

## **STANDARD FOR ASSURANCE ENGAGEMENTS NO. 3010 - EXPOSURE DRAFT**

### **PRACTITIONERS WORKING WITH SUBJECT MATTER EXPERTS FROM OTHER DISCIPLINES ON NON-FINANCIAL ASSURANCE ENGAGEMENTS**

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#### **Appendix**

Points to consider for the Agreement governing the allocation of work and responsibilities

Readers are kindly invited to send their comments **before 31 July 2005** to:

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## **PRACTITIONERS WORKING WITH SUBJECT MATTER EXPERTS FROM OTHER DISCIPLINES ON NON-FINANCIAL ASSURANCE ENGAGEMENTS**

### **Introduction and definitions**

- 1 The purpose of this Standard is to establish basic principles and essential procedures for, and to provide guidance to professional accountants in public practice (for the purpose of this Standard, referred to as “practitioners”), for the performance of assurance engagements other than audits or reviews of historical financial information, involving experts who are not part of the accountancy discipline. This Standard should be read in conjunction with Standard for Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information”. The general principles formulated in other Standards also apply to the Standard in question. Without being exhaustive, these include the general principles set out in RAC 210 “Engagement conditions”, RAC 220 “Quality management”, RAC 230 “Documentation” and RAC 620 “Using the work of other experts”.
- 2 This Standard is an umbrella standard. The detailed development of expertise requirements and specific cooperation requirements is set out in the various assurance standards focused on specific subject matters of the engagement. An example of this is the Standard for Assurance Engagements 3410 Exposure Draft “Assurance Engagements relating to Sustainability Reports”.
- 3 In this Standard, the following definitions are used:

**Practitioner:** the responsible practitioner and the team members working with him/her from the accountancy discipline, who together have the required specialist knowledge, experience and skills to perform an assurance engagement relating to a subject matter of the engagement to be defined in further detail.

*Explanatory note:* Formally, this definition differs slightly from the definition of ‘Practitioner’ given in the glossary of terms listed in RAC volume, 2002 edition (where the term ‘auditor’ is used). That definition is as follows: ‘The auditor is the person with final responsibility for the audit. This term is also used to refer to an audit firm’. In this Standard for Assurance Engagements 3010 Exposure Draft (and also in Standard for Assurance Engagements 3410 Exposure Draft), a slightly different definition is used. Because multidisciplinary cooperation is dealt with, where necessary, it should be easy to make a distinction between the accountancy discipline of the practitioner and the discipline of an expert. In addition, the possibility of, or need for, specialization within the accountancy discipline is highlighted.

**Expert:** a professional from a discipline other than accountancy, who through education and experience has gained specialized subject matter knowledge of the specific subjects

matters of the assurance engagement, for example, specialists in the field of information technology or the environment on behalf of web assurance and sustainability assurance engagement respectively.

**Multidisciplinary team:** the team that performs the assurance engagement, consisting of at least a practitioner/practitioners and an expert/experts working in accordance with model 2 of this Standard (hereinafter also referred to for the sake of brevity as ‘the team’).

## **Engagement acceptance, general expertise requirements and cooperation models**

4 **A practitioner who accepts an assurance engagement relating to subject matters other than financial information should be able to investigate all relevant aspects of the subject matters of the engagement with appropriate expertise and with an attitude of professional skepticism as defined in RAC 200, paragraph 6.** This means, among other things, that he/she should have such a level of knowledge, experience and skills so that the responsible officers can be challenged with adequate authority on all relevant aspects of the subject matter of the engagement.

5 The required specialized expertise can be obtained in various ways, making a distinction between using ‘in-house experts’ and third party experts (‘external experts’).

### *In-house experts*

6 Cooperation with in-house experts can take two forms:

- a the expert is employed by the practitioner organization; or
- b the expert acts under a common name with the practitioner organization within the meaning of Article 26 (1.b) of the Dutch Code of Professional Conduct for Accountants (GBA). In this situation, the general rules of Article 26 (2) and (3) of the GBA apply to the co-responsibility of the practitioner for the working standards of the expert.

7 For both forms of cooperation with in-house experts, no guidance is necessary within the context of this Standard because the relevant conditions are adequately anchored in RAC 220 “Quality Control” in particular. The responsibility for the work performed by in-house experts as part of the assurance engagement lies entirely with the practitioner organization<sup>2</sup> This does not detract from the fact that the basic principles and essential procedures, including the other guidance for cooperation with external experts as formulated below, can be applied by analogy to the engagement of in-house experts, unless the context of the formulated principles, procedures and guidance suggest otherwise.

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<sup>2</sup> With effect from 15 June 2005, the International Standard for Quality Control (ISQC) no. 1 also applies in this respect.

### *External experts and cooperation models*

8 For the cooperation of a practitioner with external and/or in-house experts, this Standard essentially makes a distinction between two models, with, however, a variant also recognized as a third model:

- Model 1: the engagement is performed by the practitioner, with the involvement of experts for certain, separate aspects of the work, but the practitioner continues to have full and *undivided responsibility*<sup>3</sup>;
- Model 2: the engagement is performed by means of cooperation in a multidisciplinary team with *joint responsibility*<sup>4</sup>;
- Model 3: *separate engagements* are granted to the practitioner and to the experts, which, in principle, are entirely separate from one another.

It should be pointed out that Model 3 does not involve cooperation with experts in the strictest sense of the word. But given that model 3 does sometimes arise in practice, some guidance is given in paragraphs 31-34. This Standard concentrates, however, in paragraphs 9-30 on the cooperation in accordance with either model 1 or 2.

9 The choice between models 1 and 2 is made in consultation between the engaging party, practitioner and the expert or experts. The choice depends, among other things, on:

- The level of subject matter knowledge available within the practitioner's organization in respect of the subject matter expertise required to perform the engagement<sup>5</sup>;
- The type and the complexity of the engaging party's business;
- The information technology used by the reporting organization;
- The information requirements of internal and external stakeholders and any other interested parties;
- The estimate of the engagement risk and the potential business risks for the practitioner<sup>6</sup>;

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<sup>3</sup> This model is to a certain extent comparable with the situation described in RAC 620 Using the work of experts and the specific Dutch Auditing Standard RAC 621N Cooperation between auditors and actuaries in the auditing of insurance companies. There are, however, some differences in the practical implementation of this Standard (see in particular paragraphs 13, 14 and 22), which must be taken into account in the revision of the GBA and/or future changes to the Standards 620 and 621N. See also footnote 8 to model 3 on separate reports..

<sup>4</sup> In model 2, both are fully responsible (legally, there is joint and several liability for the entire engagement, see paragraph 24)..

<sup>5</sup> These requirements depend on the subject matter of the engagement. Specific Standards for Assurance Engagements develop these requirements further for each engagement subject matter. See, for example, Standard for Assurance Engagements 3410 Exposure Draft "Assurance Engagements relating to Sustainability Reports".

<sup>6</sup> Business risks are defined in the General Framework for Assurance Engagements, paragraph 48, footnote 9 (b), as follows: 'a risk that can arise for a practitioner through loss from litigation, adverse publicity or other events in connection with a subject matter reported on..'

- The insurability of any loss or damage in the event of suspected professional failures or other shortcomings.
- 10 **When performing the engagement, the practitioner should:**
- **have an adequate general understanding of the working area of the expert, including the assumptions, principles and methods used by the expert so that he/she able to evaluate whether they are sufficient and acceptable for the purpose of the engagement.** On this basis, he/she should be able to evaluate the contribution of the expert adequately. If the practitioner does not have this general understanding, and is unable to obtain it, only model 3 can be chosen, or the engagement cannot be accepted;
  - **document the mutual working agreements and the resulting responsibilities in an ‘Agreement governing the allocation of work and responsibilities’.** For further information, see paragraphs 13-15 and 24;
  - **evaluate whether the expert involved has the required specialized subject matter knowledge and experience and is sufficiently independent and objective.**
- 11 It is vital that the expert has adequate knowledge and experience. He/she should preferably have a university degree or higher vocational qualification or a comparable qualification and should be able to demonstrate that he/she has adequate experience and skills for the role in the engagement in question. He/she is a member of an appropriate professional body, if such a body exists. In principle, the same criteria apply to the evaluation of the independence of the expert as the criteria that apply to the practitioner. It is recommended that the expert confirms his/her independence to the practitioner in writing. He/she can do so by including confirmation in the Agreement governing the allocation of work and responsibilities (see paragraphs 13-15 and 24). The practitioner must evaluate the degree of objectivity of the expert on the basis of discussions with the expert prior to accepting the engagement or on the basis of previous experience of working with the expert.

## **Responsibilities and allocation of work**

- 12 The allocation of the work and responsibilities between the practitioner and the external expert or experts and the focus of the involvement of the practitioner in the work of the external expert or experts vary according to the cooperation model chosen. In both models, the involvement of the practitioner is ‘considerable’, but the focus is different. An example of the allocation is given in Appendix 2 to the Standard for Assurance Engagements 3410 Exposure Draft Assurance Engagements relating to Sustainability Reports. It contains a summary of the allocation of work and responsibilities between the practitioner and the expert for both models.
- 13 **When applying model 2, the allocation of work and the mutual responsibilities between the practitioner and the expert should be properly set out in an ‘Agreement governing the allocation of work and responsibilities’.** The main principles of the

**agreement should also be communicated to and be accepted by the engaging party. They are summarized in the engagement letter of the practitioner (the team) to the engaging party (see also point 10 of the appendix to this Standard). This form of agreement is also required for model 1, but in that case, the arrangements will be more limited in scope and depth.**

- 14 The agreement referred to in paragraph 13 governs the position of the practitioners and the expert towards each other. This agreement is binding only on the practitioner and the expert and/or the organizations to which they belong. This agreement is not relevant to the intended users of the assurance report<sup>7</sup>. The prevention of engagement and business risks and regulating the right of recourse in the case of demonstrable professional failures or other shortcomings of one of the parties involved are important elements of this agreement. It is recommended that lawyers and insurance advisers are consulted when preparing this agreement.
- 15 The subjects that should be covered in the aforementioned agreement chiefly contain agreements about team leadership, independence, work allocation, confidentiality, quality control, documentation and procedures for managing the engagement, business and liability risks. The appendix to this Standard contains a more comprehensive summary with recommendations. The differences in emphasis between models 1 and 2 are also mentioned briefly.
- 16 The above paragraphs 4-15 contain the general provisions, independent of the cooperation model chosen. The following specific provisions also apply to each model.

### **Model 1: Practitioner bears undivided responsibility**

- 17 In the case of model 1, the expert is engaged by the practitioner as a specialist for certain, separate elements of the work, but the practitioner continues to bear full and undivided responsibility in respect of the engaging party and the intended users. The practitioner instructs the expert in writing about the planning and performance of the specific work, in the light of the purpose of the engagement.
- 18 The practitioner evaluates the performance of the work by the expert based on his/her general understanding of the subject matter. He/she evaluates in particular whether the work of the expert is adequate to be used as audit evidence in the engagement. This evaluation includes in any event:
  - Risk analyses which the expert has applied for his/her own purposes, within the context of the instructions he/she has been given;

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<sup>7</sup> In the event of a suspected professional failure or other shortcoming, the basic principles and guidance of the internal agreement must offer a solution in civil law proceedings vis-à-vis third parties. It is recommended that the legal and insurance implications are explicitly considered when preparing this agreement.

- Compliance with the instructions and the extent and quality of the work carried out in that context;
- Source data used;
- Assumptions, principles and methods used and their consistency with comparable engagements and/or prior periods;
- Precision of and tolerances in the measuring methods used, including inherent limitations to these measuring methods;
- Any calculations and estimates made by the expert or experts;
- Working papers kept by the expert or experts;
- Conclusions of the expert or experts.

19 Establishing the adequacy and the acceptability of the assumptions, principles and methods and their application is the responsibility of the expert. After all, the practitioner does not have the same level of expertise as the expert. **The practitioner should, however, have an adequate general understanding of the area of work of the expert** (see paragraph 10, first point). The practitioner uses his/her knowledge of the subject matter of the engagement and the reporting organization and the results of the other work carried out by him/her as part of the engagement, or possible other engagements, for example the audit of the financial statements.

20 The expert reports his/her findings to the practitioner in writing. **The practitioner should evaluate whether all of the work performed by the expert allows him/her to bear the undivided responsibility for the entire engagement and gives him/her an adequate basis to draw conclusions on his/her own.**

21 **If the results of the work of the expert do not provide sufficient appropriate audit evidence, or if the results are not consistent with other audit evidence, the practitioner should take suitable actions.** This could mean having more detailed discussions with the organization and the expert, performing additional work, possibly engaging another expert or issuing a qualified assurance report.

*Reporting in the case of model 1*

22 In certain cases, the practitioner may find it useful to mention the contribution of the expert in his/her assurance report. This could be the case, for example, if he/she may reasonably suppose that intended users of his/her assurance report expect special technical knowledge to be required for a special aspect of the engagement, for example for the evaluation and substantiation of certain emissions of harmful substances. In that case, the practitioner can state the contribution of the expert to the engagement, preferably within the section in the assurance report that describes the work procedures applied. This reference does not adversely affect the undivided responsibility of the practitioner towards the intended users of the assurance report, nor does this reference affect the unqualified nature of the

assurance report if and insofar as this applies<sup>8</sup>. **If the contribution of the expert to the assurance engagement is mentioned in the assurance report, it should be added that the practitioner nevertheless takes undivided responsibility for the entire engagement and therefore also for the contribution of the expert. In this model, the assurance report is signed by the practitioner only.**

## **Model 2: Multidisciplinary cooperation under joint responsibility**

- 23 Characteristic for model 2 is that all phases of the engagement are planned and performed by a multidisciplinary team, with the aim of the cooperation being to issue one assurance report for which both the practitioner and the expert take full responsibility towards both the engaging party and the intended users of the assurance report. Within the team, the work allocation is focused on the specific expertise of those involved, with each discipline bearing primary technical responsibility for their ‘own’ professional areas.
- 24 The reverse of joint responsibility is, in legal terms, joint and several liability. This requires good working agreements and an adequate control of professional liability risk. Specific agreements are set out in the Agreement governing the allocation of work and responsibilities referred to in paragraphs 13-15. The appendix to this Standard contains a minimum list of the issues to be covered in this agreement.
- 25 **A practitioner does not accept an engagement for a non-financial assurance engagement in accordance with model 2 if his/her involvement in the engagement is not significant enough. To take joint responsibility for the entire engagement when applying model 2, it is necessary for both the practitioner and the expert to both be involved in all important aspects of the engagement. There should be an adequate quality control system.**
- 26 The quality control system contains procedures for mutual quality control. In this context, agreements are made on keeping working papers, among other things. **To be in a position to give substance to quality control, the practitioner should have an adequate general understanding of the working area of the expert in accordance with the provisions of paragraph 10. The practitioner is also required to provide the expert with an adequate understanding of the backgrounds, planning and performance of his/her work. This should enable the expert to play his/her role in the quality control of the work of the practitioner.** In principle, the quality control of the practitioner contains all aspects that apply to model 1 (see paragraph 18). It is, however, logical for a model 2

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<sup>8</sup> This possibility departs from what is prescribed in paragraph 16 of RAC 620, but this is acceptable because RAC 620 was written primarily from the perspective of the audit of financial information. For the time being, this possibility conflicts with Article 16 of the GBA, but pending the review of the GBA, this departure from the GBA is considered acceptable because the situation should be avoided in which the users of the assurance report have any uncertainty or doubt about the expertise provided



approach that the Agreement governing the allocation of work and responsibilities also includes specific procedures for quality control, which could be based to a certain extent on the specific expertise of the parties involved. As far as the role of the practitioner in the quality control is concerned, he/she would evaluate (where applicable):

- The adequacy of all supporting audit evidence for the conclusions;
- The design and operating effectiveness of the relevant internal control systems;
- The adequate application of the criteria used by the reporting organization in relation to the information needs of the intended groups of users of the assurance report;
- The application of the concept of materiality.

27 **The conclusions should be formulated jointly when model 2 is applied. This requirement also applies to the assurance report and the management letter to be issued.**

28 **The conclusions relating to all important aspects of the engagement should be documented in the working papers, including the considerations underlying the conclusions. For each part of the work, it should be stated in any event under whose primary technical responsibility the aforementioned procedures have been performed, whereas the working papers should also demonstrate that the conclusions have been evaluated and supported by the other party.<sup>9</sup>**

29 **The detail of the mutual quality control should be adequate to allow joint responsibility to be borne for the entire engagement. This is set out in the Agreement governing the allocation of work and responsibilities.**

*Reporting in the case of model 2*

30 **The joint responsibility for the entire engagement should be clear by reading the assurance report, for example by the signature, or on account of specific reference to the joint responsibility.** If the cooperating parties belong to one practitioner's organization (in-house experts are used, see paragraph 6), the practitioner's organization chooses how to sign. **The assurance report is always signed by the practitioner.** It is, however, recommended that the expert also co-signs the report in this situation. **In the event of cooperation with external experts, the assurance report should always be signed jointly.** Because a joint signature implies joint responsibility, the assurance report does not also have to explicitly state that there is joint responsibility. It is, however, advisable to state in the assurance report the fact that work has been carried out by a multidisciplinary team, with reference being made to the general allocation of the work being if required..

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<sup>9</sup> The appendix focuses among other things on the documentation and working papers and the confidentiality aspects. In practice, both parties will have their own working papers in the first instance. In that case, the conclusions of one party will also be recorded in the other party's working papers (see points 4 to 7 of the appendix).

### **Model 3: Separate engagements for each discipline**

- 31 The engaging party can also consider dividing the assurance engagement into two separate, but complementary engagements, namely:
- a an engagement to a practitioner. For example, the practitioner is asked to give a conclusion on the reliability of the reported non-financial performance indicators and the reliability of the underlying information systems;
  - b an engagement to an expert. For example, in the case of an environmental audit, an environmental expert is asked to give an opinion on the technical controls in place for the management of environmental risks and the environmental safety for staff and environment.
- 32 The description in paragraph 31 reveals that this model is essentially not a genuine form of ‘cooperation’ between practitioner and expert. When this model is applied, the engaging party, practitioner and expert are advised to establish by mutual consultation that both engagements constitute a whole engagement without any grey areas and are complementary to one another. In addition, it is recommended that where it is reasonably possible, the practitioner, in consultation with the engaging party and the environment expert or experts, ensures that both engagements and reports are reconciled so that the intended users are fully aware about the objective and scope of both engagements and that there are no ‘grey areas’, omissions in both engagements and/or the relevant reports. Where possible, this coordination should take place during:
- the meeting on the engagement acceptance;
  - the planning of the engagement; and
  - consultation on the reports by the practitioner and the expert.

**The agreements reached should form part of the written engagement letter.** The practitioner will ensure that the responsible party clearly sets out in his/her report for publication on the subject matter how the various engagements relate to one another and how the responsibilities for the investigations are separated.

#### *Reporting in the case of model 3*

- 33 In the case of model 3, both disciplines report separately.<sup>10</sup>

**34 To comply with the provisions of the second sentence and subsequent sentences of paragraph 32, the practitioner can refer to the explanation of the engaging party as intended in the last sentence of that paragraph, through an emphasis of matter paragraph in the assurance report.**

## **Appendix**

### **Points to consider for the Agreement governing the allocation of work and responsibilities**

It is recommended to include at least the following issues in the Agreement governing the allocation of work and responsibilities (see paragraphs 13-15 and 24):

- 1 Agreements on the team leadership and on communicating with the engaging party (particularly necessary for model 2).
- 2 Agreements on independence. Both parties involved guarantee that they are independent from the engaging party.
- 3 Agreements on the mutual allocation of the work. Parties guarantee that the work carried out by each will comply with all the relevant quality requirements for professional due care. The expert has to adhere to the relevant provisions of this Standard and of the GBA, where necessary.
- 4 Agreements on confidentiality and intellectual property.
- 5 Agreements on the consultation required if the expert discovers illegal acts or suspects fraud while carrying out his/her work.
- 6 Quality control procedures and requirements with respect to documentation and working papers (for model 2, these will be wider in scope and more detailed than model 1).
- 7 Agreements on the ownership and the filing of the working papers on termination of the engagement. If both parties wish to keep their 'own' file, at least the conclusions of both parties should be included in both files, where necessary by copying the conclusions of the other party.
- 8 Agreements on the joint evaluation and reporting on conclusions, including the procedure for preparing and signing the assurance report ('evaluating' is necessary for both models, but 'joint reporting' is only applicable to model 2).
- 9 Procedures which will be followed should there be any disputes and claims by third parties. This also includes in any event a regulation governing the right of recourse to the other party in the event of any suspected or actual professional failures or other shortcomings and a regulation governing any further steps via the civil courts or arbitration. Parties can also consider guaranteeing to one another that they have adequate professional indemnity insurance.

- 10 Agreements between parties involved on the content of the engagement letter governing, among other things, the limitation of liability of parties vis-à-vis the engaging party and/or the indemnification by the engaging party of third party claims owing to loss or damage caused by the engaging party providing incorrect or incomplete information to the practitioner and/or expert (particularly for model 2, because for model 1, this is a matter of concern for the practitioner only). The engagement letter should also set out the issues referred to under points 3, 4, 5 and 8.

The concrete details of the agreement will involve some differences in focus for model 1 and 2. The most important differences are mentioned above.

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