish that relevant information disclosed is reliable.

Royal Dutch Institute of Registered Accountants (Royal NIVRA)

The ‘suitable criteria’ have to be discussed and agreed upon in a group that represents companies that publish environmental reports, stakeholders to companies and accountants/environmental auditors. Such criteria need to be publicly available. In our opinion, there is a need for a framework in which adjustments can be made for specific industry groups.

Norwegian Institute of Public Accountants (DnR)

An effective benchmark would be depending on the present of established generally accepted criteria for environmental reporting. We think that the criteria used in the meantime should be stated in the environmental report, and maybe also in the environmental assurance report.

Summary of comments

The efforts should be directed, in the first place, towards establishing a generally accepted reporting framework for environmental reports that should contain adequate criteria and guidance on materiality to support the opinion in the assurance report/expert statement.

FEE Conclusion

In absence of a complete set of reporting requirements, the (revised) GRI Guidelines as well as the FEE Discussion Paper –Towards a Generally Accepted Framework for Environmental Reporting can provide a first start and can be completed for the time being by collecting policies and stakeholder opinions, obtain best practices, etc. In particular, the consultation with a wide range of stakeholders plays an important role and is different from financial auditing.

The existing criteria referred to above can be used as a basis and adapted to the individual circumstances of the company. These criteria should be clearly described by management in the environmental report.. These criteria should also enable the professional accountant to evaluate measurement methods and the disclosures made in the environmental report. Given the lack of generally accepted criteria to assess the assertions in the environmental report, particularly their completeness and accuracy, it may be necessary to include in the assurance report/expert statement a reference to the description of the suitable criteria used.

4. RISK ASSESSMENT AND INTERNAL CONTROL

QUESTION 9

Should the professional accountant continue with engagement to provide a high level of assurance if it appears that the client's EIS (Environmental Information System) is inadequate to ensure that the environmental information is reasonably reliable? What approach do you consider appropriate in this situation: to rely on substantive testing, setting a high level of control risk; to deny a conclusion or to express a reservation of conclusion; or to withdraw from the engagement?

Position – FEE Discussion paper October 1999

In providing assurance on environmental reports, the professional accountant is only concerned with those procedures within the EMS and the EIS that are relevant to the objectives of the engagement. In planning the assignment, the professional accountant obtains knowledge of the design of these systems, and evaluates their existence, appropriateness and effectiveness as a basis for deciding the nature and extent of the other work to be performed.

A higher assessment of control and inherent risk increases the need for obtaining evidence from the performance of substantive procedures.

COMMENTS

Institute of Chartered Accountants in England & Wales (ICAEW)

The discussion paper uses the traditional risk model, referring to inherent risk, control risk and detection risk. This is clearly drawn from the audit risk model and this may imply to some readers that a full 'audit' is an option. The Institute does not believe that this is possible at this point in time, and indeed may not be appropriate in the future. It is also not clear that this model is the most appropriate approach to environmental assurance reports as it will be difficult to test some of those controls using traditional approaches, e.g. re-performance. These terms are also not likely to be well understood by other environmental assurance providers. The Institute would therefore not recommend using this approach in future guidance. Alternative models, more appropriate to such assignments, need to be developed in conjunction with the professional accountancy bodies.

The Institute does not favour use of the word 'conclusion' when considering the report given by the professional accountant. This word suggests a certainty that cannot be given on environmental assurance reports, and indeed is not given on high-level assignments such as audits. The Institute therefore strongly favours use of the term 'opinion' in any future guidance. However, the term 'conclusion' is interpreted differently by non-accountants, e.g. environmental managers. The Institute therefore recommends that there should be research and education over what these words mean from the perspectives of accountants and non-accountants. The long-term aim of such research should be to identify a common language to ensure that the actual words used in assurance reports are understood in the correct context.

Where the EIS as a whole is inadequate, it is unlikely that the professional accountant would be able to give an opinion and hence providing a high level of assurance would be impossible. It may be possible to give a limited opinion if the EIS is inadequate in a given area but that would need to be carefully explained in the opinion.

We consider that the professional accountant should only withdraw from the engagement as a matter of last resort and hence that the matter should be dealt with in the report. If the EIS as a whole is inadequate, the opinion would have to state that the professional accountant was unable to form an opinion. A reservation may be possible if only part of the EIS is affected, but that would have to be determined by the extent of the problem and impact on other parts of the system.

Alan R. Carter, Ph.D., CPA

The accountant may continue with the engagement, but should immediately notify the client of his findings and what the implications are concerning having to qualify the assurance report. In any instance where the EIS is inadequate, mention should be made to this effect in the assurance report. The first course of action should be to elevate the level control risk and attempt to resort to substantive testing. However, if the EIS is defective, then substantive testing may be difficult. If substantive testing cannot be used to achieve our objectives, then the report should indicate that no opinion could be reached.

Institut der Wirtschaftsprüfer (IDW)

In general an “inadequate EIS” implies high control risks, which – at least – may lead to a qualification with respect to the EIS, if this is within the scope of the engagement. Alternatively, it seems possible to make use of substantive tests to support certain conclusions in the environmental report regardless of whether the EIS is inadequate.

Using his professional judgement the professional accountant should assess whether:

- reliance on substantive testing is possible,
- a high level control risk exists,
- denial/reservation of the conclusion is necessary and
- withdraw from the engagement is an alternative.

For small and medium sized companies in which the circumstances are not too complex, an assessment of the environmental information system in place may not be absolutely necessary. In particular, the production processes of these types of companies are often fixed and without manipulability. In such circumstances the professional accountant performs the assurance engagement on the basis of other, appropriately extended, assurance procedures based on the knowledge of the company’s processes and based on a plant inspection.

The Auditing Practices Board – London (APB)

The discussion paper describes the traditional risk model and uses the terms inherent risk, control risk and detection risk, although there is disappointingly little discussion of these concepts and the impression may be given that a fully substantive audit is a viable option. The APB would not support this view.

The traditional risk model may not be very helpful for environmental reporting. Some of the features of a number of the large auditing firms’ business risk approaches may be of greater value including:

- focus on ‘high level controls’,
- combined evaluation of inherent and control risks.

The discussion paper seems to be based on the assumption that environmental reports will comprise attestation as to the accuracy of quantitative and qualitative environmental information. Other reporting models can be imagined, for example firms might review management’s arrangements rather than the underlying data. If the engagement is to review management’s arrangements then the systems themselves (including EIS) will be the focus of the auditors attention.

Systems will also be of paramount importance in the context of direct assurance on the accuracy of quantitative and qualitative environmental information. Methodologies for financial audits increasingly recognise the importance of the control environment and ‘high level’ management controls and that a wholly substantive approach is not tenable for other than the very smallest of audits. A controls reliance approach is even more likely to be critical in the context of an environmental report as it is difficult to imagine how the majority of environmental information can be ‘substantiated’ by use of external evidence or reperformance.

The APB is of the view that it would not be possible to provide assurance on an environmental report in the absence of very strong systems of controls. Standards or guidance in this area could usefully highlight that an assurance engagement should not be undertaken unless the ‘auditor’ has made a preliminary evaluation that systems appear to be designed to provide reasonable assurance.

Royal Dutch Institute of Registered Accountants (Royal NIVRA)

There should always be a minimum level of internal control. To rely on substantive testing only is not sufficient enough. The guidance should be more specific about when a situation occurs in which the environmental information system is inadequate to ensure that the environmental information is reasonably reliable.

Environmental reporting is developing and engagements on providing assurance on environmental reports can contribute to improvements in internal control and environmental reporting. The opinion provided in this early stage of assurance engagements on environmental reports will look like an opinion as provided as in agreed upon procedures engagements. Given the state of the art of environmental reporting it is in our view also of importance that uncertainties in relation to environmental reporting are mentioned in the environmental report itself.

Norwegian Institute of Public Accountants (DnR)

We find that the answer to this is dependent of the degree of lack of quality of the EIS. Again, the professional accountant should use the same consideration as if he discovered lack of quality in the financial internal control systems.

If the lack is not critical the professional accountant should rely on substantive testing. If the lacks were more critical, he would have to deny a conclusion etc, or to withdraw from the engagement.

Summary of comments

If EIS is inadequate then it would be very difficult for professional accountants to provide assurance on environmental reports. Environmental standards should predict specific guidance whenever EIS is inadequate.

The traditional risk model that the discussion paper uses may possibly not be the most adequate approach to environmental assurance reports. Other models should be considered for further guidance.

FEE Conclusion

When the EIS as a whole is inadequate, it is unlikely that the verifier would be able to provide a high level of assurance. If the EIS as a whole is inadequate, the opinion would have to state that the professional accountant was unable to form an opinion. A reservation may be possible if only part of the EIS is affected, but that would have to be determined by the extent of the problem and impact on other parts of the system. The professional accountant should only withdraw from the engagement as a matter of last resort and hence that the matter should be dealt with in the report

QUESTION 10

Where an EIS is inadequate as a basis to meet the engagement objectives, does the professional accountant have to report on the inadequacy in the assurance report?

Position – FEE Discussion paper October 1999

If the professional accountant becomes aware of any material weaknesses in the design or operation of the EMS and the EIS, or the controls provided, these should be drawn to the attention of management at an appropriate level of responsibility, as soon as practicable.

COMMENTS**Institute of Chartered Accountants in England & Wales (ICAEW)**

The disclosure of EIS inadequacies in the assurance report is governed by the terms of reference and would have to be agreed with the entity's management.

The corollary to this situation in the UK would be the disclosures made in listed company accounts regarding corporate governance. Auditors do not report on whether the accounting and management systems are adequate but merely review the some of the corporate governance disclosures under the Combined Code and disclosures in the directors' report concerning the directors' review of the effectiveness of internal controls. Full details of the auditors' responsibilities are set out in the APB Bulletin 1999/5 The Combined Code: Requirements of Auditors under the Listing Rules of the London Stock Exchange (a copy of which is enclosed). The Institute suggests that a similar basis should be considered in any future guidance.

Alan R. Carter, Ph.D., CPA

Yes, see response to question 9.

Institut der Wirtschaftsprüfer (IDW)

Where the EIS is inadequate, the assurance report should make reference to the inadequacy of the EIS only if the EIS is within the scope of the engagement.

Royal Dutch Institute of Registered Accountants (Royal NIVRA)

Unless it is specifically mentioned in the engagement to comment on the environmental information system, we believe that recommendations in relation to the environmental information system should be reported by means of a management letter. If the inadequacy of the environmental information system leads to a qualified opinion or a disclaimer of opinion, the reason has to be mentioned in the assurance report, without providing recommendations for improvement. In general, evaluating the environmental information system is a separate engagement.

Norwegian Institute of Public Accountants (DnR)

Yes.

Summary of comments

In general, the commentators are in favour to report in the assurance report on the inadequacy of EIS mainly if it is within the scope of the engagement. Otherwise, it should be reported to management separately.

FEE Conclusion

Any inadequacy in the EIS that has a significant impact on the reliability of the report needs to be reported in the environmental report and/or in the assurance report.

QUESTION 11

Should the work performed in an assurance engagement include an assessment of whether the systems in operation are likely to ensure compliance with the entity’s environmental policies?

Position – FEE Discussion paper October 1999

In providing assurance on environmental reports, the professional accountant is only concerned with those procedures within the EMS and the EIS that are relevant to the objectives of the engagement. In planning the assignment, the professional accountant obtains knowledge of the design of these systems, and evaluates their existence, appropriateness and effectiveness as a basis for deciding the nature and extent of the other work to be performed.

COMMENTS

Institute of Chartered Accountants in England & Wales (ICAEW)

The work performed by the professional accountant on the systems in an environmental assurance engagement should depend on the terms of engagement for each assignment. The Institute recommends that FEE or other professional bodies should not require a report on this area as systems cannot guarantee compliance with environmental policies, merely give reasonable assurance that those policies have been followed. Environmental policies can also be very open and are more commonly goals to aim for, rather than strict rules to be followed. For example, an entity may have a policy of not causing damage to the environment, which it would be impossible to guarantee in practice.

Alan R. Carter, Ph.D., CPA

Yes.

Institut der Wirtschaftsprüfer (IDW)

On condition that the environmental report includes an assessment of whether the systems in operation are likely to ensure compliance with the environmental policy or whether the environmental policy is adequate, the following questions arise:

- Is the environmental policy adequate?
- Is implementation in the EIS adequate (design and effectiveness of the systems)?

In addition, we refer to the principles for providing assurance on qualitative information (see answer to question 7).

If the environmental report does not contain any assessment of the environmental policy and of the systems ensuring their compliance with the environmental policy, an examination of these aspects is not necessary.

Danish Commerce and Companies agency

If the environmental report asserts that the company's operations comply with the company's environmental policy, the auditor should not include additional information in his report, as environmental reports should also be reports by the management of the company.

Royal Dutch Institute of Registered Accountants (Royal NIVRA)

Whether the assurance engagement will include an assessment of whether the systems in operation are in compliance with the entity's environmental policies will depend on the scope of the engagement. In our opinion it cannot be taken for granted that this is included in a 'standard' assurance engagement on environmental reports. So far there is no unambiguous view on a 'standard' scope of such assurance engagements and therefore in practice the scope of such engagements differs.

In addition, it may be questioned whether the accountant and his/her team are able to evaluate such compliance, since it requires detailed internal (environmental) control knowledge.

Norwegian Institute of Public Accountants (DnR)

Normally yes. However, if the engagement is strictly organized as a review engagement on specified agreed parts of the environmental report this could be left out.

Summary of comments

There is a general consent that it depends on the scope of the engagement. Nevertheless, there is a warning that this information is often more qualitative and therefore, it could be difficult to assess the compliance.

FEE Conclusion

Assessment of compliance with the entity environmental policies by the professional accountant depends on the scope of the engagement. The review of the design and operation of the EIS and EMS should include assessment of compliance with the environmental policies.

5. COMPLIANCE WITH LAWS AND REGULATIONS

QUESTION 12

What action should be taken by the professional accountant in relation to environmental laws and regulations that appear to have been breached but are not included in the environmental report?

Position – FEE Discussion paper October 1999

When the professional accountant becomes aware of information concerning a possible instance of non-compliance, the professional accountant obtains an understanding of the nature of the act, the circumstances in which it has occurred and sufficient other information to evaluate the possible effect on the environmental report. When adequate information about the suspected non-compliance cannot be obtained, the professional accountant considers the implications for the assurance report.

COMMENTS

Institute of Chartered Accountants in England & Wales (ICAEW)

The Institute does not agree with the statement in the first sentence of section 4.7 that the professional accountant is responsible for ‘assessing non-compliance with the requirements of environmental laws and regulations’. The management is responsible for ensuring that relevant law and regulations are not breached. The professional accountant should not be expected to do more than is currently required of the high level assurance audit, where the auditor performs ‘procedures to help identify possible or actual instances of non-compliance with laws and regulations’.

The fourth paragraph of section 4.7 suggests that the professional accountant might wish to obtain management representations on compliance with environmental laws and regulations. The Institute considers that this should always be done, as management has the prime responsibility for ensuring that the entity complies with all relevant laws and regulations, including those relating to environmental matters.

The Institute would agree with the action proposed in the final paragraph of section 4.7, where the professional accountant obtains sufficient information to evaluate the possible effect on the environmental report and considers the impact of the non-disclosure on his report.

It is important to consider materiality in considering non-compliance with laws and regulations. Some of our commentators felt that the discussion paper should give more guidance on matters that ‘are of significance’ in relation to the environmental report as this is the basis on which the professional accountant reviews possible non-compliance. Other commentators felt that it would be wrong to give too much guidance as this might be seen as prescriptive and not recognise the inherent flexibility required for environmental reporting assignments.

The third paragraph discusses the need to contact external regulators. The Institute considers that it would be dangerous to impose duties to report to outside regulators, beyond what is required by legislation in the jurisdiction governing each assignment.

Alan R. Carter, Ph.D., CPA

Omissions of breaches of environmental laws and regulations should be specifically referred to in the assurance report, irrespective of financial materiality, as this reflects the attitude of management to such laws and regulations and would be important to certain users of the report.

Institut der Wirtschaftsprüfer (IDW)

An assessment of whether infractions against environmental requirements have been committed is only performed within a limited extent (reference is made to section 4.7. of the FEE Discussion Paper and to section 28 ssq. of IDW AuS 820): “The assurance engagement also includes assessing compliance with applicable laws and regulations or environmental requirements that are of significance in relation to the environmental impacts described in the report. When there are indications of non-compliance with environmental laws and regulations that could have a material effect on the environmental report, the professional accountant has to assess such an effect. If the professional accountant suspects that there may be an effect on the environmental report the professional accountant shall obtain additional evidence by performing further assurance procedures or inquiring of management.”

As a matter of principle, significant aspects of non-compliance with environmental laws and regulations need to be indicated in the environmental report. Otherwise, it will be necessary to include an indication in the assurance report. If the scope of the assurance engagement includes a determination of whether the (comprehensive) environmental report adequately presents, in all material aspects, the environmental impacts of the company’s activities, non-compliance with environmental laws and regulations can lead to a qualification.

In addition, non-compliance with environmental laws and regulations can lead to the so-called duty to inform (see IDW AuS 820, par. 61). For example, when there is the risk of plant closure because of non-compliance, the professional accountant should report immediately to the legal representatives or, if necessary, to a supervisory body.

Danish Commerce and Companies agency

When, during his audit, the auditor identifies matters involving violation of legislation, the auditor must perform additional audit procedures to obtain sufficient assurance to report on the matters in his auditors’ report.

The Auditing Practices Board – London (APB)

The APB is concerned that the discussion paper gives a misleading impression of what can be achieved in relation to law and regulation. In relation to an audit of financial statements the APB has developed Auditing Standards (SAS 120) that recognise that:

- the auditors’ objective is to express an opinion as to the truth and fairness of the financial statements. The auditors’ primary purpose in considering matters relating to law and regulations is therefore to identify material misstatements in the financial statements not to identify irregularities as a separate objective,

- it is not practical for auditors to be expected to understand all aspects of law and regulations that could apply to an entity nor is it cost effective for the auditors to undertake audit procedures in an attempt to detect all contraventions of law and regulations,
- in many situations determination of whether a law or regulation has indeed been contravened is a judicial matter rather than an auditing judgement, and
- client confidentiality considerations make it difficult for auditors to communicate suspicions regarding possible contraventions of law and regulations to third parties.

These considerations apply to providing assurance on environmental reports especially as contraventions of law or regulations may not be isolated events. In many industries, it is regrettably the case that environmental law and regulations are contravened on the regular and recurring basis. Difficult judgements need to be made concerning the appropriate treatment of such contraventions within an environmental report – especially when individual contraventions are immaterial. Debate amongst non-executive directors on such issues is a valuable mechanism to ensure that directors are confident as to the accuracy of environmental disclosures.

Royal Dutch Institute of Registered Accountants (Royal NIVRA)

If environmental laws and regulations are breached and no information is included in the environmental reports the accountant has:

- to assess the impact on the environmental report and consider the materiality of this information for the users of the environmental report;
- to discuss with management why this item is not included in the environmental report;
- consider his/her own responsibilities (to end engagement in case of deliberate non disclosing); and
- if necessary consult legal experts.

In general the procedures in relation to compliance with environmental laws and regulations will have its main focus on the design and operation of the internal controls in relation to this topic.

The professional accountant should specify in his management letter that he has discovered some irregularities and that he expects that the cumulative effects are non-material for reporting purposes, but the management should take action to control this problem.

If the accident is structural and the impact material it should be mentioned in the environmental report. If the client refuses to do so the professional accountant should issue a report with a qualification or even an adverse report.

Corpul Expertilor Contabili si Contabililor Autorizati din Romania (CECCAR)

At the legal level, in Romania almost everything has to be done in this field. CECCAR as self-regulation body having the power to propose the rules is forced to make the way easy to this

end. However, we need tools and assistance, not to mention the obligations the profession will have to assume when Romania is integrated in the European Union, and we should make something in this direction. In the field of information we have very strict legal criteria.

Norwegian Institute of Public Accountants (DnR)

Normally this would also be in conflict with the professional accountants materiality, hence he would have to address it in the assurance report. If the potential violation of laws and regulations could lead to public liability for the management this should also be mentioned in the assurance report.

Furthermore we join the discussion in section 4.7 regarding this matter. As a suggestion related to this we would add to the listing in section 3.7 (engagement letter) that the professional accountant is allowed to access information regarding the company from any kind of public or private regulators etc.

Summary of comments

There is a general consent that compliance with laws and regulations is first the management's responsibility and therefore, the accountant should always obtain management representations on that matter.

In the case where it appears that laws or regulations have been breached and that there is no mention in the environmental report, the professional accountant should obtain sufficient information to value the possible effect on the environmental report and consider the disclosure in his assurance report. The materiality concept is important to be considered on that issue.

FEE Conclusion

The professional accountant should obtain representations that the management has disclosed all material non-compliance with environmental laws and regulations.

If environmental laws and regulations are breached and no information is included in the environmental reports, the professional accountant has:

- *to assess the impact on the environmental report and consider the materiality of this information for the users of the environmental report,*
- *to discuss with management why this item is not included in the environmental report,*
- *to consider his/her own responsibilities (to end engagement in case of deliberate non-disclosing),*
- *if necessary, to consult legal experts.*

6. MATERIALITY

QUESTION 13

Do you agree that there are particular issues that affect the consideration of materiality in the context of providing assurance on environmental reports? If so, does section 5.2 cover the special considerations adequately, or would you suggest other points of greater importance? Should the assurance report refer to such issues? If so, how?

Position – FEE Discussion paper October 1999

The following issues are relevant in assessing materiality in the context of an engagement to provide assurance on an environmental report:

The reporting entity should have a view as to which of the entity's inputs or outputs are the most significant and how these affect the environment. In the absence of a recognised reporting framework, this may be a starting point for assessing materiality in relation to a particular entity. What is 'material' may also vary according to the scope of the environmental information provided in the environmental report.

- The relevance of users' views, which may differ between different stakeholders. Environmental reports are used by a broad variety of stakeholders, e.g. shareholders, others with an economic interest in the reporting entity, environment agencies and environmental pressure groups, all of whom may have a legitimate interest in the information provided.*
- In some cases, there are legal threshold values (e.g. for emissions) which can be used as indicators of materiality. Where legal threshold values are exceeded, this must be considered material.*
- It may be impossible to use a purely quantitative basis to decide whether an item is material, because the emission of a small amount of a toxic substance (for e.g. dioxin or mercury) can be material to the receiving environment.*
- Materiality needs to be considered in relation to the reporting entity. The inputs and outputs of a comparatively small reporting entity may be insignificant in their impact on the environment, but large in relation to the activities of the entity.*
- The possibility exists that expectations of both users and professional accountants will change over time as environmental reporting develops.*

Materiality thresholds may be agreed between the reporting entity and the professional accountant. Where the thresholds agreed are contrary to the interests of the user, it might be necessary for the professional accountant to consider whether this acts as a form of scope limitation and should be reflected in the assurance report.

COMMENTS

Institute of Chartered Accountants in England & Wales (ICAEW)

The Institute agrees that materiality in the context of environmental assurance reports is affected by specific issues not seen in other assurance assignments. The Institute agrees with the majority of section 5.2 with the following exceptions:

- exceeding a legal threshold should not automatically be considered material,
- the professional accountant does not need to consider whether agreed materiality thresholds are 'contrary to the interests of the user'. A large number of individuals and organisations may use the report and may not be known to the professional accountant at the time of signing the environmental assurance report. The professional accountant should only have regard to the needs of the assurance provider and the person to whom the report is addressed.

The assurance report should contain sufficient information to explain the objectives of the report and type of work carried out. As this will vary for different assignments, the format of the report should be flexible and meet the engagement criteria.

Alan R. Carter, Ph.D., CPA

The issue of materiality is more complex in the context of providing assurance on environmental reports. Section 5.2 covers the issue adequately. A pro-forma paragraph in the assurance report should refer to the issue of materiality.

Institut der Wirtschaftsprüfer (IDW)

Due to the fact that the addressees of an environmental report are not known in the same way as the addressees of financial statements, the discussion paper – in our view – correctly addresses the question of "materiality to whom?"

Materiality aspects are certainly of importance for providing assurance on environmental reports. This applies in particular already at the stage of planning the engagement.

In his report the professional accountant should describe within which limits he defined materiality. By doing this, the conclusions (limitations) in the professional accountant's assurance report are clarified and an expectation gap is avoided. It should be ensured, however, that an addressee couldn't misinterpret this as qualification.

The Auditing Practices Board – London (APB)

Materiality is a major issue associated with any conceptual framework for providing assurance on environmental reports. It may not be possible to develop a single measure to address quantitative financial disclosures, quantitative physical/chemical disclosures and qualitative statements (e.g. compliance with law and regulations). Furthermore, the conflicting concerns of the wide range of user groups may be impossible to reconcile. Materiality is not just an issue for assurance providers – as with financial reporting, it applies in the first instance to the preparers of the environmental report. It would be highly desirable to address the issue of materiality at the same time as developing a generally accepted reporting framework.

Royal Dutch Institute of Registered Accountants (Royal NIVRA)

We agree that there are particular issues that affect the consideration of materiality in the context of providing assurance on environmental reports. Another issue that may be taken into consideration in assessing materiality is the carrying capacity of planet. Stakeholder consultation will be the major process to determine materiality. Although at this moment materiality for environmental reporting is still unknown to the public, it should not be included in the assurance report.

Norwegian Institute of Public Accountants (DnR)

We agree to the discussion described in section 5.2. However, will also add to the discussion the fact that the company could have an exposure for negative media coverage even if the environmental impact is objectively not material. Since one of the main aims of environmental reporting is the “image-building” for the companies, such coverage could do considerably damage to this image. Hence, this should be taken into consideration when assessing the materiality level.

We are not sure that the assurance report should refer to the materiality considerations.

Summary of comments

There are particular issues that affect the consideration of materiality in the context of providing assurance on environmental reports for which further discussions should be taken, taking into consideration the issues covered in section 5.2. Furthermore the position is not clear, as either the assurance report should mention the materiality level or not

FEE Conclusion

In considering materiality in relation to environmental reports, the professional accountant needs to understand and assess factors that might influence the decisions of the intended users. Materiality can be considered in the context of quantitative and qualitative factors, such as relative magnitude, the nature and impact of the subject matter and the expressed interests of the intended users. In addition, the materiality of a transaction or event is heavily dependent on the nature and circumstances of that item as well as its scale. For example, the carrying capacity of the receiving environment will be a factor in considering the materiality of the release or discharge of substances resulting from the reporting entity’s activities.” The consideration of materiality in environmental reporting is different from financial reporting and this may therefore need to be explained in the engagement letter.

7. REPORTING

QUESTION 14

What additional measures could be taken by the professional accountant to ensure that users understand the limitations of an assurance report as well as the benefits provided?

Position – FEE Discussion paper October 1999

It is important to be clear about the scope of the engagement and the level of assurance provided on different assertions. The assurance report should have a structured approach and should include the following elements (see § 6.1 – FEE Discussion paper – Providing assurance on environmental reports – October 1999).

FEE believes that assurance reports have improved since 1996 but that the clarity of these reports could be enhanced if they were to incorporate the elements described above. Research carried out by FEE shows that the elements above, such as objectives, level of assurance and suitable criteria adopted are not always included or described clearly.

If only part of the environmental report is the subject matter of assurance, it is important that the environmental report segregates the information, which is subject to assurance. The professional accountant clearly identifies in the assurance report the information covered by the report and any limitation in scope.

COMMENTS

Institute of Chartered Accountants in England & Wales (ICAEW)

Many current environmental assurance reports give negative assurance – i.e. that the professional accountant is not aware of any matters suggesting that the environmental report is misleading. This is very different from a positive affirmation that all relevant matters have been disclosed (see above) and has to be carefully explained. Current reports give specific exclusions in an attempt to clarify those matters that are not covered by the report.

The Institute agrees with the structure proposed for such reports in section 6.1, particularly the need for a clear explanation of the level of assurance being provided. Respective responsibilities also have to be clearly defined.

Alan R. Carter, Ph.D., CPA

The adoption of a standard pro-forma assurance report with characteristics that would enable users of the report to readily understand any shortcomings or limitations of the associated corporate sustainability or environmental report. Users of audited financial statements reports are familiar with the characteristics of audit reports and know what to look for in such a report in order to establish the level of reliance that can be attached to certain quantitative and qualitative information included in the financial statements.

Restrictions concerning the ability to verify information should be made known.

The scope of the information presented in the corporate report relative to the corporations entire operations should be made clear. Many reports issued by multi-national companies present “clean” information resulting from operations in a highly regulated environment such as in the USA, without indicating how this relates to total global operations, including nations where environmental regulations and enforcement is less developed.

Institut der Wirtschaftsprüfer (IDW)

In order to avoid any misunderstanding on the part of the addressee, introductory, scope and opinion paragraph of the assurance report need to be clearly formulated.

The inherent limitation of the engagement should be clarified by supplying explanations of the systems used. There remains an unavoidable risk that some material misstatements of the environmental report will not be detected, even though the assurance engagement is properly planned and performed.

The Auditing Practices Board – London (APB)

Clarity within the assurance report is fundamental to ensuring that users do not develop unrealistic expectations as to the scope of the engagement and the level of assurance that is being provided. As observed in the FEE discussion paper environmental reports do not always describe these elements explicitly. One reason for this may be that in practice it is very difficult to word a report that describes the level of assurance (especially if it is less than high) and criteria used (especially in the absence of a generally accepted reporting framework).

Until an accepted reporting framework for corporate environmental reporting is developed, and becomes widely accepted, the APB believes that ‘auditors’ should be encouraged to describe the scope of their engagements, the criteria applied and subjective aspects of the engagements in some detail. In the view of the APB a priority area for action for FEE, and other professional bodies, would be to analyse and current reporting practices to better understand auditor and user perspectives regarding the style and content of ‘audit’ reports on the different types of environmental engagements and to disseminate ‘best practices’. Encouraging best practice in relation to this evolving element of corporate reporting may be a more realistic way of increasing the consistency of ‘audit’ reporting practices at this time that attempting to describe in standards a single form of assurance report.

Royal Dutch Institute of Registered Accountants (Royal NIVRA)

In our opinion, the proposal in the discussion paper is clear.

Norwegian Institute of Public Accountants (DnR)

We find that section 6.1 adequately cover the issues to be included in an environmental assurance report. We think that the main challenge is to agree upon a generally accepted format for such a report. This work should be given top priority.

Summary of comments

There is a general consent that the standardisation on the assurance report's structure where the scope of the engagement, the respective responsibilities and the level of assurance provided are clearly defined is a priority to ensure better understanding of the limitations of an assurance report as well as the benefits provided. In this sense, it could be helpful to analyse the current reporting practices to better understand auditor and user perspectives regarding the style and content of 'audit' reports on the different types of environmental engagements and to disseminate 'best practices'.

FEE Conclusion

The professional accountant has to follow closely the development in the environmental reporting area and also in the emerging area of sustainability reporting. FEE itself is at present developing a discussion paper on "Providing assurance on sustainability reports".