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Agenda Item

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Committee: IAASB

Meeting Location: Rome

Meeting Date: June 13–17, 2005

Sustainability – Feedback on Royal NIVRA EDs

Objectives

1. To discuss significant matters arising from a review of the Royal NIVRA exposure drafts that the IAASB should consider in monitoring implementation of the International Framework for Assurance Engagements/ISAE 3000.
2. To identify any major concerns the Board may have with the draft response.

Background

3. Royal NIVRA released two Exposure Drafts (EDs) in late January 2005:
 - ED 3410 “Assurance Engagements Relating To Sustainability Reports”, and
 - ED 3010 “Practitioners Working With Subject Matter Experts From Other Disciplines On Non-Financial Assurance Engagements”.
4. The intent of the IAASB with respect to these EDs is explained in the following paragraph, which Royal NIVRA were authorized to include in the Explanatory Memorandums accompanying the EDs:

The International Auditing and Assurance Standards Board has expressed an interest in guidance for assurance on sustainability reports, and has established an external panel to advise it on possible next steps. This is an area where IAASB may wish to build on the efforts of other standard-setters. The IAASB has not reviewed this exposure draft and therefore is not in a position to endorse it in any way. However, IAASB staff has indicated that if this exposure draft is well received and results in comments from a wide range of respondents, the resulting standard may be one upon which IAASB would be able to build for wider international use. National auditing and assurance standard-setters and other interested parties from countries beyond The Netherlands are therefore encouraged to respond to Royal NIVRA on this exposure draft.

5. The IAASB Steering Committee agreed to set up a Task Force to analyze the EDs and develop a response to Royal NIVRA. Members of the Task Force are:
 - Roger Simnett, Chair
 - Denise Esdon
 - Rogério Gollo
 - Cédric Gelard
6. English versions of the EDs were included in the IAASB’s March agenda papers, along with an overview of issues prepared by the Task Force with advice from a Sustainability

Experts Advisory Panel. There was, however, no detailed discussion of the issues at the March meeting.

7. The response date for the EDs is 31 July. It is expected that NIVRA will make comment letters received publicly available on their website.

Significant matters relevant to the Framework and ISAE 3000

8. The IAASB made the following statement when the Assurance Framework and ISAE 3000 were approved in December 2003: *“As the provision of broader assurance services is an evolving field, the IAASB intends to keep the practical implementation of the Framework and ISAE 3000 under review.”* Preparing the response to Royal NIVRA on the EDs has provided an opportunity for the Board to consider matters relevant to the ongoing review of the Framework and ISAE 3000 in the context of sustainability reporting. Significant matters of this nature that have arisen from the Task Force/SEAP’s review of the EDs follow. The paragraph number of each corresponds to its number in the draft comment letter.

B2. The EDs imply that criteria are not ordinarily complete because stakeholder dialog will likely reveal additional matters that need to be included in the sustainability report. The Framework on the other hand, implies that all requirements with which the sustainability report is to comply (no matter what their source) form part of the criteria.

C2. The EDs allow for engagements that comprise an “audit” of some elements of a sustainability report, and a “review” of others. This is consistent with the Framework and ISAE 3000.

E2. The Task Force questions whether, in many cases, it is possible to give a positive form of conclusion regarding the completeness of a sustainability report, given factors such as:

- The vast range of potential sustainability issues and potential stakeholders that are likely to be relevant, at least to some degree, to many entities.
- The fact that some significant sustainability issues are barely capable of being identified prior to critical events (e.g. an entity may be largely unaware of long term health or environmental issues associated with a product).
- The time and cost constraints that are, reasonably, imposed on most assurance engagements,

G4 The EDs allows for “multidisciplinary cooperation under joint responsibility” with the aim of issuing one assurance report for which both the practitioner and the expert take full responsibility. The IAASB touched on this matter when developing the Framework and ISAE 3000. While recognizing the complexity of the issues involved, no final position was reached. ISAE 3000.27 states: “This ISAE does not provide guidance with respect to using the work of an expert for engagements where there is joint responsibility and reporting by a practitioner and one or more experts.

H1. The EDs’ use the terms ‘audit’ and ‘review,’ and state:

This does not correspond entirely with the (Framework), which uses the terms ‘reasonable assurance engagements’ and ‘limited assurance engagements’ and reserves

the terms ‘audit’ and ‘review’ exclusively for engagements that address historical financial information.

It is debatable, however, whether the Framework does in fact reserve the terms ‘audit’ and ‘review’.

- H2. In a reasonable assurance engagement when the practitioner issues a qualified conclusion on certain aspects of the sustainability report, the EDs say the practitioner “can consider adding a statement to his qualification that the engagement did not reveal, however, any evidence that significant shortcomings have actually occurred (negative assurance)”.
- H3. There are a number of differences between the EDs and the Framework/ISAE 3000 regarding the distinction between a reasonable assurance engagement and a limited assurance engagement. For example, the EDs say a limited assurance engagement does not focus on a systematic gathering of evidence, and that the application of ‘professional skepticism’ is considerably less dominant in a limited assurance engagement. The EDs also say that for a review engagement, the practitioner does not have to test the effectiveness of internal controls. This is not necessarily the case in terms of ISAE 3000, which allows a more flexible approach to determining the nature, timing and extent of procedures for a limited assurance engagement, than ISA 2400 does for reviews of financial statements.

Other significant issues

- 9. The issues that the Task Force believes to be most important to bring to the attention of Royal NIVRA are summarized in the draft covering letter. Not all of these are the same as the issues noted above.
- 10. Not all of the issues covered by the EDs or raised in the draft comments have been considered in any detail by the IAASB. For this reason, it is suggested that the letter be signed by the chair of the Task Force/SEAP and staff, and include the following caveat: “while members of the IAASB have briefly reviewed these comments, they do not necessarily represent the views of the IAASB.”

Material Presented

Agenda Item 3-A Pages 771 - 774	Draft covering letter to Royal NIVRA
Agenda Item 3-B Pages 775 - 792	Draft comments on EDs
Agenda Item 3-C Pages 793 - 798	Draft Appendix to comments
Agenda Item 3-D (PDF File)	ED 3410 “Assurance Engagements Relating To Sustainability Reports”
Agenda Item 3-E (PDF File)	ED 3010 “Practitioners Working With Subject Matter Experts From Other Disciplines On Non-Financial Assurance Engagements”

Action Requested

The IAASB is asked to review the draft response to Royal NIVRA with a view to (a) identifying and, time permitting, discussing issues relevant to a later revision of the Framework and ISAE 3000; and (b) identifying whether the IAASB has any major concerns with the draft response.